

SAN MARCOS UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
JUNE 30, 2019**



SAN MARCOS UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2019

FINANCIAL SECTION

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	14
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Proprietary Funds – Statement of Net Position.....	19
Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Position.....	20
Proprietary Funds – Statement of Cash Flows.....	21
Fiduciary Funds – Statement of Net Position.....	22
Notes to Financial Statements.....	23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule.....	62
Schedule of Changes in Total OPEB Liability and Related Ratios.....	63
Schedule of the District's Proportionate Share of the Net Pension Liability - CalSTRS.....	64
Schedule of the District's Proportionate Share of the Net Pension Liability - CalPERS.....	65
Schedule of District Contributions - CalSTRS.....	66
Schedule of District Contributions - CalPERS.....	67
Notes to Required Supplementary Information.....	68

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards.....	70
Schedule of Average Daily Attendance (ADA).....	71
Schedule of Instructional Time.....	72
Schedule of Financial Trends and Analysis.....	73
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	74
Schedule of Charter Schools.....	75
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	77
Local Education Agency Organization Structure.....	78
Notes to Supplementary Information.....	79

**SAN MARCOS UNIFIED SCHOOL DISTRICT
TABLE OF CONTENTS
JUNE 30, 2019**

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*81
Report on Compliance For Each Major Federal Program; and Report on Internal Control Over Compliance
Required by the Uniform Guidance83
Report on State Compliance85

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results.....87
Financial Statement Findings88
Federal Award Findings and Questioned Costs89
State Award Findings and Questioned Costs90
Summary Schedule of Prior Audit Findings.....91

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
San Marcos Unified School District
San Marcos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the San Marcos 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 San Marcos 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, business-type activities, each major fund, and the aggregate remaining fund information of San Marcos 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, schedule of changes in total 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 San Marcos 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 November 18, 2019 on our consideration of San Marcos 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 San Marcos 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 San Marcos Unified School District's internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
November 18, 2019

SAN MARCOS UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

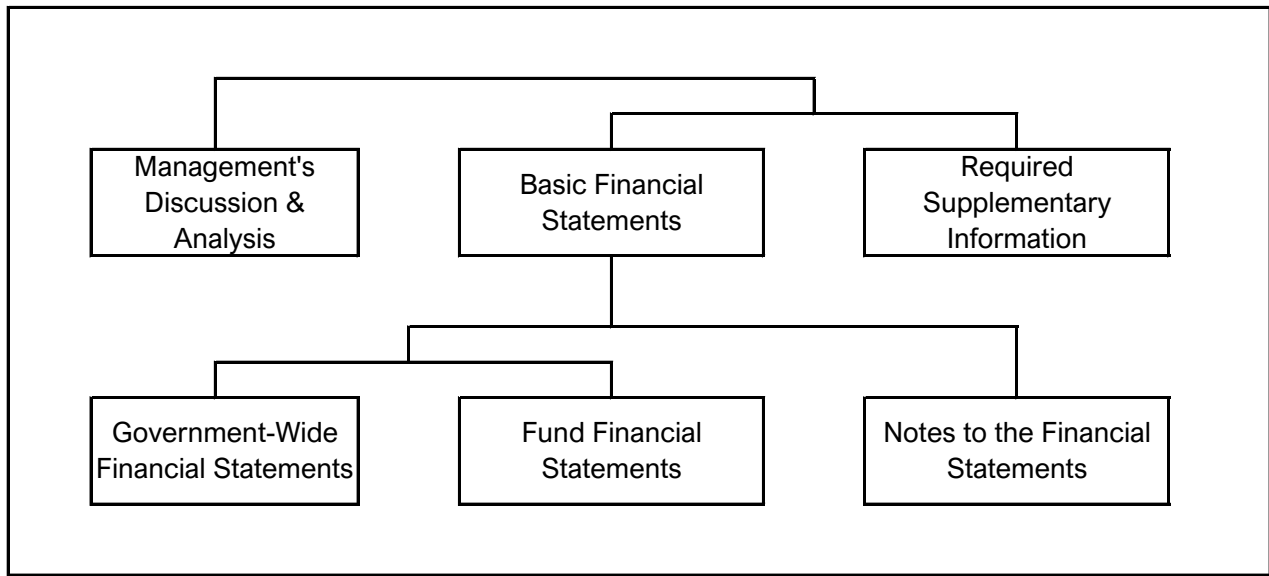
Our discussion and analysis of San Marcos Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

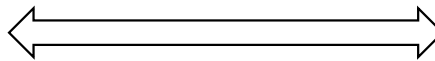
- The District's total combined net position was \$8,403,814 at June 30, 2019. This was a decrease of \$10,442,330 from the prior year.
- Overall combined revenues were \$272,185,015 which were exceeded by combined expenses of \$282,627,345.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



Summary



Detail

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

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.

**SAN MARCOS 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 \$8,403,814 at June 30, 2019, as reflected in the table below. Of this amount, \$(283,014,210) 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	\$ 167,465,835	\$ 189,667,041	\$ (22,201,206)	\$ 1,371,152	\$ 739,220	\$ 631,932
Capital assets	624,861,501	599,094,411	25,767,090	-	-	-
Total Assets	792,327,336	788,761,452	3,565,884	1,371,152	739,220	631,932
DEFERRED OUTFLOWS OF RESOURCES	92,251,112	92,732,886	(481,774)	190,718	348,389	(157,671)
LIABILITIES						
Current liabilities	42,835,577	33,307,685	9,527,892	139,814	122,384	17,430
Long-term liabilities	818,080,873	813,353,573	4,727,300	606,685	346,141	260,544
Total Liabilities	860,916,450	846,661,258	14,255,192	746,499	468,525	277,974
DEFERRED INFLOWS OF RESOURCES	16,073,555	16,589,027	(515,472)	-	16,993	(16,993)
NET POSITION						
Net investment in capital assets	194,008,065	268,379,905	(74,371,840)	-	-	-
Restricted	97,409,959	105,260,871	(7,850,912)	-	-	-
Unrestricted	(283,829,581)	(355,396,723)	71,567,142	815,371	602,091	213,280
Total Net Position	\$ 7,588,443	\$ 18,244,053	\$ (10,655,610)	\$ 815,371	\$ 602,091	\$ 213,280

**SAN MARCOS 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 slightly, 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	\$ 2,849,417	\$ 2,852,980	\$ (3,563)	\$ 3,554,782	\$ 3,197,909	\$ 356,873
Operating grants and contributions	34,016,339	34,908,987	(892,648)	-	-	-
Capital grants and contributions	66,437	37,025,346	(36,958,909)	-	-	-
General revenues						
Property taxes	94,232,494	86,835,957	7,396,537	-	-	-
Unrestricted federal and state aid	121,467,004	122,554,515	(1,087,511)	-	-	-
Other	15,984,108	4,579,126	11,404,982	14,434	10,431	4,003
Total Revenues	268,615,799	288,756,911	(20,141,112)	3,569,216	3,208,340	360,876
EXPENSES						
Instruction	167,609,688	158,261,057	9,348,631	-	-	-
Instruction-related services	22,959,648	20,431,141	2,528,507	-	-	-
Pupil services	29,142,664	25,039,463	4,103,201	-	-	-
General administration	12,265,653	10,627,342	1,638,311	-	-	-
Plant services	23,690,084	23,547,984	142,100	-	-	-
Ancillary and community services	4,315,943	4,256,816	59,127	-	-	-
Debt service	18,366,486	22,215,137	(3,848,651)	-	-	-
Other outgo	876,299	2,774,129	(1,897,830)	-	-	-
Enterprise activities	44,944	74,320	(29,376)	3,355,936	3,007,910	348,026
Total Expenses	279,271,409	267,227,389	12,044,020	3,355,936	3,007,910	348,026
Transfers & special items	-	300,000	(300,000)	-	(300,000)	300,000
Change in net position	(10,655,610)	21,829,522	(32,485,132)	213,280	(99,570)	312,850
Net Position - Beginning	18,244,053	(3,585,469)	21,829,522	602,091	701,661	(99,570)
Net Position - Ending	\$ 7,588,443	\$ 18,244,053	\$ (10,655,610)	\$ 815,371	\$ 602,091	\$ 213,280

The cost of all our governmental activities this year was \$279,271,409 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$94,232,494 because a portion of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**SAN MARCOS 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 related to Governmental Activities. 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	\$ 147,423,345	\$ 96,554,898
Instruction-related services	19,813,792	19,716,838
Pupil services	20,456,936	16,608,596
General administration	11,444,448	10,097,417
Plant services	23,123,374	22,395,140
Ancillary and community services	2,867,590	2,863,602
Debt service	18,366,486	22,215,137
Transfers to other agencies	(1,197,586)	1,932,192
Other	40,831	56,256
Total Expenses	\$ 242,339,216	\$ 192,440,076

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 \$153,886,588, which is less than last year’s ending fund balance of \$177,919,237 primarily due to ongoing construction. The District’s General Fund had \$2,103,753 more in operating revenues than expenditures for the year ended June 30, 2019. The District’s Building Fund had \$17,335,241 less in operating revenues than expenditures for the year ended June 30, 2019. The District’s Capital Facilities Fund \$18,387,064 less in operating revenues than expenditures for the year ended June 30, 2019. The District’s Bond Interest and Redemption Fund had \$548,716 less in operating revenues than expenditures for the year ended June 30, 2019.

