

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
JUNE 30, 2019**

Saddleback Valley
Unified School District



SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
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JUNE 30, 2019

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Saddleback Valley Unified School 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedules of changes in OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Saddleback Valley Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 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 20, 2019 on our consideration of Saddleback Valley Unified 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 Saddleback Valley Unified 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 Saddleback Valley Unified School District's internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
December 20, 2019

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

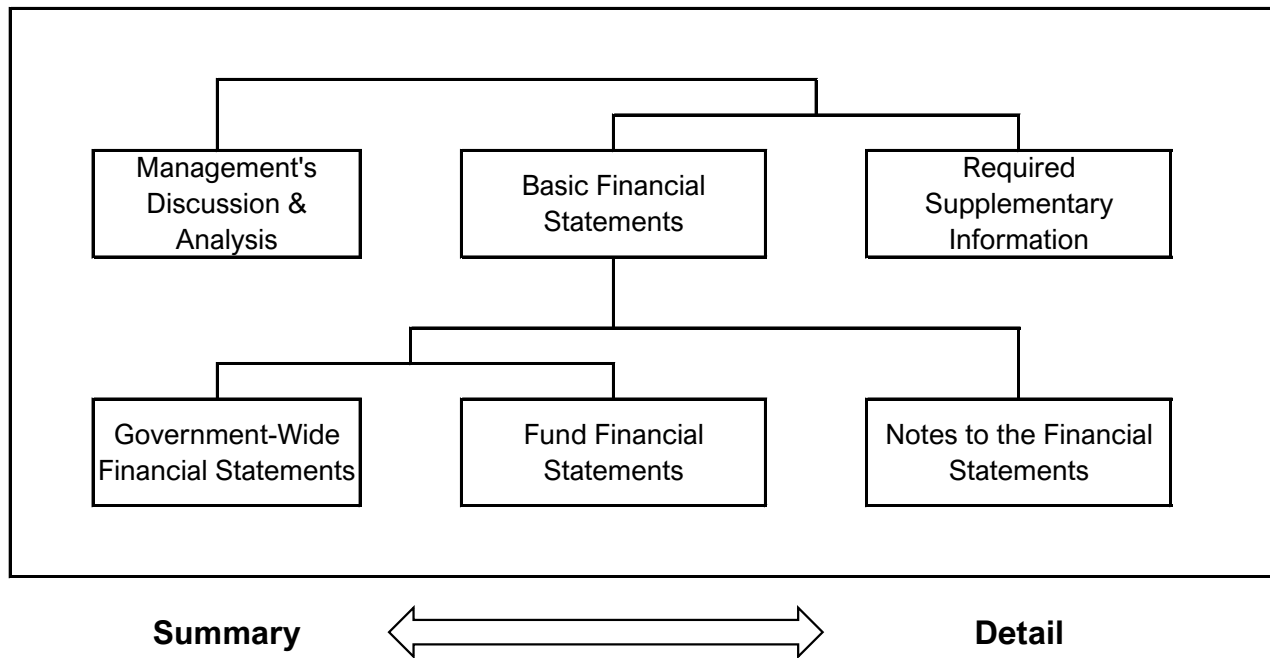
Our discussion and analysis of Saddleback Valley Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ The District's combined net position was \$56,390,998 at June 30, 2019. This was an aggregate decrease of \$11,135,504 from the prior year after restatement. The District's combined net position is comprised of \$57,648,182 related to governmental activities and \$(1,257,184) related to business-type activities.
- ▶ Overall revenues were \$339,953,909 which were exceeded by expenses of \$351,089,413.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Components of the Financials Section (continued)

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$56,390,998 at June 30, 2019, as reflected in the table below. Of this amount, \$(226,763,426) 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 that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
ASSETS						
Current and other assets	\$ 181,972,550	\$ 188,085,318	\$ (6,112,768)	\$ 1,077,954	\$ 1,143,039	\$ (65,085)
Capital assets	352,198,412	350,706,854	1,491,558	29,320	28,115	1,205
Total Assets	534,170,962	538,792,172	(4,621,210)	1,107,274	1,171,154	(63,880)
DEFERRED OUTFLOWS OF RESOURCES	89,953,514	95,073,078	(5,119,564)	454,142	505,439	(51,297)
LIABILITIES						
Current liabilities	39,086,381	17,960,910	21,125,471	1,089,792	754,498	335,294
Long-term liabilities	499,290,095	525,104,777	(25,814,682)	1,641,924	1,586,566	55,358
Total Liabilities	538,376,476	543,065,687	(4,689,211)	2,731,716	2,341,064	390,652
DEFERRED INFLOWS OF RESOURCES	28,099,818	25,427,690	2,672,128	86,884	74,192	12,692
NET POSITION						
Net investment in capital assets	233,602,559	222,965,444	10,637,115	29,320	28,115	1,205
Restricted	49,522,545	65,897,792	(16,375,247)	-	-	-
Unrestricted	(225,476,922)	(223,491,363)	(1,985,559)	(1,286,504)	(766,778)	(519,726)
Total Net Position	\$ 57,648,182	\$ 65,371,873	\$ (7,723,691)	\$ (1,257,184)	\$ (738,663)	\$ (518,521)

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges it, so you can see our total revenues, expenses, and special items for the year.

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 5,988,763	\$ 3,351,474	\$ 2,637,289	\$ 2,555,154	\$ 3,750,720	\$ (1,195,566)
Operating grants and contributions	47,463,584	53,923,142	(6,459,558)	45,978	26,572	19,406
Capital grants and contributions	522,404	1,841	520,563	-	-	-
General revenues						
Property taxes	207,120,124	193,364,697	13,755,427	-	-	-
Unrestricted federal and state aid	56,434,889	58,311,834	(1,876,945)	-	-	-
Other	18,659,490	16,313,102	2,346,388	1,163,523	2,089	1,161,434
Total Revenues	336,189,254	325,266,090	10,923,164	3,764,655	3,779,381	(14,726)
EXPENSES						
Instruction	203,962,762	196,524,905	7,437,857	-	-	-
Instruction-related services	30,957,789	29,404,371	1,553,418	-	-	-
Pupil services	26,628,558	26,405,532	223,026	-	-	-
General administration	13,525,005	13,830,127	(305,122)	-	-	-
Plant services	27,706,631	24,273,883	3,432,748	-	-	-
Ancillary and community services	12,931,185	10,926,211	2,004,974	-	-	-
Debt service	4,112,800	4,092,572	20,228	-	-	-
Other outgo	8,875,963	9,898,015	(1,022,052)	-	-	-
Depreciation	18,014,156	17,352,243	661,913	-	-	-
Other	55,725	8,668	47,057	4,318,839	4,354,072	(35,233)
Total Expenses	346,770,574	332,716,527	14,054,047	4,318,839	4,354,072	(35,233)
Transfers & special items	(35,663)	-	(35,663)	35,663	-	35,663
Change in net position	(10,616,983)	(7,450,437)	(3,166,546)	(518,521)	(574,691)	56,170
Net Position - Beginning, as Restated	68,265,165	72,822,310	(4,557,145)	(738,663)	(163,972)	(574,691)
Net Position - Ending	\$ 57,648,182	\$ 65,371,873	\$ (7,723,691)	\$ (1,257,184)	\$ (738,663)	\$ (518,521)

The cost of all our governmental activities this year was \$346,770,574 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$207,120,124 because a portion of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions. The District's business-type activities experienced a decrease in net position of \$518,521 during the year ended June 30, 2019.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below, we have presented the net cost of each of the District’s functions. 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.

	Net Cost of Services	
	2019	2018
Instruction	\$ 171,382,720	\$ 158,864,834
Instruction-related services	27,838,936	26,216,512
Pupil services	18,489,446	18,123,094
General administration	11,139,366	12,153,427
Plant services	24,150,607	24,258,239
Ancillary and community services	12,423,333	10,553,929
Debt service	4,112,800	4,092,572
Transfers to other agencies	5,231,632	3,816,552
Depreciation	18,014,156	17,352,243
Other	12,827	8,668
Total Expenses	\$ 292,795,823	\$ 275,440,070

FINANCIAL ANALYSIS OF THE DISTRICT’S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$124,091,785 which is less than last year’s restated ending fund balance of \$134,483,273. The District’s General Fund had \$1,947,689 less in operating revenues than expenditures for the year ended June 30, 2019. In addition, the Capital Facilities Fund had \$5,148,772 less in operating revenues than expenditures for the year ended June 30, 2019 due to ongoing capital projects.

CURRENT YEAR BUDGET 2018-2019

The Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District’s financial projections and current budget based on State and local financial information.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2018-2019 the District had invested a total of \$352,227,732 in capital assets, net of accumulated depreciation.

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
CAPITAL ASSETS						
Land	\$ 39,487,653	\$ 39,487,653	\$ -	\$ -	\$ -	\$ -
Construction in progress	36,801,983	20,017,441	16,784,542	-	-	-
Land improvements	60,556,071	60,520,984	35,087	500,000	500,000	-
Buildings & improvements	458,489,614	456,730,687	1,758,927	8,620	-	8,620
Furniture & equipment	30,650,629	30,013,344	637,285	74,625	74,625	-
Accumulated depreciation	(273,787,538)	(256,063,255)	(17,724,283)	(553,925)	(546,510)	(7,415)
Total Capital Assets	\$ 352,198,412	\$ 350,706,854	\$ 1,491,558	\$ 29,320	\$ 28,115	\$ 1,205

Long-Term Liabilities

At year-end, the District had a total of \$500,932,019 in long-term liabilities, a decrease of 4.85% from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2019	2018	Net Change	2019	2018	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	\$ 121,750,209	\$ 128,353,015	\$ (6,602,806)	\$ -	\$ -	\$ -
Compensated absences	1,177,131	1,534,501	(357,370)	-	-	-
Total OPEB liability	83,927,290	81,304,225	2,623,065	-	-	-
Net pension liability	288,429,458	289,144,328	(714,870)	1,641,924	1,586,566	55,358
Claims liability	11,102,531	13,631,775	(2,529,244)	-	-	-
Less: current portion of long-term liabilities	(7,096,524)	10,931,662	(18,028,186)	-	-	-
Total Long-term Liabilities	\$ 499,290,095	\$ 524,899,506	\$ (25,609,411)	\$ 1,641,924	\$ 1,586,566	\$ 55,358

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

The US economy continues to grow slowly, but the State economic growth is slowing down due to low levels of available employees. However, the State is still experiencing overall economic prosperity. The State Budget for Education contained an increase of 3.26% in fiscal year 2019-20, plus \$3.15 billion in non-Proposition 98 funding for school employer pension relief.