CURRENT YEAR BUDGET 2018-2019

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a regular basis to reflect changes to both revenues and expenditures that become known during the year. In addition, 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.

**SAN MARCOS 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 \$624,861,501 in capital assets, net of accumulated depreciation. There were no capital assets related to business-type activities for the year ended June 30, 2019.

	Governmental Activities		
	2019	2018	Net Change
CAPITAL ASSETS			
Land	\$ 65,318,298	\$ 64,444,412	\$ 873,886
Construction in progress	172,423,560	162,162,307	10,261,253
Land improvements	34,123,744	32,181,064	1,942,680
Buildings & improvements	465,492,127	439,684,570	25,807,557
Furniture & equipment	41,419,722	40,921,325	498,397
Accumulated depreciation	(153,915,950)	(140,299,267)	(13,616,683)
Total Capital Assets	\$ 624,861,501	\$ 599,094,411	\$ 25,767,090

Long-Term Liabilities

At year-end, the District had \$818,080,873 in long-term liabilities related to governmental activities, an increase of 0.58%. In addition, the District had long-term liabilities in the amount of \$606,685 relating to business-type activities, an increase of 75.27%, primarily related to an increase in net pension liability. (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	\$ 337,078,022	\$ 343,037,743	\$ (5,959,721)	\$ -	\$ -	\$ -
Total lease revenue bonds	84,225,589	85,447,471	(1,221,882)	-	-	-
CFD and RDA bonds	86,317,220	81,761,070	4,556,150	-	-	-
Site leases	5,492,460	6,309,457	(816,997)	-	-	-
Capital leases	2,254,739	2,533,539	(278,800)	-	-	-
Early retirement incentive	1,675,358	2,215,898	(540,540)	-	-	-
Compensated absences	1,384,852	1,301,260	83,592	58,778	45,943	12,835
Total OPEB liability	96,994,104	92,469,648	4,524,456	-	-	-
Net pension liability	222,990,130	211,476,471	11,513,659	547,907	300,198	247,709
Less: current portion of long-term liabilities	(20,331,601)	(13,198,984)	(7,132,617)	-	-	-
Total Long-term Liabilities	\$ 818,080,873	\$ 813,353,573	\$ 4,727,300	\$ 606,685	\$ 346,141	\$ 260,544

**SAN MARCOS 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, please contact the Business Office at (760) 752-1212.

SAN MARCOS UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and investments	\$ 156,107,105	\$ 1,194,119	\$ 157,301,224
Accounts receivable	9,208,837	230,335	9,439,172
Internal balances	53,302	(53,302)	-
Inventory	299,989	-	299,989
Prepaid expenses	1,796,602	-	1,796,602
Capital assets, not depreciated	237,741,858	-	237,741,858
Capital assets, net of accumulated depreciation	387,119,643	-	387,119,643
Total Assets	792,327,336	1,371,152	793,698,488
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	69,183,223	190,718	69,373,941
Deferred outflows related to OPEB	2,619,383	-	2,619,383
Deferred amount on refunding	20,448,506	-	20,448,506
Total Deferred Outflows of Resources	92,251,112	190,718	92,441,830
LIABILITIES			
Accrued liabilities	22,227,897	139,814	22,367,711
Unearned revenue	276,079	-	276,079
Long-term liabilities, current portion	15,553,231	-	15,553,231
Long-term liabilities, non-current portion	822,859,243	606,685	823,465,928
Total Liabilities	860,916,450	746,499	861,662,949
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	15,701,526	-	15,701,526
Deferred inflows related to OPEB	372,029	-	372,029
Total Deferred Inflows of Resources	16,073,555	-	16,073,555
NET POSITION			
Net investment in capital assets	194,008,065	-	194,008,065
Restricted:			
Capital projects	80,848,284	-	80,848,284
Debt service	8,633,772	-	8,633,772
Educational programs	6,658,919	-	6,658,919
All others	1,268,984	-	1,268,984
Unrestricted	(283,829,581)	815,371	(283,014,210)
Total Net Position	\$ 7,588,443	\$ 815,371	\$ 8,403,814

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

**SAN MARCOS 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	\$ 167,609,688	\$ 53,211	\$ 20,066,695	\$ 66,437	\$ (147,423,345)	
Instruction-related services						
Instructional supervision and administration	5,725,991	-	2,622,073	-	(3,103,918)	
Instructional library, media, and technology	2,113,490	1,160	57,321	-	(2,055,009)	
School site administration	15,120,167	-	465,302	-	(14,654,865)	
Pupil services						
Home-to-school transportation	6,340,670	-	170,822	-	(6,169,848)	
Food services	8,584,405	1,820,522	5,500,475	-	(1,263,408)	
All other pupil services	14,217,589	-	1,193,909	-	(13,023,680)	
General administration						
Centralized data processing	2,291,514	-	23,921	-	(2,267,593)	
All other general administration	9,974,139	90,571	706,713	-	(9,176,855)	
Plant services	23,690,084	43,569	523,141	-	(23,123,374)	
Ancillary services	2,203,384	-	24,733	-	(2,178,651)	
Community services	2,112,559	839,473	584,147	-	(688,939)	
Enterprise activities	44,944	911	3,202	-	(40,831)	
Interest on long-term debt	18,366,486	-	-	-	(18,366,486)	
Other outgo	876,299	-	2,073,885	-	1,197,586	
Total Governmental Activities	\$ 279,271,409	\$ 2,849,417	\$ 34,016,339	\$ 66,437	(242,339,216)	
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	3,355,936	3,554,782	-	-	\$ 198,846	
Total Business-Type Activities	3,355,936	3,554,782	-	-	198,846	
Total School District	\$ 282,627,345	\$ 6,404,199	\$ 34,016,339	\$ 66,437		\$ (242,140,370)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes					62,015,184	62,015,184
Property taxes, levied for debt service					14,602,797	14,602,797
Property taxes, levied for other specific purposes					17,614,513	17,614,513
Federal and state aid not restricted for specific purposes					121,467,004	121,467,004
Interest and investment earnings					2,817,383	2,817,383
Interagency revenues					119,080	119,080
Miscellaneous					13,047,645	14,434
Subtotal, General Revenue					231,683,606	231,698,040
CHANGE IN NET POSITION						
					(10,655,610)	213,280
Net Position - Beginning						
					18,244,053	602,091
Net Position - Ending						
					\$ 7,588,443	\$ 815,371
						\$ 8,403,814

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 39,720,010	\$ 22,399,206	\$ 53,102,660	\$ 17,643,860	\$ 23,137,748	\$ 156,003,484
Accounts receivable	7,681,023	180,264	347,414	-	998,593	9,207,294
Due from other funds	616,720	-	6,330,287	-	10,118	6,957,125
Stores inventory	119,571	-	-	-	180,418	299,989
Prepaid expenditures	1,796,602	-	-	-	-	1,796,602
Total Assets	\$ 49,933,926	\$ 22,579,470	\$ 59,780,361	\$ 17,643,860	\$ 24,326,877	\$ 174,264,494
LIABILITIES						
Accrued liabilities	\$ 10,677,019	\$ 1,514,430	\$ 729,830	\$ -	\$ 276,725	\$ 13,198,004
Due to other funds	6,340,405	-	1,348	-	562,070	6,903,823
Unearned revenue	150,101	-	-	-	125,978	276,079
Total Liabilities	17,167,525	1,514,430	731,178	-	964,773	20,377,906
FUND BALANCES						
Nonspendable	2,256,173	-	-	-	190,418	2,446,591
Restricted	6,608,556	21,065,040	59,049,183	17,643,860	23,118,448	127,485,087
Committed	1,682,241	-	-	-	53,238	1,735,479
Unassigned	22,219,431	-	-	-	-	22,219,431
Total Fund Balances	32,766,401	21,065,040	59,049,183	17,643,860	23,362,104	153,886,588
Total Liabilities and Fund Balances	\$ 49,933,926	\$ 22,579,470	\$ 59,780,361	\$ 17,643,860	\$ 24,326,877	\$ 174,264,494

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

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

Total Fund Balance - Governmental Funds \$ 153,886,588

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	\$ 778,759,094	
Accumulated depreciation	<u>(153,915,950)</u>	624,843,144

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:

20,448,506

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:

(9,010,088)

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	\$ 337,078,022	
Total lease revenue bonds	84,225,589	
CFD and RDA bonds	86,317,220	
Site leases	5,492,460	
Capital leases	2,254,739	
Early retirement incentive	1,675,358	
Compensated absences	1,384,852	
Total OPEB liability	96,994,104	
Net pension liability	<u>222,990,130</u>	(838,412,474)

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	\$ 69,183,223	
Deferred inflows of resources related to pensions	<u>(15,701,526)</u>	53,481,697

(continued on the following page)

**SAN MARCOS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
POSITION, continued
JUNE 30, 2019**

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	\$ 2,619,383	
Deferred inflows of resources related to OPEB	<u>(372,029)</u>	2,247,354

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:

103,716

Total Net Position - Governmental Activities	<u>\$ 7,588,443</u>
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**SAN MARCOS UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 183,394,224	\$ -	\$ -	\$ -	\$ -	\$ 183,394,224
Federal sources	9,637,983	-	-	-	5,393,202	15,031,185
Other state sources	29,898,320	-	41,572	92,779	542,720	30,575,391
Other local sources	14,531,307	556,269	13,117,562	14,730,163	8,852,338	51,787,639
Total Revenues	237,461,834	556,269	13,159,134	14,822,942	14,788,260	280,788,439
EXPENDITURES						
Current						
Instruction	158,667,337	-	-	-	105,815	158,773,152
Instruction-related services						
Instructional supervision and administration	5,520,034	-	-	-	-	5,520,034
Instructional library, media, and technology	1,697,455	-	-	-	-	1,697,455
School site administration	14,308,084	-	-	-	17,638	14,325,722
Pupil services						
Home-to-school transportation	5,215,213	-	-	-	-	5,215,213
Food services	79,577	-	-	-	7,735,698	7,815,275
All other pupil services	14,041,447	-	-	-	-	14,041,447
General administration						
Centralized data processing	1,802,896	-	-	-	-	1,802,896
All other general administration	6,907,514	-	1,136,027	-	305,790	8,349,331
Plant services	19,969,705	55,247	636,584	-	586,977	21,248,513
Facilities acquisition and maintenance	520,660	17,836,263	20,823,634	-	-	39,180,557
Ancillary services	2,206,469	-	-	-	400	2,206,869
Community services	1,880,221	-	-	-	-	1,880,221
Enterprise activities	3,286	-	-	-	3,630	6,916
Transfers to other agencies	2,471,040	-	-	-	-	2,471,040
Debt service						
Principal	60,676	-	3,299,236	4,417,426	1,700,000	9,477,338
Interest and other	6,467	-	5,650,717	10,954,232	1,800,237	18,411,653
Total Expenditures	235,358,081	17,891,510	31,546,198	15,371,658	12,256,185	312,423,632
Excess (Deficiency) of Revenues Over Expenditures	2,103,753	(17,335,241)	(18,387,064)	(548,716)	2,532,075	(31,635,193)
Other Financing Sources (Uses)						
Transfers in	-	-	770,599	-	-	770,599
Other sources	-	-	-	45,023,240	7,199,937	52,223,177
Transfers out	(150,000)	-	-	-	(770,599)	(920,599)
Other uses	-	-	-	(44,470,633)	-	(44,470,633)
Net Financing Sources (Uses)	(150,000)	-	770,599	552,607	6,429,338	7,602,544
NET CHANGE IN FUND BALANCE	1,953,753	(17,335,241)	(17,616,465)	3,891	8,961,413	(24,032,649)
Fund Balance - Beginning	30,812,648	38,400,281	76,665,648	17,639,969	14,400,691	177,919,237
Fund Balance - Ending	\$ 32,766,401	\$ 21,065,040	\$ 59,049,183	\$ 17,643,860	\$ 23,362,104	\$ 153,886,588

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

**SAN MARCOS 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 \$ (24,032,649)

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:	\$ 39,610,646	
Depreciation expense:	<u>(13,829,695)</u>	25,780,951

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:

54,290,077

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(52,223,177)

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:

185,633

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:

(11,037)

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:

(542,181)

(continued on the following page)

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

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (280,847)

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: (83,592)

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: (1,533,045)

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: (14,657,005)

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 540,540

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: 1,935,197

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: (24,475)

Change in Net Position of Governmental Activities \$ (10,655,610)

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2019**

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Care Program	Self-Insurance
ASSETS		
Current assets		
Cash and investments	\$ 1,194,119	\$ 103,621
Accounts receivable	230,335	1,543
Total current assets	<u>1,424,454</u>	<u>105,164</u>
Non-current assets		
Capital assets, net of accumulated depreciation	-	18,357
Total non-current assets	<u>-</u>	<u>18,357</u>
Total Assets	<u>1,424,454</u>	<u>123,521</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	190,718	-
Total Deferred Outflows of Resources	<u>190,718</u>	<u>-</u>
LIABILITIES		
Current liabilities		
Accrued liabilities	139,814	19,805
Due to other funds	53,302	-
Total current liabilities	<u>193,116</u>	<u>19,805</u>
Non-current liabilities		
Compensated absences	58,778	-
Net pension liability	547,907	-
Total non-current liabilities	<u>606,685</u>	<u>-</u>
Total Liabilities	<u>799,801</u>	<u>19,805</u>
NET POSITION		
Restricted	-	103,716
Unrestricted	815,371	-
Total Net Position	<u>\$ 815,371</u>	<u>\$ 103,716</u>

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

**SAN MARCOS 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
	Enterprise Fund	Internal Service Fund
	Child Care Program	Self-Insurance
OPERATING REVENUE		
Other local revenues	\$ 3,554,782	\$ 52,214
Total operating revenues	<u>3,554,782</u>	<u>52,214</u>
OPERATING EXPENSE		
Salaries and benefits	2,988,012	140,281
Supplies and materials	132,579	15,027
Professional services	235,345	70,690
Depreciation	-	2,824
Total operating expenses	<u>3,355,936</u>	<u>228,822</u>
Operating income/(loss)	<u>198,846</u>	<u>(176,608)</u>
NON-OPERATING REVENUES		
Interest income	14,434	2,133
Transfers in	-	150,000
Total non-operating revenues	<u>14,434</u>	<u>152,133</u>
CHANGE IN NET POSITION	213,280	(24,475)
Net Position - Beginning	<u>602,091</u>	<u>128,191</u>
Net Position - Ending	<u>\$ 815,371</u>	<u>\$ 103,716</u>

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

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

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
	Child Care Program	Self-Insurance
Cash flows from operating activities		
Cash received from user charges	\$ 3,515,919	\$ 51,077
Cash received (paid) from assessments made to (from) other funds	(70,698)	10,000
Cash payments for payroll, insurance, and operating costs	(3,094,955)	(208,833)
Net cash provided by (used for) operating activities	<u>350,266</u>	<u>(147,756)</u>
Cash flows from non-capital financing activities		
Interfund transfers in (out)	-	150,000
Net cash provided by (used for) non-capital financing activities	<u>-</u>	<u>150,000</u>
Cash flows from investing activities		
Interest received	14,434	2,133
Net cash provided by (used for) investing activities	<u>14,434</u>	<u>2,133</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	364,700	4,377
CASH AND CASH EQUIVALENTS		
Beginning of year	829,419	99,244
End of year	<u>\$ 1,194,119</u>	<u>\$ 103,621</u>
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income/(loss)	\$ 198,846	\$ (176,608)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	-	2,824
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables	(196,534)	(1,137)
(Increase) decrease in deferred outflows of resources	157,671	-
(Increase) decrease in due from other funds	-	10,000
Increase (decrease) in due to other funds	(70,698)	-
Increase (decrease) in accounts payable	62,079	17,165
Increase (decrease) in unearned revenue	(44,649)	-
Increase (decrease) in net pension liability	247,709	-
Increase (decrease) in compensated absences	12,835	-
Increase (decrease) in deferred inflows of resources	(16,993)	-
Net cash provided by (used for) operating activities	<u>\$ 350,266</u>	<u>\$ (147,756)</u>

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Agency Fund</u> <u>Student Body</u> <u>Fund</u>
ASSETS	
Cash and investments	\$ 1,331,332
Total Assets	<u>\$ 1,331,332</u>
LIABILITIES	
Due to student groups	\$ 1,331,332
Total Liabilities	<u>\$ 1,331,332</u>

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The San Marcos 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 units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASBS No. 39, *Determining Whether Certain Organizations Are Component Units*, GASBS No. 61, *The Financial Reporting Entity: Omnibus* and GASBS No. 80, *Blending Requirements for Certain Component Units*. The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District’s operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

Based on these criteria, the District has two blended component units, the San Marcos Community Facilities Districts and the San Marcos School Financing Authority.