The fiscal policy for the funding of public education changes annually, based on fluctuations in State revenues. The UCLA Anderson Forecast (June 2019) noted that the risk of recession is about 50% within the next 5-8 quarters depending on the model, the biggest economic threat being from the escalating trade war with China and Mexico. If a recession were to happen, State revenues for public education would be negatively impacted.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2019. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans received a one-time funding allocation from the 2019-20 State Budget and continue to raise employer rates in future years. The projected increased pension costs to school employers remain a significant fiscal factor.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2019-20 fiscal year.

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 the Assistant Superintendent of Human Resources & Fiscal Services at the District's Office, 25631 Peter A. Hartman Way, Mission Viejo, CA 92691 or (949) 586-1234.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments	\$ 158,033,285	\$ 149,829	\$ 158,183,114
Accounts receivable	23,121,260	1,012,699	24,133,959
Internal balances	84,574	(84,574)	-
Inventory	345,765	-	345,765
Prepaid expenses	387,666	-	387,666
Capital assets, not depreciated	76,289,636	-	76,289,636
Capital assets, net of accumulated depreciation	275,908,776	29,320	275,938,096
Total Assets	534,170,962	1,107,274	535,278,236
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	80,107,349	454,142	80,561,491
Deferred outflows related to OPEB	6,691,809	-	6,691,809
Deferred amount on refunding	3,154,356	-	3,154,356
Total Deferred Outflows of Resources	89,953,514	454,142	90,407,656
LIABILITIES			
Accrued liabilities	31,002,963	637,599	31,640,562
Unearned revenue	986,894	452,193	1,439,087
Long-term liabilities, current portion	7,096,524	-	7,096,524
Long-term liabilities, non-current portion	499,290,095	1,641,924	500,932,019
Total Liabilities	538,376,476	2,731,716	541,108,192
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	27,862,496	86,884	27,949,380
Deferred inflows related to OPEB	237,322	-	237,322
Total Deferred Inflows of Resources	28,099,818	86,884	28,186,702
NET POSITION			
Net investment in capital assets	233,602,559	29,320	233,631,879
Restricted:			
Capital projects	36,331,063	-	36,331,063
Debt service	6,585,989	-	6,585,989
Educational programs	6,428,798	-	6,428,798
Food services	176,695	-	176,695
Unrestricted	(225,476,922)	(1,286,504)	(226,763,426)
Total Net Position	\$ 57,648,182	\$ (1,257,184)	\$ 56,390,998

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 203,962,762	\$ 416,620	\$ 31,641,018	\$ 522,404	\$ (171,382,720)	
Instruction-related services						
Instructional supervision and administration	8,238,847	11,737	2,192,942	-	(6,034,168)	
Instructional library, media, and technology	3,833,830	4,472	133,869	-	(3,695,489)	
School site administration	18,885,112	5,455	770,378	-	(18,109,279)	
Pupil services						
Home-to-school transportation	3,805,040	-	37,239	-	(3,767,801)	
Food services	6,450,926	2,079,368	3,943,951	-	(427,607)	
All other pupil services	16,372,592	42,775	2,035,779	-	(14,294,038)	
General administration						
Centralized data processing	4,013,626	-	73,060	-	(3,940,566)	
All other general administration	9,511,379	149,244	2,163,335	-	(7,198,800)	
Plant services	27,706,631	1,874,198	1,681,826	-	(24,150,607)	
Ancillary services	2,236,291	22	57,934	-	(2,178,335)	
Community services	10,694,894	84,019	365,877	-	(10,244,998)	
Enterprise activities	55,725	-	42,898	-	(12,827)	
Interest on long-term debt	4,112,800	-	-	-	(4,112,800)	
Other outgo	8,875,963	1,320,853	2,323,478	-	(5,231,632)	
Depreciation (unallocated)	18,014,156	-	-	-	(18,014,156)	
Total Governmental Activities	\$ 346,770,574	\$ 5,988,763	\$ 47,463,584	\$ 522,404	(292,795,823)	
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	4,318,839	2,555,154	45,978	-	\$ (1,717,707)	
Total Business-Type Activities	4,318,839	2,555,154	45,978	-	(1,717,707)	
Total School District	\$ 351,089,413	\$ 8,543,917	\$ 47,509,562	\$ 522,404		\$ (294,513,530)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				193,952,264	-	193,952,264
Property taxes, levied for debt service				10,635,201	-	10,635,201
Property taxes, levied for other specific purposes				2,532,659	-	2,532,659
Federal and state aid not restricted for specific purposes				56,434,889	-	56,434,889
Interest and investment earnings				2,263,461	10,065	2,273,526
Miscellaneous				16,396,029	1,153,458	17,549,487
Subtotal, General Revenue				282,214,503	1,163,523	283,378,026
Change in net position before transfers & special items				(10,581,320)	(554,184)	(11,135,504)
Internal transfers				(35,663)	35,663	-
Total Transfers & Special Items				(35,663)	35,663	-
CHANGE IN NET POSITION				(10,616,983)	(518,521)	(11,135,504)
Net Position - Beginning, as Restated				68,265,165	(738,663)	67,526,502
Net Position - Ending				\$ 57,648,182	\$ (1,257,184)	\$ 56,390,998

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 80,466,361	\$ 28,058,564	\$ 26,019,045	\$ 134,543,970
Accounts receivable	21,685,860	57,857	969,231	22,712,948
Due from other funds	1,206,416	15,160	1,001,697	2,223,273
Stores inventory	303,074	-	42,691	345,765
Prepaid expenditures	353,644	-	34,022	387,666
Total Assets	\$ 104,015,355	\$ 28,131,581	\$ 28,066,686	\$ 160,213,622
LIABILITIES				
Accrued liabilities	\$ 22,128,625	\$ 2,766,374	\$ 3,269,053	\$ 28,164,052
Due to other funds	5,732,332	80,252	1,197,421	7,010,005
Unearned revenue	200,307	-	747,473	947,780
Total Liabilities	28,061,264	2,846,626	5,213,947	36,121,837
FUND BALANCES				
Nonspendable	776,718	-	76,713	853,431
Restricted	3,469,281	25,284,955	22,776,026	51,530,262
Assigned	55,671,506	-	-	55,671,506
Unassigned	16,036,586	-	-	16,036,586
Total Fund Balances	75,954,091	25,284,955	22,852,739	124,091,785
Total Liabilities and Fund Balances	\$ 104,015,355	\$ 28,131,581	\$ 28,066,686	\$ 160,213,622

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds \$ 124,091,785

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

Capital assets:

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

Capital assets	\$ 625,985,950	
Accumulated depreciation	<u>(273,787,538)</u>	352,198,412

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

3,154,356

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was:

(2,007,717)

Long-term liabilities:

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

Total general obligation bonds	\$ 121,750,209	
Compensated absences	1,177,131	
Total OPEB liability	83,927,290	
Net pension liability	<u>288,429,458</u>	(495,284,088)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 80,107,349	
Deferred inflows of resources related to pensions	<u>(27,862,496)</u>	52,244,853

Deferred outflows and inflows of resources relating to OPEB:

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

Deferred outflows of resources related to OPEB	\$ 6,691,809	
Deferred inflows of resources related to OPEB	<u>(237,322)</u>	6,454,487

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

16,796,094

Total Net Position - Governmental Activities \$ 57,648,182

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

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 239,816,914	\$ -	\$ -	\$ 239,816,914
Federal sources	11,699,283	-	4,354,982	16,054,265
Other state sources	53,801,990	-	2,441,449	56,243,439
Other local sources	9,234,639	3,254,628	26,874,649	39,363,916
Total Revenues	314,552,826	3,254,628	33,671,080	351,478,534
EXPENDITURES				
Current				
Instruction	213,691,612	-	-	213,691,612
Instruction-related services				
Instructional supervision and administration	8,373,192	-	-	8,373,192
Instructional library, media, and technology	3,640,746	-	-	3,640,746
School site administration	19,043,594	-	-	19,043,594
Pupil services				
Home-to-school transportation	3,798,098	-	-	3,798,098
Food services	-	-	6,189,930	6,189,930
All other pupil services	16,566,469	-	-	16,566,469
General administration				
Centralized data processing	3,840,840	-	-	3,840,840
All other general administration	8,141,411	75,461	904,204	9,121,076
Plant services	25,932,871	2,372	244,773	26,180,016
Facilities acquisition and maintenance	4,090,793	8,325,567	7,377,601	19,793,961
Ancillary services	2,284,294	-	-	2,284,294
Community services	316,925	-	9,594,211	9,911,136
Enterprise activities	9,832	-	-	9,832
Transfers to other agencies	6,769,838	-	2,105,876	8,875,714
Debt service				
Principal	-	-	5,665,000	5,665,000
Interest and other	-	-	4,848,849	4,848,849
Total Expenditures	316,500,515	8,403,400	36,930,444	361,834,359
Excess (Deficiency) of Revenues Over Expenditures	(1,947,689)	(5,148,772)	(3,259,364)	(10,355,825)
Other Financing Sources (Uses)				
Transfers in	185,846	-	511,967	697,813
Transfers out	(35,663)	-	(697,813)	(733,476)
Net Financing Sources (Uses)	150,183	-	(185,846)	(35,663)
NET CHANGE IN FUND BALANCE	(1,797,506)	(5,148,772)	(3,445,210)	(10,391,488)
Fund Balance - Beginning, as Restated	77,751,597	30,433,727	26,297,949	134,483,273
Fund Balance - Ending	\$ 75,954,091	\$ 25,284,955	\$ 22,852,739	\$ 124,091,785