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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-Wide Statements. (continued)

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.

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.

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*).

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*).

**SAN MARCOS 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 (continued)

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.

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:

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]*).

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

Foundation Special Revenue Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* under which both earnings and principal may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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).

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*).

**SAN MARCOS 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. (continued)

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).

Permanent Funds: Permanent funds were introduced as part of the governmental financial reporting model established by GASB Statement 34 to account for permanent foundations that benefit a District.

Foundation Permanent Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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.

Child Care Enterprise Fund: This fund is used to account for revenues and expenditures of the District's after school childcare program.

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.

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*).

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.

**SAN MARCOS 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.

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.

**SAN MARCOS 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

Capital Assets (continued)

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.

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
Building Improvements	20-25 years
Vehicles	5-15 years
Office Equipment	5-15 years
Computer Equipment	5-15 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.

**SAN MARCOS 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)

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, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 - June 30, 2019

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.

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:

Non-spendable - The non-spendable 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.

**SAN MARCOS 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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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	Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	\$ 141,930,747	\$ 103,621	\$ 142,034,368	\$ 1,194,119	\$ -
Cash on hand and in banks	200	-	200	-	1,331,332
Cash with fiscal agent	13,722,537	-	13,722,537	-	-
Cash in revolving fund	350,000	-	350,000	-	-
Total cash and investments	\$ 156,003,484	\$ 103,621	\$ 156,107,105	\$ 1,194,119	\$ 1,331,332

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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 2 – CASH AND INVESTMENTS

B. Policies and Practices (continued)

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego 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 maintains cash balances with Union Bank related to its Community Facilities District Bonds and Lease Revenue Bonds.

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.

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 2 – CASH AND INVESTMENTS (continued)

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 \$143,572,405 and an amortized book value of \$143,228,487. The average weighted maturity for this pool is 528 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 not exposed to credit risk.

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 of \$1,201,265 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

G. Investment Accounting Policy

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

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 2 – CASH AND INVESTMENTS (continued)

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

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

	Uncategorized
Investment in county treasury	<u>\$ 143,572,405</u>
Total fair market value of investments	<u>\$ 143,572,405</u>

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Federal Government							
Categorical aid	\$ 4,212,769	\$ -	\$ -	\$ 819,969	\$ -	\$ 5,032,738	\$ -
State Government							
Categorical aid	984,672	-	-	57,739	-	1,042,411	-
Lottery	1,009,824	-	-	-	-	1,009,824	-
Local Government							
Other local sources	-	180,264	347,414	120,885	1,543	2,123,864	230,335
Total	<u>\$ 7,681,023</u>	<u>\$ 180,264</u>	<u>\$ 347,414</u>	<u>\$ 998,593</u>	<u>\$ 1,543</u>	<u>\$ 9,208,837</u>	<u>\$ 230,335</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

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	\$ 64,444,412	\$ 873,886	\$ -	\$ 65,318,298
Construction in progress	162,162,307	34,358,682	24,097,429	172,423,560
Total Capital Assets not Being Depreciated	<u>226,606,719</u>	<u>35,232,568</u>	<u>24,097,429</u>	<u>237,741,858</u>
Capital assets being depreciated				
Land improvements	32,181,064	1,942,680	-	34,123,744
Buildings & improvements	439,684,570	25,807,557	-	465,492,127
Furniture & equipment	40,921,325	725,270	226,873	41,419,722
Total Capital Assets Being Depreciated	<u>512,786,959</u>	<u>28,475,507</u>	<u>226,873</u>	<u>541,035,593</u>
Less Accumulated Depreciation				
Land improvements	17,643,909	1,398,457	-	19,042,366
Buildings & improvements	89,128,280	10,061,321	-	99,189,601
Furniture & equipment	33,527,078	2,372,741	215,836	35,683,983
Total Accumulated Depreciation	<u>140,299,267</u>	<u>13,832,519</u>	<u>215,836</u>	<u>153,915,950</u>
Governmental Activities				
Capital Assets, net	<u>\$ 599,094,411</u>	<u>\$ 49,875,556</u>	<u>\$ 24,108,466</u>	<u>\$ 624,861,501</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 12,483,779
Instructional supervision and administration	625
Instructional library, media, and technology	2,597
School site administration	65,377
Home-to-school transportation	148,602
Food services	78,441
All other pupil services	3,618
Centralized data processing	83,626
All other general administration	581,731
Plant services	374,525
Ancillary services	6,508
Community services	3,090
Total Depreciation Expense	<u>\$ 13,832,519</u>

**SAN MARCOS 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>	
General Fund	\$ -	\$ 6,330,287	\$ 10,118	\$ 6,340,405
Capital Facilities Fund	1,348	-	-	1,348
Non-Major Governmental Funds	562,070	-	-	562,070
Child Care Enterprise Fund	53,302	-	-	53,302
Total Due From Other Funds	\$ 616,720	\$ 6,330,287	\$ 10,118	\$ 6,957,125

Due from the Adult Education Fund to the General Fund for negative cash flow & indirect costs.	\$ 33,719
Due from the Cafeteria Fund to the General Fund for custodial, indirect, and OPEB costs.	528,051
Due from the Foundation Special Revenue Fund to the General Fund for field trip reimbursements.	300
Due from the Capital Facilities Fund to the General Fund for indirect costs.	1,348
Due from the Child Care Enterprise Fund to the General Fund for Kids on Campus direct service charges.	53,302
Due from the General Fund to the Cafeteria Special Revenue Fund for catering costs and negative student accounts.	10,118
Due from the General Fund to the Capital Facilities Fund for redevelopment agency fees collected.	6,330,287
Total	\$ 6,957,125

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>Capital Facilities Fund</u>	<u>Self-Insurance</u>	<u>Total</u>
General Fund	\$ -	\$ 150,000	\$ 150,000
Non-Major Governmental Funds	770,599	-	770,599
Total Interfund Transfers	\$ 770,599	\$ 150,000	\$ 920,599

Transfer from the Capital Project Fund for Blended Component Units to the Capital Facilities Fund for lease revenue bond debt service payments.	\$ 770,599
Transfer from the General Fund to the Self Insurance Fund for safety-related expenditures and deductibles.	150,000
Total	\$ 920,599

**SAN MARCOS 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	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Governmental Activities	Business-Type Activities
Payroll	\$ 6,788,114	\$ -	\$ 40,137	\$ 175,833	\$ 4,862	\$ -	\$ 7,008,946	\$ 136,671
Construction		1,514,430	689,368	-		-	2,203,798	
Vendors payable	3,666,380	-	-	100,892		-	3,767,272	3,090
Unmatured interest		-	-	-		9,010,088	9,010,088	
Due to grantor government	222,525	-	325	-	14,943	-	237,793	53
Total	\$ 10,677,019	\$ 1,514,430	\$ 729,830	\$ 276,725	\$ 19,805	\$ 9,010,088	\$ 22,227,897	\$ 139,814

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Governmental Activities
Federal sources	\$ 62,905	\$ -	\$ 62,905
State categorical sources	64,468	-	64,468
Local sources	22,728	125,978	148,706
Total	\$ 150,101	\$ 125,978	\$ 276,079