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

**SADDLEBACK VALLEY UNIFIED 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**

Net Change in Fund Balances - Governmental Funds \$ (10,391,488)

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 19,508,984	
Depreciation expense:	<u>(18,014,156)</u>	1,494,828

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

5,665,000

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(315,436)

Gain or loss from the disposal of capital assets:

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(3,270)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

113,430

(continued on the following page)

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2019**

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: 357,370

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was: (883,893)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (8,500,558)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 937,806

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 909,228

Change in Net Position of Governmental Activities \$ (10,616,983)

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2019**

	Business-Type Activities	Governmental Activities
	Community Services Fund	Internal Service Fund
ASSETS		
Current assets		
Cash and investments	\$ 149,829	\$ 23,489,315
Accounts receivable	1,012,699	408,312
Due from other funds	35,663	4,928,039
Total current assets	<u>1,198,191</u>	<u>28,825,666</u>
Non-current assets		
Capital assets, net of accumulated depreciation	29,320	-
Total non-current assets	<u>29,320</u>	<u>-</u>
Total Assets	<u>1,227,511</u>	<u>28,825,666</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	454,142	-
Total Deferred Outflows of Resources	<u>454,142</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	637,599	831,194
Due to other funds	120,237	56,733
Unearned revenue	452,193	39,114
Total current liabilities	<u>1,210,029</u>	<u>927,041</u>
Non-current liabilities		
Claims liability	-	11,102,531
Net pension liability	1,641,924	-
Total non-current liabilities	<u>1,641,924</u>	<u>11,102,531</u>
Total Liabilities	<u>2,851,953</u>	<u>12,029,572</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	86,884	-
Total Deferred Inflows of Resources	<u>86,884</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	29,320	-
Restricted	-	16,796,094
Unrestricted	(1,286,504)	-
Total Net Position	<u>\$ (1,257,184)</u>	<u>\$ 16,796,094</u>

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2019**

	Business-Type Activities	Governmental Activities
	Community Services Fund	Internal Service Fund
OPERATING REVENUE		
Charges for services	\$ 2,555,154	\$ 46,842,507
Other local revenues	1,199,436	21,764
Total operating revenues	3,754,590	46,864,271
OPERATING EXPENSE		
Salaries and benefits	2,871,068	323,799
Supplies and materials	211,790	1,775
Professional services	1,228,566	46,177,308
Depreciation	7,415	-
Total operating expenses	4,318,839	46,502,882
Operating income/(loss)	(564,249)	361,389
NON-OPERATING REVENUES		
Interest income	10,065	547,839
Transfers in	35,663	-
Total non-operating revenues/(expenses)	45,728	547,839
CHANGE IN NET POSITION	(518,521)	909,228
Net Position - Beginning	(738,663)	15,886,866
Net Position - Ending	\$ (1,257,184)	\$ 16,796,094

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2019**

	Business-Type Activities	Governmental Activities
	Community Services Fund	Internal Service Fund
Cash flows from operating activities		
Cash received from user charges	\$ 3,134,760	\$ 46,800,521
Cash received (paid) from assessments made to (from) other funds	74,942	(2,239,945)
Cash payments for payroll, insurance, and operating costs	(3,831,377)	(49,021,227)
Net cash provided by (used for) operating activities	(621,675)	(4,460,651)
Cash flows from non-capital financing activities		
Interfund transfers in (out)	35,663	-
Net cash provided by (used for) non-capital financing activities	35,663	-
Cash flows from capital and related financing activities		
Capital assets purchase	(8,620)	-
Net cash provided by (used for) in capital and related financing activities	(8,620)	-
Cash flows from investing activities		
Interest received	10,065	547,839
Net cash provided by (used for) investing activities	10,065	547,839
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(584,567)	(3,912,812)
CASH AND CASH EQUIVALENTS		
Beginning of year	734,396	27,402,127
End of year	\$ 149,829	\$ 23,489,315
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income/(loss)	\$ (564,249)	\$ 361,389
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	7,415	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	(594,424)	(77,915)
(Increase) decrease in due from other funds	(14,178)	(2,296,678)
(Increase) decrease in deferred outflows of resources	51,297	-
Increase (decrease) in accrued liabilities	360,700	10,899
Increase (decrease) in due to other funds	89,120	56,733
Increase (decrease) in unearned revenues	(25,406)	14,165
Increase (decrease) in claims liabilities	-	(2,529,244)
Increase (decrease) in net pension liability	55,358	-
Increase (decrease) in deferred inflows of resources	12,692	-
Net cash provided by (used for) operating activities	\$ (621,675)	\$ (4,460,651)

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2019**

	<u>Agency Funds</u>	
	<u>Debt Service for Blended Component Units</u>	<u>Student Body Fund</u>
ASSETS		
Cash and investments	\$ 10,671,415	\$ 2,555,283
Accounts receivable	-	830
Stores inventory	-	38,965
Total Assets	<u>\$ 10,671,415</u>	<u>\$ 2,595,078</u>
LIABILITIES		
Due to bond holders	\$ 10,671,415	\$ -
Due to student groups	-	2,595,078
Total Liabilities	<u>\$ 10,671,415</u>	<u>\$ 2,595,078</u>

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Saddleback Valley Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization’s relationship with the District is such that exclusion would cause the District’s financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District’s operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Saddleback Valley Unified School District Public Financing Authority (the Authority) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Authority was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Authority’s financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Bonds issued by the Corporation do not represent liabilities of the District and are not included in the District-wide financial statements. Individually-prepared financial statements are not prepared for the Authority.

The District established Community Facilities Districts (CFD) No. 88-1, 88-2, 89-1, 89-2, 89-3, and 89-4 to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition, and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide financial statements.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

Non-Major Governmental Funds

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

Special Education Pass-Through Fund: This fund is used by the Administrative Unit (AU) of a multi-Local Education Agency (LEA) Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member LEAs.

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b] and 52501.5[a]*).

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

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

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

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

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

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Community Services Fund: The only enterprise fund of the District accounts for the financial transactions related to the community services program of the District.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

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

Fiduciary Funds

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

Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered on non-obligatory debt of the financial reporting entity.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net 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. The net position should be reported as restricted when constraints placed on its use 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 results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school 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 school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Unearned Revenue

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

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

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

Inventories

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

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

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	20 - 50 years
Furniture, Equipment, and Vehicles	5 - 20 years

Interfund Balances

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

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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 resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund 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 funds.

Postemployment Benefits Other Than Pensions (OPEB) – MPP Program

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Postemployment Benefits Other Than Pensions (OPEB) – District Plan

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB, and OPEB expense have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

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

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 - June 30, 2018

Gains and losses related to changes in total OPEB liability are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

Pensions

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

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. 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.

H. Budgetary Data

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

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

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

J. New Accounting Pronouncements

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement is effective for periods beginning after December 15, 2018. The District has not yet determined the impact on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. This standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement is effective for periods beginning after December 15, 2019. The District has not determined the impact on the financial statements.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements (continued)

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard’s primary objective 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. The statement is effective for periods beginning after June 15, 2018. The District has implemented GASB Statement No. 88 for the year ended June 30, 2019.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	\$ 134,266,010	\$ 21,259,315	\$ 155,525,325	\$ 147,829	\$ -
Cash on hand and in banks	6,000	-	6,000	2,000	2,555,283
Cash with fiscal agent	-	-	-	-	10,671,415
Cash in revolving fund	271,960	2,230,000	2,501,960	-	-
Total cash and investments	\$ 134,543,970	\$ 23,489,315	\$ 158,033,285	\$ 149,829	\$ 13,226,698

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Orange County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

Cash with Fiscal Agent – The District’s Debt Service Fund for Blended Component Units maintains balances with Bank of New York Mellon for purposes of principal and interest payments on the PFA and CFD non-obligatory bonds.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. 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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$156,266,562 and an amortized book value of \$155,673,154. The average weighted maturity for this pool is 310 days.