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

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	\$ 279,919,633	\$ -	\$ 4,417,426	\$ 275,502,207	\$ 7,614,274
Unamortized premium	21,477,017	-	990,441	20,486,576	1,078,221
Accreted interest	41,641,093	-	551,854	41,089,239	-
Total general obligation bonds	343,037,743	-	5,959,721	337,078,022	8,692,495
Lease revenue bonds	72,668,327	-	1,020,000	71,648,327	1,180,000
Unamortized premium	12,147,509	-	528,153	11,619,356	528,153
Unamortized discount	(999,327)	-	(45,424)	(953,903)	(45,424)
Accreted interest	1,630,962	280,847	-	1,911,809	-
Total lease revenue bonds	85,447,471	280,847	1,502,729	84,225,589	1,662,729
CFD and RDA bonds	78,300,000	46,855,000	47,205,000	77,950,000	3,095,000
Unamortized premium	3,461,070	5,368,177	462,027	8,367,220	467,266
Total CFD and RDA bonds	81,761,070	52,223,177	47,667,027	86,317,220	3,562,266
Site leases	6,309,457	-	816,997	5,492,460	816,999
Capital leases	2,533,539	-	278,800	2,254,739	278,202
Early retirement incentive	2,215,898	-	540,540	1,675,358	540,540
Compensated absences	1,301,260	83,592	-	1,384,852	-
Total OPEB liability	92,469,648	4,524,456	-	96,994,104	-
Net pension liability	211,476,471	11,513,659	-	222,990,130	-
Total	\$ 826,552,557	\$ 68,625,731	\$ 56,765,814	\$ 838,412,474	\$ 15,553,231
	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Balance Due In One Year
Business-Type Activities					
Compensated absences	\$ 45,943	\$ 12,835	\$ -	\$ 58,778	\$ -
Net pension liability	300,198	247,709	-	547,907	-
Total	\$ 346,141	\$ 260,544	\$ -	\$ 606,685	\$ -

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on lease revenue bonds and RDA bonds are made in the Capital Facilities Fund.
- Payments on CFD bonds are made in the Capital Projects Fund for Blended Component Units Fund.
- Payments for capital lease obligations are made in the General Fund and Capital Facilities Fund.
- Payments on site leases are made in the Capital Facilities Fund.
- Payments for early retirement incentive are made in the General Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences for governmental activities, as of June 30, 2019, amounted to \$1,384,852. In addition, compensated absences related to business-type activities amounted to \$58,778 at June 30, 2019. These amounts are included as part of long-term liabilities in the government-wide financial statements.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 8 – LONG-TERM LIABILITIES (continued)

B. Early Retirement Incentive

Debt service requirements on early retirement incentives at June 30, 2019 are as follows:

<u>Year Ended June 30,</u>	<u>Payments</u>
2020	\$ 540,540
2021	378,273
2022	378,273
2023	378,272
Total	<u>\$ 1,675,358</u>

C. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2019, as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
2020	\$ 381,461
2021	352,300
2022	323,138
2023	260,475
2024	197,812
2025 - 2029	989,060
2030 - 2033	491,564
Total minimum lease payments	<u>2,995,810</u>
Less amount representing interest	<u>(741,071)</u>
Present value of minimum lease payments	<u>\$ 2,254,739</u>

D. Site Leases

In March 2015, the District entered into a site lease agreement with Public Property Financing Corporation to finance and provide for the construction, installation, and completion of certain public improvements as defined under the site lease. The District is financing the agreement through a lease and leaseback option with the Corporation for a total of \$5,000,000 whereas financing shall be for a period of ten years at a fixed interest rate of 2.95% per annum with annual rental payments of principal and interest of \$584,658 due each March 31, beginning March 31, 2016 and through March 31, 2025.

In October 2015, the District entered into a site lease agreement with Public Property Financing Corporation of California to finance and provide for the construction, installation, and completion of certain public improvements as defined under the site lease. The District is financing the agreement through a lease and leaseback option with the Corporation for a total of \$3,320,000 whereas financing shall be for a period of nine years at a fixed interest rate of 2.85% per annum with semi-annual interest payments due each April 27 and October 27 of each year beginning April 27, 2016 and annual principal payments due each October 27 of each year beginning October 27, 2016 and through the maturity date of October 27, 2024.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 8 – LONG-TERM LIABILITIES (continued)

D. Site Leases (continued)

Commitments under the site lease agreements provide for minimum lease payments as follows:

Year Ended June 30,	Lease Payments
2020	\$ 995,791
2021	1,000,602
2022	1,009,914
2023	1,008,799
2024	1,007,399
2025	1,010,642
Total minimum lease payments	6,033,147
Less amount representing interest	(540,687)
Present value of minimum lease payments	<u>\$ 5,492,460</u>

E. General Obligation Bonds

General obligation bonds at June 30, 2019, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2019
					Outstanding July 01, 2018	Additions	Deductions	
1996 GO Bonds	9/6/1996	11/1/2020	3.75% - 5.35%	\$ 21,848,019	\$ 2,092,874	\$ -	\$ 712,221	\$ 1,380,653
Election 2010, Series A	6/22/2011	8/1/2038	1.38% - 6.35%	142,046,476	26,035,075	-	1,372,826	24,662,249
Election 2010, Series B	4/25/2012	8/1/2051	5.66% - 12.00%	64,995,522	64,813,885	-	142,718	64,671,167
Election 2010, Series C	4/30/2014	8/1/2040	1.83% - 5.31%	74,702,799	71,807,799	-	129,661	71,678,138
Election 2010, Series D	10/31/2017	8/1/2021	3.00% - 4.00%	5,255,000	5,255,000	-	-	5,255,000
2017 Refunding Bonds	10/31/2017	8/1/2038	2.00% - 5.00%	109,915,000	109,915,000	-	2,060,000	107,855,000
					<u>\$ 279,919,633</u>	<u>\$ -</u>	<u>\$ 4,417,426</u>	<u>\$ 275,502,207</u>

Debt service requirements on general obligation bonds, net of accreted interest and unamortized premium, at June 30, 2019 are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 7,614,274	\$ 16,825,986	\$ 24,440,260
2021	4,237,890	14,446,137	18,684,027
2022	4,980,285	12,817,523	17,797,808
2023	3,716,945	12,830,228	16,547,173
2024	4,117,957	13,417,573	17,535,530
2025 - 2029	22,149,610	79,826,876	101,976,486
2030 - 2034	50,529,500	104,519,131	155,048,631
2035 - 2039	81,385,232	128,857,290	210,242,522
2040 - 2044	53,723,700	71,025,425	124,749,125
2045 - 2049	27,007,386	159,807,538	186,814,924
2050 - 2052	16,039,428	126,801,283	142,840,711
Total	<u>\$ 275,502,207</u>	<u>\$ 741,174,990</u>	<u>\$ 1,016,677,197</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 8 – LONG-TERM LIABILITIES (continued)

F. Lease Revenue Bonds

Lease revenue bonds at June 30, 2019, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2019
					Outstanding July 01, 2018	Additions	Deductions	
Lease Revenue Series 2010	6/3/2010	8/15/2040	2.50% - 6.81%	\$ 51,448,327	\$ 4,203,327	\$ -	\$ 445,000	\$ 3,758,327
Lease Revenue Series 2017	7/11/2017	8/15/2040	2.00% - 5.25%	69,265,000	68,465,000	-	575,000	67,890,000
					<u>\$ 72,668,327</u>	<u>\$ -</u>	<u>\$ 1,020,000</u>	<u>\$ 71,648,327</u>

Debt service requirements on the lease revenue bonds, net of accreted interest and unamortized premium, at June 30, 2019 are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 1,180,000	\$ 3,449,056	\$ 4,629,056
2021	1,350,000	3,410,806	4,760,806
2022	1,530,000	3,359,450	4,889,450
2023	1,715,000	3,298,250	5,013,250
2024	1,945,000	3,212,500	5,157,500
2025 - 2029	13,505,000	14,362,250	27,867,250
2030 - 2034	13,273,014	18,215,736	31,488,750
2035 - 2039	25,655,313	8,035,687	33,691,000
2040 - 2041	11,495,000	919,275	12,414,275
Total	<u>\$ 71,648,327</u>	<u>\$ 58,263,010</u>	<u>\$ 129,911,337</u>