E. 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 investments in the County Treasury are not required to be rated. As of June 30, 2019, the pooled investments in the County Treasury were rated AAAM.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 2 – CASH AND INVESTMENTS (continued)

F. 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 reasonable 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 Orange 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 at June 30, 2019 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 156,266,562
Total fair market value of investments	<u>\$ 156,266,562</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities	Business-Type Activities	Fiduciary Funds
Federal Government							
Categorical aid	\$ 12,699,151	\$ -	\$ 161,593	\$ -	\$ 12,860,744	\$ -	\$ -
State Government							
Apportionment	1,812,673	-	-	-	1,812,673	-	-
Categorical aid	884,399	-	11,183	-	895,582	-	-
Lottery	1,267,373	-	-	-	1,267,373	-	-
Local Government							
Other local sources	5,022,264	57,857	796,455	408,312	6,284,888	1,012,699	830
Total	\$ 21,685,860	\$ 57,857	\$ 969,231	\$ 408,312	\$ 23,121,260	\$ 1,012,699	\$ 830

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2018	Additions	Deletions	Balance June 30, 2019
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 39,487,653	\$ -	\$ -	\$ 39,487,653
Construction in progress	20,017,441	18,043,678	1,259,136	36,801,983
Total Capital Assets not Being Depreciated	59,505,094	18,043,678	1,259,136	76,289,636
Capital assets being depreciated				
Land improvements	60,520,984	35,087	-	60,556,071
Buildings & improvements	456,730,687	1,833,357	74,430	458,489,614
Furniture & equipment	30,013,344	855,998	218,713	30,650,629
Total Capital Assets Being Depreciated	547,265,015	2,724,442	293,143	549,696,314
Less Accumulated Depreciation				
Land improvements	30,475,523	2,618,515	-	33,094,038
Buildings & improvements	202,821,892	14,031,678	74,430	216,779,140
Furniture & equipment	22,765,840	1,363,963	215,443	23,914,360
Total Accumulated Depreciation	256,063,255	18,014,156	289,873	273,787,538
Governmental Activities Capital Assets, net	\$ 350,706,854	\$ 2,753,964	\$ 1,262,406	\$ 352,198,412
Business-Type Activities				
Capital assets being depreciated				
Land improvements	\$ 500,000	\$ -	\$ -	\$ 500,000
Buildings & improvements	-	8,620	-	8,620
Furniture & equipment	74,625	-	-	74,625
Total Capital Assets Being Depreciated	574,625	8,620	-	583,245
Less Accumulated Depreciation				
Land improvements	500,000	-	-	500,000
Buildings & improvements	-	3,927	-	3,927
Furniture & equipment	46,510	3,488	-	49,998
Total Accumulated Depreciation	546,510	7,415	-	553,925
Business-Type Activities Capital Assets, net	\$ 28,115	\$ 1,205	\$ -	\$ 29,320

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2019 were as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>					<u>Total</u>
	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Self-Insurance</u>	<u>Community Services Fund</u>	
General Fund	\$ -	\$ 3,887	\$ 993,147	\$ 4,699,635	\$ 35,663	\$ 5,732,332
Capital Facilities Fund	79,410	-	-	842	-	80,252
Non-Major Governmental Funds	978,073	11,203	453	207,692	-	1,197,421
Other Enterprise Fund	100,367	-	-	19,870	-	120,237
Self-Insurance Fund	48,566	70	8,097	-	-	56,733
Total Due From Other Funds	\$ 1,206,416	\$ 15,160	\$ 1,001,697	\$ 4,928,039	\$ 35,663	\$ 7,186,975

Due from the General Fund to the Special Education Pass-Through Fund for transfer of special education funds.	\$	975,828
Due from the General Fund to the Adult Education Fund for retro benefit payments.		1,347
Due from the General Fund to the Child Development Fund for health and welfare reimbursement.		7,470
Due from the General Fund to the Cafeteria Fund for bad debt transfer and catering expenses.		8,502
Due from the General Fund to the Capital Facilities Fund for prior year administrative fee adjustment.		3,887
Due from the General Fund to the Community Services Fund for contribution to program.		35,663
Due from the General Fund to the Self-Insurance Fund for health and welfare contributions.		4,699,635
Due from Adult Education Fund to the Self-Insurance Fund for health and welfare contributions.		19
Due from the Child Development Fund to the General Fund for payroll and indirect costs.		669,354
Due from the Child Development Fund to the Cafeteria Fund for catering expenses.		453
Due from the Child Development Fund to the Self-Insurance Fund for health and welfare contributions.		134,247
Due from the Cafeteria Fund to the General Fund for payroll and indirect costs.		308,719
Due from the Cafeteria Fund to the Self-Insurance Fund for health and welfare contributions.		70,518
Due from the Building Fund to the Capital Facilities Fund correct bond balance.		11,203
Due from the Building Fund to the Self-Insurance Fund for health and welfare contributions.		2,488
Due from the Capital Facilities Fund to the General Fund for administrative fee.		79,410
Due from the Capital Facilities Fund to the Self-Insurance Fund for health and welfare contributions.		842
Due from Special Reserve Fund for Capital Outlay Projects to the Self-Insurance Fund for health and welfare contributions.		420
Due from the Community Services Fund to the General Fund for payroll and indirect costs.		100,367
Due from the Community Services Fund to the Self-Insurance Fund for health and welfare contributions.		19,870
Due from the Self-Insurance Fund to the General Fund for health and welfare contribution correction.		48,566
Due from the Self-Insurance Fund to the Child Development Fund for health and welfare contribution correction.		8,063
Due from the Self-Insurance Fund to the Capital Facilities Fund for health and welfare contribution correction.		70
Due from the Self-Insurance Fund to the Special Reserve Fund for Capital Outlay Projects Fund for health and welfare contribution correction.		34
Total	\$	7,186,975

B. Operating Transfers

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

<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Community Services Fund</u>	
General Fund	\$ -	\$ -	\$ 35,663	\$ 35,663
Non-Major Governmental Funds	185,846	511,967	-	697,813
Total Interfund Transfers	\$ 185,846	\$ 511,967	\$ 35,663	\$ 733,476

Transfer from the General Fund to the Community Services Fund for contribution.	\$	35,663
Transfer from the Adult Education Fund to the General Fund to close out Adult Education Fund.		185,846
Transfer from County School Facilities Fund to the Special Reserve Fund for Capital Outlay Projects for State Facilities Program revenue.		511,967
Total	\$	733,476

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2019 consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities	Business-Type Activities
Payroll	\$ 9,886,678	\$ 7,304	\$ 1,476,619	\$ 32,614	\$ -	\$ 11,403,215	\$ 342,264
Construction	-	2,758,962	202,200	-	-	2,961,162	-
Vendors payable	12,236,789	-	77,902	798,580	-	13,113,271	295,302
Unmatured interest	-	-	-	-	2,007,717	2,007,717	-
Other liabilities	5,158	108	1,512,332	-	-	1,517,598	33
Total	\$ 22,128,625	\$ 2,766,374	\$ 3,269,053	\$ 831,194	\$ 2,007,717	\$ 31,002,963	\$ 637,599

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2019 consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities	Total Business-Type Activities
Federal sources	\$ 66,483	\$ -	\$ -	\$ 66,483	\$ -
State categorical sources	105,434	-	-	105,434	-
Local sources	28,390	747,473	39,114	814,977	452,193
Total	\$ 200,307	\$ 747,473	\$ 39,114	\$ 986,894	\$ 452,193

NOTE 8 – LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2019 consisted of the following:

	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 113,365,000	\$ -	\$ 5,665,000	\$ 107,700,000	\$ 5,855,000
Unamortized premium	14,988,015	-	937,806	14,050,209	1,241,524
Total general obligation bonds	128,353,015	-	6,602,806	121,750,209	7,096,524
Compensated absences	1,534,501	-	357,370	1,177,131	-
Total OPEB liability	81,304,225	2,623,065	-	83,927,290	-
Net pension liability	289,144,328	-	714,870	288,429,458	-
Claims liability	13,631,775	-	2,529,244	11,102,531	-
Total	\$ 513,967,844	\$ 2,623,065	\$ 10,204,290	\$ 506,386,619	\$ 7,096,524
Business-Type Activities					
Net pension liability	\$ 1,586,566	\$ 55,358	\$ -	\$ 1,641,924	\$ -
Total	\$ 1,586,566	\$ 55,358	\$ -	\$ 1,641,924	\$ -

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.
- Payments for claims liability are made from the Self-Insurance Fund.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 8 – LONG-TERM LIABILITIES (continued)

A. General Obligation Bonds

The general obligations bonds outstanding at June 30, 2019 are summarized as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2019
					Outstanding July 01, 2018	Additions	Deductions	
2013 Refunding	5/9/2013	8/1/2029	2.0% - 5.0%	\$ 71,865,000	\$ 63,080,000	\$ -	\$ 2,955,000	\$ 60,125,000
Election 2004, Series 2013A	9/26/2013	8/1/2029	2.0% - 5.0%	10,000,000	7,530,000	-	205,000	7,325,000
Election 2004, Series 2016A	8/2/2016	8/1/2030	2.0% - 4.0%	10,000,000	9,700,000	-	515,000	9,185,000
2016 Refunding	8/2/2016	8/1/2030	3.0% - 4.0%	33,140,000	33,055,000	-	1,990,000	31,065,000
					<u>\$ 113,365,000</u>	<u>\$ -</u>	<u>\$ 5,665,000</u>	<u>\$ 107,700,000</u>

The annual requirements to amortize general obligation bonds outstanding at June 30, 2019 is as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 5,855,000	\$ 4,618,200	\$ 10,473,200
2021	6,400,000	4,373,100	10,773,100
2022	6,980,000	4,083,675	11,063,675
2023	7,630,000	3,745,500	11,375,500
2024	8,295,000	3,375,825	11,670,825
2025 - 2029	52,975,000	10,139,025	63,114,025
2030 - 2031	19,565,000	524,975	20,089,975
Total	<u>\$ 107,700,000</u>	<u>\$ 30,860,300</u>	<u>\$ 138,560,300</u>

B. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2019 amounted to \$1,177,131. This amount is included as part of long-term liabilities in the government-wide financial statements.

C. Other Postemployment Benefits

The District's beginning total OPEB liability was \$81,304,225 and increased by \$2,623,065 during the year ended June 30, 2019. The ending total OPEB liability at June 30, 2019 was \$83,927,290. The total OPEB liability is comprised of the total OPEB liability reported for the District Plan and its proportionate share of the net MPP Program OPEB liability. See Note 12 for additional information regarding the total OPEB liability.

D. Net Pension Liability

The District's combined beginning net pension liability was \$290,730,894 and decreased by \$659,512 during the year ended June 30, 2019. The combined ending net pension liability at June 30, 2019 was \$290,071,382. See Note 13 for additional information regarding the net pension liability.

E. Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation, and health and welfare claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2019, amount to \$11,102,531. See Note 10 for additional information regarding the claims liability balance.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 9 – NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders and may initiate foreclosure proceedings. Special assessment debt of \$8,040,000 as of June 30, 2019, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 10 – RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a \$1,000,000 self-insured retention (SIR) and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to \$5,000,000. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 15 for additional information relating to public entity risk pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2019:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 01, 2018	\$ 1,312,775	\$ 11,994,000	\$ 325,000	\$ 13,631,775
Claims & changes in estimates	21,351,892	(1,291,586)	60,144	20,120,450
Claims payments	(20,986,250)	(1,406,499)	(256,945)	(22,649,694)
Liability Balance, June 30, 2019	<u>\$ 1,678,417</u>	<u>\$ 9,295,915</u>	<u>\$ 128,199</u>	<u>\$ 11,102,531</u>
Assets available to pay claims at June 30, 2019	<u>\$ 5,730,507</u>	<u>\$ 17,250,765</u>	<u>\$ 508,043</u>	<u>\$ 23,489,315</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 11 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2019:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	\$ 120,000	\$ -	\$ -	\$ 120,000
Stores inventory	303,074	-	42,691	345,765
Prepaid expenditures	353,644	-	34,022	387,666
Total non-spendable	<u>776,718</u>	<u>-</u>	<u>76,713</u>	<u>853,431</u>
Restricted				
Educational programs	3,469,281	-	2,959,517	6,428,798
Capital projects	-	25,284,955	11,046,108	36,331,063
Debt service	-	-	8,593,706	8,593,706
Food services	-	-	176,695	176,695
Total restricted	<u>3,469,281</u>	<u>25,284,955</u>	<u>22,776,026</u>	<u>51,530,262</u>
Assigned				
Negotiated salary increase	34,675,452	-	-	34,675,452
One time discretionary carryover	11,661,243	-	-	11,661,243
Chromebook replacement plan	3,946,256	-	-	3,946,256
Other assignments	2,741,804	-	-	2,741,804
Site allocation carryover	1,349,328	-	-	1,349,328
ELA curriculum development	963,879	-	-	963,879
Full day kindergarten	333,544	-	-	333,544
Total assigned	<u>55,671,506</u>	<u>-</u>	<u>-</u>	<u>55,671,506</u>
Unassigned				
Reserve for economic uncertainties	15,621,569	-	-	15,621,569
Remaining unassigned	415,017	-	-	415,017
Total unassigned	<u>16,036,586</u>	<u>-</u>	<u>-</u>	<u>16,036,586</u>
Total	<u>\$ 75,954,091</u>	<u>\$ 25,284,955</u>	<u>\$ 22,852,739</u>	<u>\$ 124,091,785</u>

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than three percent of General Fund expenditures and other financing uses.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The Saddleback Valley Unified School District’s defined benefit OPEB plan, Saddleback Valley Unified School District Retiree Benefit Plan (the Plan) is described below. The Plan is a single-employer defined benefit plan administered by the District. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Medicare Premium Payment (MPP) Program

The Medicare Premium Payment Program is a cost-sharing multiple-employer other postemployment benefit plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program, through the Teachers’ Health Benefit Fund. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the Defined Benefit Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services on a monthly basis.

B. OPEB Plan Fiduciary Net Position – MPP Program

Detailed information about the Plan’s fiduciary net position is available in the separately-issued Plan Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by contacting the District.

C. Benefits Provided

The Plan provides medical, dental, and vision 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.

D. Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Saddleback Valley Educators Association (SVEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, SVEA, CSEA, and the unrepresented groups. For the measurement period presented, the District contributed \$4,978,653 to the Plan, all of which was used for current premiums.

E. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	240
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>1,917</u>
Total number of participants**	<u>2,157</u>

*Information not provided

**As of the June 30, 2017 valuation date

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

F. Net OPEB Liability

The components of the net OPEB liability of the District at June 30, 2019, were as follows:

Total OPEB liability - District Plan	\$ 82,523,028
District's Proportionate Share of the Net MPP OPEB Liability	<u>1,404,262</u>
District's total recorded net OPEB liability	<u>\$ 83,927,290</u>

G. Actuarial Assumptions and Other Inputs

The District's proportionate share of the net MPP Program OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

District Plan

Economic assumptions:

Inflation	2.75%
Salary increases	2.75%
Discount rate	3.80%
Healthcare cost trend rates	4.00%

Non-economic assumptions:

Mortality Rates

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

MPP Program

Economic assumptions:

Inflation	2.75%
Investment yield	7.00%
Discount rate	3.58%

Non-economic assumptions:

Mortality Rates

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

H. Changes in Net OPEB Liability

	<u>June 30, 2019</u>
Total OPEB Liability	
Service Cost	\$ 6,606,055
Interest on total OPEB liability	3,051,308
Changes of assumptions	(1,639,550)
Benefits payments	<u>(4,978,653)</u>
Net change in total OPEB liability	3,039,160
Total OPEB liability - beginning	<u>79,483,868</u>
Total OPEB liability - ending (a)	<u>\$ 82,523,028</u>
District's Proportionate Share of the Net MPP OPEB Liability (b)	\$ 1,404,262
District's total recorded net OPEB liability - ending (a) + (b)	<u>\$ 83,927,290</u>
Covered-employee payroll	N/A*

*Note: 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.

I. Sensitivity of the OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (2.8%)	Valuation Discount Rate (3.8%)	1% Increase (4.8%)
Total OPEB liability - District Plan	\$ 87,468,408	\$ 82,523,028	\$ 77,828,441
	1% Decrease (2.87%)	Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB liability - MPP Program	\$ 1,553,739	\$ 1,404,262	\$ 1,270,249

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

J. Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the OPEB liability of the Saddleback Valley Unified School District, as well as what the District's OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease (3.0%)	Health Care Cost Trend Rate (4.0%)	1% Increase (5.0%)
Total OPEB liability - District Plan	\$ 77,900,537	\$ 82,523,028	\$ 87,426,104
	1% Decrease (2.7% Part A and 3.1% Part B)	Medicare Costs Trend Rate (3.7% Part A and 4.1% Part B)	1% Increase (4.7% Part A and 5.1% Part B)
Net OPEB liability - MPP Program	\$ 1,281,002	\$ 1,404,262	\$ 1,537,866

K. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Saddleback Valley Unified School District recognized OPEB expense of \$9,505,552. At June 30, 2019, the Saddleback Valley Unified School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	District Plan Deferred Outflows of Resources	MPP Program Deferred Inflows of Resources
Changes in assumptions	\$ 1,487,739	\$ -
Changes in proportion and differences between District contributions and proportionate share of contributions	-	237,322
District contributions subsequent to the measurement date	5,204,070	-
	<u>\$ 6,691,809</u>	<u>\$ 237,322</u>

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

K. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)

The \$5,204,070 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	District Plan Deferred Outflows of Resources	MPP Program Deferred Inflows of Resources
2020	\$ 151,811	\$ 39,554
2021	151,811	39,554
2022	151,811	39,554
2023	151,811	39,554
2024	151,811	39,554
Thereafter	728,684	39,552
	\$ 1,487,739	\$ 237,322

NOTE 13 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 214,415,551	\$ 60,012,700	\$ 26,563,064	\$ 23,348,194
PERS Pension	75,655,831	20,548,791	1,386,316	13,856,296
Total	\$ 290,071,382	\$ 80,561,491	\$ 27,949,380	\$ 37,204,490

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 10.205% of their salary for fiscal year 2019, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2019 was 16.28% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$21,259,688 for the year ended June 30, 2019.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$19,571,949 to CalSTRS, which included a supplemental contribution for fiscal year 2019 due to California Senate Bill No. 90.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 214,415,551
State's proportionate share of the net pension liability associated with the District	122,763,533
Total	\$ 337,179,084

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to 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. At June 30, 2018, the District’s proportion was 0.233 percent, which was a decrease of 0.006 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$23,348,194. In addition, the District recognized pension expense and revenue of \$4,282,669 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 8,256,353
Differences between expected and actual experience	664,894	3,114,504
Changes in assumptions	33,308,867	-
Changes in proportion and differences between District contributions and proportionate share of contributions	4,779,251	15,192,207
District contributions subsequent to the measurement date	21,259,688	-
	<u>\$ 60,012,700</u>	<u>\$ 26,563,064</u>

The \$21,259,688 reported as 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 year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>District Plan</u>	<u>MPP Program</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	\$ 151,811	\$ 39,554
2021	151,811	39,554
2022	151,811	39,554
2023	151,811	39,554
2024	151,811	39,554
Thereafter	728,684	39,552
	<u>\$ 1,487,739</u>	<u>\$ 237,322</u>

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 13 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Inflation	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2016 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period of July 1, 2010 to June 30, 2015.

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%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

A. California State Teachers’ Retirement System (CalSTRS) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan’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 the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 314,093,692	\$ 214,415,551	\$ 131,772,700

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits Provided

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 7.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2019 was 18.062% of annual payroll. Contributions to the plan from the District were \$7,324,897 for the year ended June 30, 2019.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalPERS for K-12 education. These payments consisted of state general fund contributions of approximately \$2,565,100 to CalPERS for fiscal year 2019 due to California Senate Bill No. 90.