G. CFD and RDA Bonds

CFD and RDA bonds at June 30, 2019, consisted of the following:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2019
					Outstanding July 01, 2018	Additions	Deductions	
CFD 2001 Bonds	3/21/2001	9/1/2024	3.25% - 5.00%	\$ 10,380,000	\$ 995,000	\$ -	\$ 175,000	\$ 820,000
CFD #5 2014 Refunding	8/7/2014	9/1/2032	2.50% - 5.00%	17,600,000	15,275,000	-	835,000	14,440,000
CFD #4 2014 Refunding	8/7/2014	9/1/2030	2.50% - 5.00%	10,455,000	9,200,000	-	370,000	8,830,000
RDA 2006 Bonds	1/26/2006	10/1/2039	3.00% - 5.00%	56,860,000	45,530,000	-	45,530,000	-
CFD #4 2016 Refunding	10/5/2016	9/1/2036	2.00% - 4.00%	7,625,000	7,300,000	-	295,000	7,005,000
CFD #7 Series 2019	2/7/2019	9/1/2048	2.00% - 5.00%	7,040,000	-	7,040,000	-	7,040,000
RDA 2018 Refunding Bonds	10/18/2018	10/1/2039	3.75% - 5.00%	39,815,000	-	39,815,000	-	39,815,000
					<u>\$ 78,300,000</u>	<u>\$ 46,855,000</u>	<u>\$ 47,205,000</u>	<u>\$ 77,950,000</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 8 – LONG-TERM LIABILITIES (continued)

G. CFD and RDA Bonds (continued)

Debt service requirements on the CFD and RDA bonds, net of unamortized premium, at June 30, 2019 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,095,000	\$ 3,426,231	\$ 6,521,231
2021	3,020,000	3,503,688	6,523,688
2022	3,175,000	3,362,888	6,537,888
2023	3,325,000	3,214,488	6,539,488
2024	3,455,000	3,052,538	6,507,538
2025 - 2029	19,405,000	12,611,438	32,016,438
2030 - 2034	19,775,000	7,704,788	27,479,788
2035 - 2039	15,595,000	3,516,151	19,111,151
2040 - 2044	4,685,000	883,238	5,568,238
2045 - 2049	2,420,000	347,750	2,767,750
Total	<u>\$ 77,950,000</u>	<u>\$ 41,623,198</u>	<u>\$ 119,573,198</u>

H. Other Postemployment Benefits

The District's beginning total OPEB liability was \$92,469,648 and increased by \$4,524,456 during the year ended June 30, 2019. The ending total OPEB liability at June 30, 2019 was \$96,994,104. See Note 10 for additional information regarding the total OPEB liability.

I. Net Pension Liability

The District's combined beginning net pension liability in the governmental activities and business-type activities was \$211,776,669 and increased by \$11,761,368 during the year ended June 30, 2019. The combined ending net pension liability in governmental activities and business type-activities at June 30, 2019 was \$223,538,037. See Note 11 for additional information regarding the net pension liability.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable						
Revolving cash	\$ 340,000	\$ -	\$ -	\$ -	\$ 10,000	\$ 350,000
Stores inventory	119,571	-	-	-	180,418	299,989
Prepaid expenditures	1,796,602	-	-	-	-	1,796,602
Total non-spendable	2,256,173	-	-	-	190,418	2,446,591
Restricted						
Permanent fund balance	-	-	-	-	38,546	38,546
Educational programs	6,608,556	-	-	-	11,817	6,620,373
Capital projects	-	21,065,040	59,049,183	-	21,799,101	101,913,324
Debt service	-	-	-	17,643,860	-	17,643,860
All others	-	-	-	-	1,268,984	1,268,984
Total restricted	6,608,556	21,065,040	59,049,183	17,643,860	23,118,448	127,485,087
Committed						
Other commitments	1,682,241	-	-	-	53,238	1,735,479
Total committed	1,682,241	-	-	-	53,238	1,735,479
Unassigned						
Reserve for economic uncertainties	7,065,000	-	-	-	-	7,065,000
Remaining unassigned	15,154,431	-	-	-	-	15,154,431
Total unassigned	22,219,431	-	-	-	-	22,219,431
Total	\$ 32,766,401	\$ 21,065,040	\$ 59,049,183	\$ 17,643,860	\$ 23,362,104	\$ 153,886,588

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 3 percent of General Fund expenditures and other financing uses.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description

The San Marcos Unified School District's defined benefit OPEB plan, San Marcos 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.

B. Benefits Provided

Active employees are offered a choice of HMO and PPO medical plans (several United Healthcare HMOs with varying network access, United Healthcare PPOs and a Kaiser HMO), two dental plans (Delta Premier and Delta DPO), and one vision plan (VSP). Eligible retirees under age 65 are eligible for the same medical plans as active employees. Eligible retirees upon reaching age 65 are eligible for the Kaiser Senior Advantage Plan or Hartford Medicare Supplement Plan including a Prescription Drug Plan and Medicare Part A and Part B premium reimbursements. Future retirees and retirees who turn age 65 on or after July 1, 2010 electing a Medicare Supplement Plan will be covered under the Hartford GRIP Supplement Plan and a Prescription Drug Plan.

Classified Employees

Classified employees hired prior to July 1, 2007, who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service and who are covered under District health benefits at retirement are eligible to receive District-paid retiree medical benefits. Retiree medical benefits cease at age 65 except for employees hired prior to July 1, 1997 with at least 10 years of benefit eligible service at retirement. These employees are eligible to receive post-65 medical coverage including Medicare Part B and Part A premium reimbursements for the retiree only.

Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65, if the retiree is also receiving medical benefits. Effective June 30, 2012, for eligible employees retiring on or after July 1, 2007, spouse coverage will cease when the retiree attains age 65. Dental and vision coverage is available to the retiree and eligible dependents through COBRA continuation coverage only.

For eligible employees who retired or retire on or after July 1, 2007, the District pays 100% of the cost for medical coverage up to an annual maximum which shall not exceed the 2018 annual Kaiser premiums for each tier (\$553.00 monthly for single coverage, \$1,090.00 monthly for two-party coverage and \$1,537.00 monthly for family coverage). The applicable maximum is based on the applicable maximum for similarly situated active employees excluding dental and vision. Retirees with lifetime benefits are not subject to a maximum for post-65 coverage and receive Medicare Part A and Part B premium reimbursements.

For eligible employees who retired prior to July 1, 2007, the District's contribution for pre-65 coverage is limited to the "standard" UHC HMO two-party rate (currently the UHC HMO Network 1-D rate).

Employees hired on or after July 1, 2007 receive no retiree health benefits.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

B. Benefits Provided (continued)

Certificated (including Confidential & Management)

Certificated employees hired prior to July 1, 1996 who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service and who are covered under District health benefits at retirement are eligible to receive District-paid retiree medical benefits for life. Certificated employees hired on or after July 1, 1996 who retire at age 55 or older with at least 10 consecutive years of District benefit eligible service are eligible to receive District-paid retiree medical benefits to the retiree’s attainment of age 65.

Spouses of retirees also receive District-paid medical up to the spouse's attainment of age 65. Spousal coverage will terminate when the spouse reaches 65 years of age, regardless of the retiree’s age. Dental and vision coverage is available to the retiree and eligible dependents through COBRA continuation coverage only.

For eligible employees who retired or retire on or after July 1, 2007, the District pays 100% of the cost for medical coverage up to an annual maximum which shall not exceed the 2018 annual Kaiser premiums for each tier (\$553.00 monthly for single coverage, \$1,090.00 monthly for two-party coverage and \$1,537.00 monthly for family coverage). The applicable maximum is based on the applicable maximum for similarly situated active employees excluding dental and vision. Retirees with lifetime benefits are not subject to a maximum for post-65 coverage and receive Medicare Part A and Part B premium reimbursements.

For eligible employees who retired prior to July 1, 2007, the District’s contribution for pre-65 coverage is limited to the “standard” UHC HMO two-party rate (currently the UHC HMO Network 1-D rate).

Employees hired on or after July 1, 2007 receive no retiree health benefits.

Board Members

Board Members do not receive District-paid health benefits at retirement.

C. Contributions

The contribution requirements of Plan members and the San Marcos Unified School District are established and may be amended by the San Marcos Unified School District and its bargaining units. For fiscal year 2018-19, the District contributed \$4,142,717 to the Plan, all of which was used for current premiums.

D. Plan Membership

Membership of the Plan consisted of the following:

	<u>Number of participants</u>
Inactive employees receiving benefits	484
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	<u>634</u>
Total number of participants**	<u>1,118</u>

*Information not provided

**As of the June 30, 2018 valuation date

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

E. Total OPEB Liability

The San Marcos Unified School District’s total OPEB liability of \$96,994,104 was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2018.

F. Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018 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, 2019:

Economic assumptions:

Inflation	2.75%
Salary increases	3.00%
Discount rate	3.15%
Healthcare cost trend rates	6.00%HMO/6.50%PPO

Non-economic assumptions:

Mortality:

Certificated/Classified RPH 2014 mortality table with generational improvements using scale MP2017

Retirement rates:

Certificated/Classified

Age	Percentage Retiring*	Age	Percentage Retiring*
50 -54	3.0%	63	30.0%
55 -56	10.0%	64	32.0%
57	12.0%	65	35.0%
58	15.0%	66	40.0%
59	18.0%	67	45.0%
60	18.0%	68	62.0%
61	20.0%	69	80.0%
62	25.0%	70	100.0%

The discount rate was based on an average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO index, Fidelity GO AA 20 Year Bond Index.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

G. Changes in Total OPEB Liability

	<u>June 30, 2019</u>
Total OPEB Liability	
Service Cost	\$ 1,520,925
Interest on total OPEB liability	3,217,173
Changes of assumptions	3,929,075
Benefits payments	<u>(4,142,717)</u>
Net change in total OPEB liability	4,524,456
Total OPEB liability - beginning	<u>92,469,648</u>
Total OPEB liability - ending	<u>\$ 96,994,104</u>
Covered-employee payroll	\$ 48,533,202
District's total OPEB liability as a percentage of covered-employee payroll	199.9%

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

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

	<u>1% Decrease (2.20%)</u>	<u>Discount Rate (3.20%)</u>	<u>1% Increase (4.20%)</u>
Total OPEB liability	\$ 109,789,267	\$ 96,994,104	\$ 86,410,217

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

The following presents the total OPEB liability of the San Marcos Unified School District, as well as what the District's total 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:

	<u>1% Decrease (5.00%HMO/5.50%PPO decreasing to 4.00%HMO/4.00%PPO)</u>	<u>Healthcare Cost Trend Rate (6.00%HMO/6.50%PPO decreasing to 5.00%HMO/5.00%PPO)</u>	<u>1% Increase (7.00%HMO/7.50%PPO decreasing to 6.00%HMO/6.00%PPO)</u>
Total OPEB liability	\$ 85,913,498	\$ 96,994,104	\$ 110,520,323

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

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

For the year ended June 30, 2019, the San Marcos Unified School District recognized OPEB expense of \$5,675,761. At June 30, 2019, the San Marcos Unified School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 2,619,383	\$ 372,029
	<u>\$ 2,619,383</u>	<u>\$ 372,029</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2020	\$ 1,309,692	\$ 372,029
2021	1,309,691	-
	<u>\$ 2,619,383</u>	<u>\$ 372,029</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 11 – 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	\$ 169,130,100	\$ 51,637,807	\$ 15,701,526	\$ 20,451,366
PERS Pension	54,407,937	17,736,134	-	16,028,708
Total	\$ 223,538,037	\$ 69,373,941	\$ 15,701,526	\$ 36,480,074

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.

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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 11 – PENSION PLANS (continued)

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

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 \$16,323,634 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 \$15,438,280 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	\$ 169,130,100
State's proportionate share of the net pension liability associated with the District	<u>96,835,366</u>
Total	<u>\$ 265,965,466</u>

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 0.184 percent, which was an increase of 0.006 percent from its proportion measured as of June 30, 2017.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2019, the District recognized pension expense of \$20,451,366. In addition, the District recognized pension expense and revenue of \$3,302,056 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	\$ -	\$ 6,512,577
Differences between expected and actual experience	524,466	2,456,708
Changes in assumptions	26,273,897	
Changes in proportion and differences between District contributions and proportionate share of contributions	8,515,810	6,732,241
District contributions subsequent to the measurement date	16,323,634	-
	<u>\$ 51,637,807</u>	<u>\$ 15,701,526</u>

The \$16,623,634 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	\$ 7,286,588	\$ 621,912
2021	7,286,588	3,066,751
2022	7,286,590	7,509,299
2023	6,634,875	3,127,338
2024	6,089,604	1,351,077
2025	729,928	25,149
	<u>\$ 35,314,173</u>	<u>\$ 15,701,526</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – 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 July 1, 2010–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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – 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	\$ 247,755,804	\$ 169,130,100	\$ 103,941,761

Pension Plan Fiduciary Net Position

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

NOTE 11 – 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 \$5,111,048 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 \$1,844,700 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 \$54,407,937 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 0.204 percent, which was an increase of 0.005 percent from its proportion measured as of June 30, 2017.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – 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 \$16,028,708. 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	\$ 446,267	\$ -
Differences between expected and actual experience	3,566,785	-
Changes in assumptions	5,432,392	-
Changes in proportion and differences between District contributions and proportionate share of contributions	3,179,642	-
District contributions subsequent to the measurement date	5,111,048	-
	<u>\$ 17,736,134</u>	<u>\$ -</u>

The \$5,111,048 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	\$ 8,354,794	\$ -
2021	4,445,287	-
2022	146,145	-
2023	(321,140)	-
	<u>\$ 12,625,086</u>	<u>\$ -</u>

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – 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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019**

NOTE 11 – 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%
	<u>100.0%</u>		

*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	\$ 79,215,354	\$ 54,407,937	\$ 33,826,633

Pension Plan Fiduciary Net Position

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

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2019**

NOTE 12 – 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 as follows:

	Remaining Construction Commitment	Expected Date of Completion
Capital Projects		
Alvin Dunn Reconstruction	\$ 4,017,030	August 1, 2019
Double Peak School	4,190	Pending final site acquisition
La Costa Meadows Reconstruction	6,236,827	August 1, 2019
Mission Hills Relocatable Classroom	3,148,243	Pending
Twin Oaks High School / Foothills High School	157,656	August 1, 2019
District Wide Solar	82,710	August 1, 2019
Total	\$ 13,646,656	

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSR). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

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

Additional information can be obtained by contacting the JPA at 6401 Linda Vista Road, San Diego, California 92111.

SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2019

NOTE 14 – 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 \$20,448,506.

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 at Note 11. At June 30, 2019, total combined deferred outflows related to pensions was \$69,373,941 and total combined deferred inflows related to pensions was \$15,701,526.

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 at Note 10. At June 30, 2019, , the total deferred outflows related to other postemployment benefits was \$2,619,383 and total deferred inflows related to other postemployment benefits was \$372,029.

REQUIRED SUPPLEMENTARY INFORMATION

**SAN MARCOS 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	\$ 183,475,716	\$ 183,394,224	\$ 183,394,224	\$ -
Federal sources	7,973,673	11,161,277	9,637,983	(1,523,294)
Other state sources	17,814,628	29,898,320	29,898,320	-
Other local sources	11,254,202	14,595,723	14,531,307	(64,416)
Total Revenues	220,518,219	239,049,544	237,461,834	(1,587,710)
EXPENDITURES				
Certificated salaries	101,378,482	101,403,194	101,296,680	106,514
Classified salaries	31,736,070	32,675,187	32,659,550	15,637
Employee benefits	63,076,797	72,567,975	72,602,149	(34,174)
Books and supplies	8,071,662	8,025,084	6,751,278	1,273,806
Services and other operating expenditures	20,785,199	19,117,150	18,916,367	200,783
Capital outlay	334,749	911,248	899,664	11,584
Other outgo				
Excluding transfers of indirect costs	2,198,590	2,454,782	2,538,183	(83,401)
Transfers of indirect costs	(320,103)	(303,664)	(305,790)	2,126
Total Expenditures	227,261,446	236,850,956	235,358,081	1,492,875
Excess (Deficiency) of Revenues Over Expenditures	(6,743,227)	2,198,588	2,103,753	(94,835)
Other Financing Sources (Uses)				
Transfers out	10,000	150,000	(150,000)	(300,000)
Net Financing Sources (Uses)	10,000	150,000	(150,000)	(300,000)
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	(6,733,227)	2,348,588	1,953,753	(394,835)
Fund Balance - Ending	30,812,648	30,812,648	30,812,648	-
	\$ 24,079,421	\$ 33,161,236	\$ 32,766,401	\$ (394,835)

See accompanying note to required supplementary information.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability		
Service Cost	\$ 1,520,925	\$ 1,502,989
Interest on total OPEB liability	3,217,173	3,141,241
Changes of assumptions	3,929,075	(1,116,086)
Benefits payments	<u>(4,142,717)</u>	<u>(3,889,875)</u>
Net change in total OPEB liability	4,524,456	(361,731)
Total OPEB liability - beginning	<u>92,469,648</u>	<u>92,831,379</u>
Total OPEB liability - ending	<u>\$ 96,994,104</u>	<u>\$ 92,469,648</u>
Covered-employee payroll	\$ 48,533,202	\$ 49,683,000
District's total OPEB liability as a percentage of covered-employee payroll	199.9%	186.1%

See accompanying note to required supplementary information.