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 of \$75,655,831 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to 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. At June 30, 2018, the District's proportion was 0.284 percent, which was a decrease of 0.008 percent from its proportion measured as of June 30, 2017.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2019, the District recognized pension expense of \$13,856,296. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 620,548	\$ -
Differences between expected and actual experience	4,959,719	-
Changes in assumptions	7,553,901	-
Changes in proportion and differences between District contributions and proportionate share of contributions	89,726	1,386,316
District contributions subsequent to the measurement date	7,324,897	-
	<u>\$ 20,548,791</u>	<u>\$ 1,386,316</u>

The \$7,324,897 reported as 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 year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	\$ 7,917,774	\$ 566,442
2021	5,848,750	431,513
2022	(96,077)	388,361
2023	(446,553)	-
	<u>\$ 13,223,894</u>	<u>\$ 1,386,316</u>

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

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

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Discount Rate	7.15%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from 1997 to 2015.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 13 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*	Real Return Years 11+**
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.0%	-0.92%
	100.0%		

*An expected inflation of 2.00% used for this period.

**An expected inflation of 2.92% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 110,151,272	\$ 75,655,831	\$ 47,036,925

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 14 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2019.

C. Construction Commitments

As of June 30, 2019, the District had commitments with respect to unfinished capital projects of \$21,260,097.

NOTE 15 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage for their member school districts. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Financial information for the most recently audited period is available directly from the JPA.

The District also participates in the Coastline Regional Occupational Program (CROP) for the occupational training for high school students and adults residing within the District boundaries. The relationship between the District and the pools are such that they are not component units of the District for financial reporting purposes. Financial information for the most recently audited period is available directly from the entity.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 16 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District’s long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2019, the deferred amount on refunding was \$3,154,356.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found in Note 13. At June 30, 2019, total deferred outflows related to pensions was \$80,561,491 and total deferred inflows related to pensions was \$27,949,380.

C. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found in Note 12. At June 30, 2019, total deferred outflows related to other postemployment benefits was \$6,691,809 and total deferred inflows related to other postemployment benefits was \$237,322.

NOTE 17 – RESTATEMENT OF NET POSITION AND FUND BALANCE

There were certain items that occurred in the prior year net position and fund balances that have been restated to more accurately reflect the substance of the underlying transactions. As a result, the effect on the current fiscal year is as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 65,371,873
Restatement	2,893,292
Net Position - Beginning, as Restated	<u>\$ 68,265,165</u>
	Bond Interest & Redemption Fund
Fund Balance - Beginning, as Previously Reported	\$ 8,386,419
Restatement	10,588
Fund Balance - Beginning, as Restated	<u>\$ 8,397,007</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 237,501,521	\$ 239,803,346	\$ 239,816,914	\$ 13,568
Federal sources	10,594,430	11,428,099	11,699,283	271,184
Other state sources	44,390,173	42,141,183	49,697,420	7,556,237
Other local sources	4,023,378	7,880,910	9,234,419	1,353,509
Total Revenues	296,509,502	301,253,538	310,448,036	9,194,498
EXPENDITURES				
Certificated salaries	125,109,327	132,636,363	133,224,320	(587,957)
Classified salaries	35,960,420	37,676,290	39,090,871	(1,414,581)
Employee benefits	83,048,094	83,802,085	90,057,243	(6,255,158)
Books and supplies	11,121,958	17,224,889	16,419,546	805,343
Services and other operating expenditures	24,884,617	27,451,260	25,738,287	1,712,973
Capital outlay	2,662,131	2,124,075	1,999,823	124,252
Other outgo				
Excluding transfers of indirect costs	5,983,579	6,699,576	6,769,838	(70,262)
Transfers of indirect costs	(741,252)	(981,160)	(904,203)	(76,957)
Total Expenditures	288,028,874	306,633,378	312,395,725	(5,762,347)
Excess (Deficiency) of Revenues Over Expenditures	8,480,628	(5,379,840)	(1,947,689)	3,432,151
Other Financing Sources (Uses)				
Transfers in	-	-	185,846	185,846
Transfers out	-	-	(35,663)	(35,663)
Net Financing Sources (Uses)	-	-	150,183	150,183
NET CHANGE IN FUND BALANCE	8,480,628	(5,379,840)	(1,797,506)	3,582,334
Fund Balance - Beginning	75,215,723	78,470,446	77,751,597	(718,849)
Fund Balance - Ending	\$ 83,696,351	\$ 73,090,606	\$ 75,954,091	\$ 2,863,485

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On-behalf payments of \$4,104,570 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – DISTRICT PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability		
Service Cost	\$ 6,606,055	\$ 6,429,251
Interest on total OPEB liability	3,051,308	2,657,106
Changes of assumptions	(1,639,550)	-
Benefits payments	<u>(4,978,653)</u>	<u>(4,787,166)</u>
Net change in total OPEB liability	3,039,160	4,299,191
Total OPEB liability - beginning	<u>79,483,868</u>	<u>75,184,677</u>
Total OPEB liability - ending	<u>\$ 82,523,028</u>	<u>\$ 79,483,868</u>
Covered-employee payroll	N/A*	N/A*

*Note: 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.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS – MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2019**

(Dollars in thousands, except for District's proportionate share.)

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability		
Interest on total OPEB liability	\$ 14,567	\$ 12,928
Difference between expected and actual experience	(15,759)	(41)
Changes of assumptions	(10,293)	(31,240)
Benefits payments	(28,036)	(28,929)
Net change in total OPEB liability	(39,521)	(47,282)
Total OPEB liability - beginning	420,749	468,031
Total OPEB liability - ending	<u>381,228</u>	<u>420,749</u>
Plan fiduciary net position		
Contributions - employer	\$ 28,218	\$ 29,117
Net investment income	18	11
Benefit payments	(28,036)	(28,929)
Administrative expenses	(578)	(168)
Net change in plan fiduciary net position	(378)	31
Plan fiduciary net position - beginning	41	10
Adjustment for application of new GASB statement	(1,205)	-
Plan fiduciary net position - ending	<u>\$ (1,542)</u>	<u>\$ 41</u>
 MPP Program Net OPEB liability	 <u>\$ 382,770</u>	 <u>\$ 420,708</u>
 District's proportionate share of net OPEB liability	 <u>\$ 1,404,262</u>	 <u>\$ 1,820,357</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 -0.40%	 0.01%
 Covered-employee payroll*	 *	 *
 District's net OPEB liability as a percentage of covered-employee payroll	 *	 *

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

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.233%	0.239%	0.241%	0.266%	0.251%
District's proportionate share of the net pension liability	\$ 214,415,551	\$ 221,025,782	\$ 194,628,534	\$ 179,014,809	\$ 146,436,112
State's proportionate share of the net pension liability associated with the District	122,763,533	130,756,985	110,798,553	94,679,100	88,424,447
Total	<u>\$ 337,179,084</u>	<u>\$ 351,782,767</u>	<u>\$ 305,427,087</u>	<u>\$ 273,693,909</u>	<u>\$ 234,860,559</u>
District's covered payroll	\$ 123,777,533	\$ 124,763,633	\$ 118,292,069	\$ 121,024,291	\$ 112,077,239
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.2%	177.2%	164.5%	147.9%	130.7%
Plan fiduciary net position as a percentage of the total pension liability	71.0%	69.5%	70.0%	74.0%	76.5%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
 FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.284%	0.292%	0.301%	0.305%	0.293%
District's proportionate share of the net pension liability	\$ 75,655,831	\$ 69,705,112	\$ 59,464,936	\$ 44,925,240	\$ 33,241,819
District's covered payroll	\$ 36,663,988	\$ 37,800,122	\$ 35,585,650	\$ 32,888,913	\$ 30,426,737
District's proportionate share of the net pension liability as a percentage of its covered payroll	206.3%	184.4%	167.1%	136.6%	109.3%
Plan fiduciary net position as a percentage of the total pension liability	70.8%	71.9%	73.9%	79.4%	83.4%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 21,259,688	\$ 17,861,098	\$ 15,695,265	\$ 12,692,739	\$ 10,746,957
Contributions in relation to the contractually required contribution*	(21,259,688)	(17,861,098)	(15,695,265)	(12,692,739)	(10,746,957)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 130,892,531	\$ 123,777,533	\$ 124,763,633	\$ 118,292,069	\$ 121,024,291
Contributions as a percentage of covered payroll	16.24%	14.43%	12.58%	10.73%	8.88%

*Amounts do not include on-behalf contributions

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 7,324,897	\$ 5,694,284	\$ 5,249,681	\$ 4,215,832	\$ 3,871,354
Contributions in relation to the contractually required contribution*	(7,324,897)	(5,694,284)	(5,249,681)	(4,215,832)	(3,871,354)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 41,087,033	\$ 36,663,988	\$ 37,800,122	\$ 35,585,650	\$ 32,888,913
Contributions as a percentage of covered payroll	17.83%	15.53%	13.89%	11.85%	11.77%

*Amounts do not include on-behalf contributions

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Changes in Total OPEB Liability and Related Ratios – District Plan

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the total OPEB liability, and the components of the total OPEB liability and related ratios.

Changes in Benefit Terms

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

Changes in Assumptions

The discount rate assumption increased from 3.50% to 3.80% in the most recent valuation.

Schedule of Changes in Net OPEB Liability and Related Ratios – MPP Program

This 10-year schedule is required by GASB Statement No. 75 for all sole and agent employers that provide other postemployment benefits (OPEB). Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 75 was applicable. The schedule presents the sources of change in the net OPEB liability, and the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations.

Changes in Assumptions

On February 1, 2017, the board lowered the discount rate from 7.50 percent to 7.00 percent using a phased in approach. The June 30, 2016, actuarial valuation used a discount rate of 7.25 percent. For the June 30, 2017 actuarial valuation the discount rate was reduced to 7.00 percent. The discount rate used for 2018 financial reporting was 3.87 percent, an increase of 0.29 percent from 3.58 percent used for 2017 financial reporting.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

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

Changes in Assumptions

There were no changes in economic assumptions since the previous valuations for CalSTRS and CalPERS.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District’s statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District’s covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District’s covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2019, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 132,636,363	\$ 133,224,320	\$ 587,957
Classified salaries	\$ 37,676,290	\$ 39,090,871	\$ 1,414,581
Employee benefits	\$ 83,802,085	\$ 90,057,243	\$ 6,255,158
Other outgo			
Excluding transfers of indirect costs	\$ 6,699,576	\$ 6,769,838	\$ 70,262

SUPPLEMENTARY INFORMATION

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected [1]	84.010	14329	\$ 2,639,489
Title II, Part A, Supporting Effective Instruction Local Grants [1]	84.367	14341	768,756
Title III			
Title III, English Learner Student Program	84.365	14346	521,964
Title III, Immigrant Education Program	84.365	15146	67,443
Subtotal Title III			<u>589,407</u>
Title IV, Part A, Student Support and Academic Enrichment Grants Special Education Cluster	84.424	15396	91,584
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	5,532,646
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	336,122
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	555,372
IDEA Quality Assurance & Focused Monitoring	84.027A	13693	639
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	155,197
IDEA Preschool Capacity Building, Part B, Sec 619	84.173A	13839	6,296
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	8,309
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	152
Subtotal Special Education Cluster			<u>6,594,733</u>
IDEA Early Intervention Grants, Part C	84.181	23761	30,148
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	154,360
<i>Passed through California Department of Rehabilitation:</i>			
Rehabilitation Services - Vocational Rehabilitation Grants to States:			
Department of Rehabilitation: Workability II, Transitions Partnership Program	84.126	10006	471,033
Work Incentive Training	84.126A	10006	24,212
Subtotal Rehabilitation Services - Vocational Rehabilitation Grants to States			<u>495,245</u>
Total U. S. Department of Education			<u>11,363,722</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	675,609
National School Lunch Program	10.555	13391	2,631,491
USDA Commodities [2]	10.555	*	410,706
Summer Food Service Program for Children	10.559	13004	21,461
Subtotal Child Nutrition Cluster			<u>3,739,267</u>
Forest Reserve Funds	10.665	10044	7,219
Total U. S. Department of Agriculture			<u>3,746,486</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	381,298
Medi-Cal Administrative Activities	93.778	10060	466,295
Subtotal Medicaid			<u>847,593</u>
Total U. S. Department of Health & Human Services			<u>847,593</u>
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<i>Direct Award</i>			
Community Development Block Grant - Child Care, City of Lake Forest	14.218	*	2,411
Community Development Block Grant - Child Care, City of Mission Viejo	14.218	*	1,775
Total U. S. Department of Housing and Urban Development			<u>4,186</u>
Total Federal Expenditures			<u>\$ 15,961,987</u>

[1] - Major Program

[2] - In-Kind Contribution

* - Pass-Through Entity Identifying Number not available or not applicable

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2019**

	Second Period Report	Annual Report
	Certificate No. D02F994B	Certificate No. B1031E3A
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	7,351.20	7,355.55
Extended Year Special Education	11.84	11.84
Special Education - Nonpublic Schools	3.36	3.68
Extended Year Special Education - Nonpublic Schools	0.22	0.22
Total TK/K through Third	7,366.62	7,371.29
Fourth through Sixth		
Regular ADA	5,599.14	5,598.81
Extended Year Special Education	6.33	6.33
Special Education - Nonpublic Schools	7.06	7.23
Extended Year Special Education - Nonpublic Schools	0.95	0.95
Total Fourth through Sixth	5,613.48	5,613.32
Seventh through Eighth		
Regular ADA	3,918.84	3,908.71
Extended Year Special Education	3.03	3.03
Special Education - Nonpublic Schools	1.90	2.06
Extended Year Special Education - Nonpublic Schools	0.43	0.43
Total Seventh through Eighth	3,924.20	3,914.23
Ninth through Twelfth		
Regular ADA	8,789.19	8,863.01
Extended Year Special Education	9.10	9.10
Special Education - Nonpublic Schools	12.83	12.41
Extended Year Special Education - Nonpublic Schools	2.22	2.22
Total Ninth through Twelfth	8,813.34	8,886.74
TOTAL SCHOOL DISTRICT	25,717.64	25,785.58

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	Minutes Requirement	2018-19 Actual Minutes	Number of Days	Status
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	50,400	180	Complied
Grade 2	50,400	50,400	180	Complied
Grade 3	50,400	50,400	180	Complied
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	54,000	180	Complied
Grade 7	54,000	58,754	180	Complied
Grade 8	54,000	58,754	180	Complied
Grade 9	64,800	69,900	180	Complied
Grade 10	64,800	69,900	180	Complied
Grade 11	64,800	69,900	180	Complied
Grade 12	64,800	69,900	180	Complied

See accompanying note to supplementary information.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	2020 (Budget)	2019	2018	2017
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 294,474,523	\$ 310,633,882	\$ 286,877,278	\$ 287,254,695
Expenditures And Other Financing Uses	313,990,158	312,431,388	285,091,506	283,226,405
Net change in Fund Balance	\$ (19,515,635)	\$ (1,797,506)	\$ 1,785,772	\$ 4,028,290
Ending Fund Balance	\$ 56,438,456	\$ 75,954,091	\$ 77,751,597	\$ 75,965,825
Available Reserves*	\$ 22,318,217	\$ 16,036,586	\$ 56,963,947	\$ 63,730,476
Available Reserves As A Percentage Of Outgo	7.11%	5.13%	19.98%	22.50%
Long-term Liabilities	\$ 499,290,095	\$ 506,386,619	\$ 525,104,777	\$ 495,811,926
Average Daily Attendance At P-2***	25,052	25,718	26,268	26,803

The General Fund ending fund balance has decreased by \$11,734 over the past two years. The fiscal year 2019-20 budget projects a further decrease of \$19,515,635. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2019-20 fiscal year. Total long-term obligations have increased by \$10,574,693 over the past two years.

Average daily attendance has decreased by 1,085 ADA over the past two years. A further decrease of 666 ADA is anticipated during the 2019-20 fiscal year.

*Available reserves consist of all unassigned fund balances within the General Fund.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54. On-behalf payments of \$4,104,570 are not included in the actual revenues and expenditures reported in this schedule.

***2018 and 2017 columns include the average daily attendance of the Ralph Gates Charter School.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

	Self-Insurance Fund
June 30, 2019, annual financial and budget report fund balance	\$ 15,447,009
Adjustments and reclassifications:	
Increase (decrease) in total fund balances:	
Adjustment to claims liability for Workers' Compensation	1,349,085
Net adjustments and reclassifications	<u>1,349,085</u>
June 30, 2019, audited financial statement fund balance	<u>\$ 16,796,094</u>

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2019**

The District did not sponsor any charter schools during the year ended June 30, 2019.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Special Education Pass- Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS										
Cash and investments	\$ 534,731	\$ -	\$ 5,223,020	\$ 433,948	\$ 29,935	\$ 250,920	\$ 10,828,412	\$ 151,960	\$ 8,566,119	\$ 26,019,045
Accounts receivable	-	-	297,174	622,365	1,115	1,254	19,736	-	27,587	969,231
Due from other funds	975,828	1,347	15,533	8,955	-	-	34	-	-	1,001,697
Stores inventory	-	-	-	42,691	-	-	-	-	-	42,691
Prepaid expenditures	-	-	33,440	582	-	-	-	-	-	34,022
Total Assets	\$ 1,510,559	\$ 1,347	\$ 5,569,167	\$ 1,108,541	\$ 31,050	\$ 252,174	\$ 10,848,182	\$ 151,960	\$ 8,593,706	\$ 28,066,686
LIABILITIES										
Accrued liabilities	\$ 1,510,559	\$ 1,328	\$ 1,028,238	\$ 505,781	\$ 17,359	\$ 32	\$ 157,221	\$ 48,535	\$ -	\$ 3,269,053
Due to other funds	-	19	804,054	379,237	13,691	-	420	-	-	1,197,421
Unearned revenue	-	-	743,918	3,555	-	-	-	-	-	747,473
Total Liabilities	1,510,559	1,347	2,576,210	888,573	31,050	32	157,641	48,535	-	5,213,947
FUND BALANCES										
Non-spendable	-	-	33,440	43,273	-	-	-	-	-	76,713
Restricted	-	-	2,959,517	176,695	-	252,142	10,690,541	103,425	8,593,706	22,776,026
Total Fund Balances	-	-	2,992,957	219,968	-	252,142	10,690,541	103,425	8,593,706	22,852,739
Total Liabilities and Fund Balance	\$ 1,510,559	\$ 1,347	\$ 5,569,167	\$ 1,108,541	\$ 31,050	\$ 252,174	\$ 10,848,182	\$ 151,960	\$ 8,593,706	\$ 28,066,686

See accompanying note to supplementary information.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2019**

	Special Education Pass-Through Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Building Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES										
Federal sources	\$ 611,529	\$ -	\$ 4,186	\$ 3,739,267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,354,982
Other state sources	1,494,347	-	7,985	357,725	-	511,967	-	-	69,425	2,441,449
Other local sources	-	3	11,111,501	2,224,057	70,558	10,437	2,786,122	31,097	10,640,874	26,874,649
Total Revenues	2,105,876	3	11,123,672	6,321,049	70,558	522,404	2,786,122	31,097	10,710,299	33,671,080
EXPENDITURES										
Current										
Pupil services										
Food services	-	-	-	6,189,930	-	-	-	-	-	6,189,930
General administration										
All other general administration	-	-	597,614	306,590	-	-	-	-	-	904,204
Plant services	-	-	195,151	160	-	-	5,941	43,521	-	244,773
Facilities acquisition and maintenance	-	-	822,065	-	2,573,295	-	3,968,522	13,719	-	7,377,601
Community services	-	-	9,594,211	-	-	-	-	-	-	9,594,211
Transfers to other agencies	2,105,876	-	-	-	-	-	-	-	-	2,105,876
Debt service										
Principal	-	-	-	-	-	-	-	-	5,665,000	5,665,000
Interest and other	-	-	-	-	-	249	-	-	4,848,600	4,848,649
Total Expenditures	2,105,876	-	11,209,041	6,496,680	2,573,295	249	3,974,463	57,240	10,513,600	36,930,444
Excess (Deficiency) of Revenues Over Expenditures	-	3	(85,369)	(175,631)	(2,502,737)	522,155	(1,188,341)	(26,143)	196,699	(3,259,364)
Other Financing Sources (Uses)										
Transfers in	-	-	-	-	-	-	511,967	-	-	511,967
Transfers out	-	(185,846)	-	-	-	(511,967)	-	-	-	(697,813)
Net Financing Sources (Uses)	-	(185,846)	-	-	-	(511,967)	511,967	-	-	(185,846)
NET CHANGE IN FUND BALANCE	-	(185,843)	(85,369)	(175,631)	(2,502,737)	10,188	(676,374)	(26,143)	196,699	(3,445,210)
Fund Balance - Beginning, as Restated	-	185,843	3,078,326	395,599	2,502,737	241,954	11,366,915	129,568	8,397,007	26,297,949
Fund Balance - Ending	\$ -	\$ -	\$ 2,992,957	\$ 219,968	\$ -	\$ 252,142	\$ 10,690,541	\$ 103,425	\$ 8,593,706	\$ 22,852,739

See accompanying note to supplementary information.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2019**

The Saddleback Valley Unified School District was organized on July 1, 1973 and is comprised of an area of approximately 93 square miles located in Orange County. There were no changes in the boundaries of the District during the current year. The District operates 23 elementary schools, four intermediate schools, four high schools, one special education school, one virtual academy, one continuation high school, and one early education school.

GOVERNING BOARD

Member	Office	Term Expires
Suzie R. Swartz	President	2020
Dr. Edward Wong	Vice President	2020
Amanda Morrell	Clerk	2020
Greg Kunath	Member	2022
Barbara Schulman	Member	2022

DISTRICT ADMINISTRATORS

Crystal Turner, Ed. D.
Superintendent

Connie Cavanaugh, CPA
Assistant Superintendent, Human Resources & Fiscal Services

Liza Zielasko
Assistant Superintendent, Educational Services

Robert Craven
Assistant Superintendent, Facilities, Operations, and Technology

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 16,054,265
Medi-Cal Billing Option	93.778	(92,378)
Work Incentive Training	84.126A	100
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 15,961,987</u>

The District has not elected to use the 10 percent de minimis indirect cost rate.

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

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 46208. During the year ended June 30, 2019, the District participated in the Longer Day incentive funding program. As of June 30, 2019, the District had met its target funding.

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.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

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 District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

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.

OTHER INDEPENDENT AUDITORS' REPORTS

**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**

Independent Auditors' Report

Governing Board
Saddleback Valley Unified School District
Mission Viejo, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Saddleback Valley Unified School District's basic financial statements, and have issued our report thereon dated December 20, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2019-001)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saddleback Valley Unified 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*.

Saddleback Valley Unified School District's Response to Findings

Saddleback Valley Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Saddleback Valley Unified School District's response was not subjected 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White, Inc.

San Diego, California
December 20, 2019

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**Independent Auditors' Report

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Christy White, Inc.

San Diego, California
December 20, 2019

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Saddleback Valley Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Saddleback Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Saddleback Valley Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Saddleback Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2019.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for independent study because the reported average daily attendance was below the materiality threshold for testing.

Christy White, Inc.

San Diego, California
December 20, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.367</u>	<u>Title II, Part A</u>

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

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
 FINANCIAL STATEMENT FINDINGS
 FOR THE YEAR ENDED JUNE 30, 2019**

FIVE DIGIT CODE

20000
 30000

AB 3627 FINDING TYPE

Inventory of Equipment
 Internal Control

FINDING #2019-001: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000)

Criteria: Proper internal controls should be in place to ensure Associated Student Body (ASB) funds are properly collected, deposited and expended as part of the District’s fiduciary duty. In addition, adequate internal controls will ensure that fiduciary fund assets are safeguarded.

Condition: During our evaluation of internal controls over ASB activities, we noted a lack of proper internal controls and audit documentation relating to cash disbursements and receipts. The deficiencies in internal controls noted include the following:

- In our review of cash receipting procedures, we noted that receipts, sales control sheets, or tally sheets are not maintained to provide evidence of accurate proceeds for fundraising activities. Without this documentation, cash proceeds from activities cannot be reconciled to the amount deposited into the ASB bank account.
 - We noted that this was the case in five (5) of the ten (10) cash receipts selected for testing at Mission Viejo High School.
 - We noted that this was the case in four (4) of the ten (10) cash receipts selected for testing at Los Alisos Intermediate School.
- In our review of cash receipting procedures at Mission Viejo High School, we noted that cash receipts proceeds from sales and fundraising events are not consistently deposited in a timely manner. In four (4) out of ten (10) selections, the time between initial receipt and deposit exceeded two weeks.
- In our review of cash disbursements at Mission Viejo High School, we noted that four (4) of ten (10) expenditures were not properly requisitioned as the signatures of approval took place after the invoice date in each instance. Of the noted instances, one expenditure lacked proper approval from the site administrator.
- One (1) of the ten (10) sampled disbursements at Mission Viejo High School appeared to be an expenditure that should be the responsibility of the District. This condition was also noted in one (1) out of ten (10) sampled disbursements at Los Alisos Intermediate School.

Cause: Lack of adequate oversight and/or noncompliance with District accounting policies.

Effect: A lack of strong internal controls can lead to accounting irregularities to go undetected and increase the potential for the misappropriation of fiduciary fund assets.

Repeat Finding: This is not a repeat finding.

Recommendation: Recommendations related to each deficiency are included above. In addition, training and instruction on the use of standardized formats should continue to be provided annually with compliance follow-up by the district office. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented. Proper controls over cash receipting and cash disbursements are integral for proper safeguarding of assets.

(continued on the following page)

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2019**

FINDING #2019-001: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000) (continued)

Corrective Action Plan: District Office staff met with Mission Viejo High School and Los Alisos Intermediate School to review proper cash handling procedures emphasizing the need for strong internal controls.

All Saddleback Valley Unified School District schools are issued the Fiscal Crisis & Management Assistance Team Associated Student Body Accounting Manual. Both Mission Viejo High School and Los Alisos Intermediate School were reminded to use this manual as a guideline to ensure proper accounting practices.

Both sites have implemented additional procedures to ensure proper recording of cash receipts and timely deposits. Mission Viejo High School will utilize the student store online options as their primary method of cash receipts. Los Alisos Intermediate has implemented a log for all deposits and a cash receipt form for reconciliation.

Fiscal Services staff has counseled both sites on the importance of pre-approval of expenditures. The sites will be utilizing the purchase requisition/order process in ASBWorks as a mechanism to ensure prior approval is sought.

Fiscal Services in conjunction with our external auditor, Christy White Associates will provide an Associated Student Body fiscal training in January 2020.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no findings or questioned costs related to federal awards for the year ended June 30, 2019.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

FIVE DIGIT CODE

10000
40000
42000
43000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Apprenticeship: Related and Supplemental Instruction
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no findings or questioned costs related to state awards for the year ended June 30, 2019.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no findings or questioned costs for the year ended June 30, 2018.

MANAGEMENT LETTER

Governing Board
Saddleback Valley Unified School District
Mission Viejo, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 20, 2019, on the financial statements of Saddleback Valley Unified School District.

1. Capital Assets Reporting

Observation: Based on procedures performed over capital assets reporting, it does not appear that the District has adequate procedures in place to ensure timely and reliable reporting of capital assets, related accumulated depreciation, and construction in progress in progress balances.

Recommendation: In order ensure that the balances outlined above are reported in a timely and accurate manner, we recommend redesigning and implementing improved procedures to ensure that current year additions, disposals, depreciation, and construction in progress activity are accurately summarized and reported during the year-end closing process. These procedures should include timely supervision and review of reporting documents.

2. Cash Receipts Collections – EduCafe

Observation: Based on inquiries made during our internal control evaluation of the EduCafe, we noted that it is not standard procedure for receipts to be provided to customers for all transactions.

Recommendation: In order ensure that all sales are properly recorded in the point-of-sale system, receipts should be provided to customers for all transactions.

3. Cash Receipts Collections – Food Services

Observation: Based on inquiries made during our internal control evaluation of the food services department, we noted that cash count forms are not typically signed by the preparer or reviewer.

Recommendation: In order to maintain proper controls over food services sales proceeds, cash count forms should be dual counted, signed, and dated by the preparer and reviewer.

(continued on the following page)

MANAGEMENT LETTER (continued)

4. Cash Disbursements – Requisition and Purchase Order Approvals

Observation: Based on inquiries made during our internal control evaluation, it was noted that the District's purchase order policy is not always adhered to. In some instances, the purchase order process is circumvented through requisitioners directly contacting an approved vendor, purchasing items from the vendor, and then obtaining approval after the purchase is made.

Recommendation: While instances typically involve smaller purchases and our testing indicated no exceptions of this nature, we recommend reinforcing the importance of purchase orders in encumbrance accounting to all requisitioners.

5. Controls Over Health Benefit Recipients

Observation: Based on inquiries made during our internal control evaluation with human resources and payroll staff members, terminated employees are not reconciled to health benefits participant listings due to staffing turnover. As a result, there is risk that inactive employees could be receiving health benefits.

Recommendation: In order maintain strong controls over health benefit recipients, the District should implement control procedures to periodically reconcile terminated employee listings to health benefits active participant listings.

We will review the status of the comment above during our next audit engagement.

Christy White, Inc.

San Diego, California
December 20, 2019