**SAN MARCOS 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	0.184%	0.178%	0.169%	0.173%	0.158%
District's proportionate share of the net pension liability	\$ 169,130,100	\$ 164,366,199	\$ 140,102,044	\$ 112,420,785	\$ 91,746,090
State's proportionate share of the net pension liability associated with the District	96,835,366	97,238,448	74,044,823	62,274,619	53,878,755
Total	<u>\$ 265,965,466</u>	<u>\$ 261,604,647</u>	<u>\$ 214,146,867</u>	<u>\$ 174,695,404</u>	<u>\$ 145,624,845</u>
District's covered payroll	\$ 98,882,242	\$ 94,544,459	\$ 86,061,631	\$ 76,961,227	\$ 70,088,800
District's proportionate share of the net pension liability as a percentage of its covered payroll	171.0%	173.9%	162.8%	146.1%	130.9%
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.

**SAN MARCOS 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	0.204%	0.199%	0.191%	0.188%	0.191%
District's proportionate share of the net pension liability	\$ 54,407,937	\$ 47,410,470	\$ 37,980,557	\$ 27,763,644	\$ 21,671,798
District's covered payroll	\$ 27,118,428	\$ 25,371,097	\$ 23,287,617	\$ 20,946,258	\$ 20,042,126
District's proportionate share of the net pension liability as a percentage of its covered payroll	200.6%	186.9%	163.1%	132.5%	108.1%
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.

**SAN MARCOS 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	\$ 16,323,634	\$ 14,236,449	\$ 11,893,693	\$ 8,813,587	\$ 6,658,167
Contributions in relation to the contractually required contribution*	(16,323,634)	(14,236,449)	(11,893,693)	(8,813,587)	(6,658,167)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 97,697,753	\$ 98,882,242	\$ 94,544,459	\$ 86,061,631	\$ 76,961,227
Contributions as a percentage of covered payroll	16.71%	14.40%	12.58%	10.24%	8.65%

*Amounts do not include on-behalf contributions

**SAN MARCOS 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	\$ 5,111,048	\$ 4,076,409	\$ 3,523,538	\$ 3,179,710	\$ 2,641,574
Contributions in relation to the contractually required contribution*	(5,111,048)	(4,076,409)	(3,523,538)	(3,179,710)	(2,641,574)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 28,693,151	\$ 27,118,428	\$ 25,371,097	\$ 23,287,617	\$ 20,946,258
Contributions as a percentage of covered payroll	17.81%	15.03%	13.89%	13.65%	12.61%

*Amounts do not include on-behalf contributions

**SAN MARCOS 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

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, including the total OPEB liability as a percentage of covered-employee payroll.

Changes in Benefit Terms

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

Changes in Assumptions

The discount rate has changed since the prior measurement date from 3.50% to 3.15%.

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.

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.

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

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			
Employee benefits	\$ 72,567,975	\$ 72,602,149	\$ 34,174
Other outgo			
Excluding transfers of indirect costs	\$ 2,454,782	\$ 2,538,183	\$ 83,401

SUPPLEMENTARY INFORMATION

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

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,957,126
School Improvement (CSI) Funding for LEAs	84.010	15438	1,170
Subtotal Title I, Part A			<u>2,958,296</u>
Adult Education			
Adult Education: Adult Basic Education & ESL	84.002A	14508	15,416
Adult Education: English Literacy and Civics Education	84.002A	14109	8,315
Subtotal Adult Education			<u>23,731</u>
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	492,542
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	9,592
Title III, English Learner Student Program	84.365	14346	395,518
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	428,926
Special Education Cluster [1]			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	3,690,859
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	12,985
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	232,892
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	119,346
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	1,158
Subtotal Special Education Cluster			<u>4,057,240</u>
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14894	111,869
Total U. S. Department of Education			<u><u>8,477,714</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Basic	10.553	13525	45,490
School Breakfast Program - Needy	10.553	13526	805,120
National School Lunch Program	10.555	13391	3,567,181
USDA Commodities [2]	10.555	*	485,295
Summer Food Service Program for Children	10.559	13004	81,307
Subtotal Child Nutrition Cluster			<u>4,984,393</u>
CACFP Claims - Centers and Family Day Care	10.558	13393	345,528
Fresh Fruit and Vegetable Program	10.582	14968	39,550
Total U. S. Department of Agriculture			<u><u>5,369,471</u></u>
U. S. DEPARTMENT OF DEFENSE:			
<i>Passed through California Department of Airforce:</i>			
Airforce Junior ROTC	12.800	*	73,645
Total U. S. Department of Defense			<u><u>73,645</u></u>
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	294,961
Medi-Cal Administrative Activities	93.778	10060	944,377
Subtotal Medicaid			<u>1,239,338</u>
Total U. S. Department of Health & Human Services			<u>1,239,338</u>
Total Federal Expenditures			<u><u>\$ 15,160,168</u></u>

[1] - Major Program

[2] - In-Kind Contribution

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

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

	Second Period Report	Annual Report
	Certificate No. 0AE7E9BD	Certificate No. 13AA348C
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	6,186.27	6,191.95
Extended Year Special Education	11.78	11.78
Special Education - Nonpublic Schools	1.82	1.80
Extended Year Special Education - Nonpublic Schools	0.31	0.31
Total TK/K through Third	6,200.18	6,205.84
Fourth through Sixth		
Regular ADA	4,594.89	4,592.14
Extended Year Special Education	8.09	8.09
Special Education - Nonpublic Schools	5.19	5.66
Extended Year Special Education - Nonpublic Schools	0.59	0.59
Total Fourth through Sixth	4,608.76	4,606.48
Seventh through Eighth		
Regular ADA	3,287.32	3,283.77
Extended Year Special Education	2.37	2.37
Special Education - Nonpublic Schools	9.41	10.69
Extended Year Special Education - Nonpublic Schools	1.21	1.21
Total Seventh through Eighth	3,300.31	3,298.04
Ninth through Twelfth		
Regular ADA	5,996.89	5,970.66
Extended Year Special Education	7.45	7.45
Special Education - Nonpublic Schools	11.86	12.51
Extended Year Special Education - Nonpublic Schools	1.94	1.94
Total Ninth through Twelfth	6,018.14	5,992.56
TOTAL SCHOOL DISTRICT	20,127.39	20,102.92

**SAN MARCOS 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	36,160	180	Complied
Grade 1	50,400	54,840	180	Complied
Grade 2	50,400	54,840	180	Complied
Grade 3	50,400	54,840	180	Complied
Grade 4	54,000	54,840	180	Complied
Grade 5	54,000	54,840	180	Complied
Grade 6	54,000	59,420	180	Complied
Grade 7	54,000	59,420	180	Complied
Grade 8	54,000	59,420	180	Complied
Grade 9	64,800	64,980	180	Complied
Grade 10	64,800	64,980	180	Complied
Grade 11	64,800	64,980	180	Complied
Grade 12	64,800	64,980	180	Complied

See accompanying note to supplementary information.

**SAN MARCOS 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	\$ 225,363,074	\$ 237,461,834	\$ 214,643,262	\$ 209,132,006
Expenditures And Other Financing Uses	233,888,835	235,508,081	218,913,885	212,975,632
Net change in Fund Balance	\$ (8,525,761)	\$ 1,953,753	\$ (4,270,623)	\$ (3,843,626)
Ending Fund Balance	\$ 24,240,640	\$ 32,766,401	\$ 30,812,648	\$ 35,083,271
Available Reserves*	\$ 14,264,986	\$ 22,219,431	\$ 12,059,401	\$ 17,917,532
Available Reserves As A Percentage Of Outgo	6.10%	9.43%	5.51%	8.41%
Long-term Liabilities	\$ 818,080,873	\$ 838,412,474	\$ 826,552,557	\$ 665,475,558
Average Daily Attendance At P-2	20,190	20,127	20,122	20,090

The General Fund ending fund balance has decreased by \$2,316,870 over the past two years. The fiscal year 2019-20 budget projects a further decrease of \$8,525,761. 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 deficits in two of the past three years and anticipates incurring another operating deficit during the 2019-20 fiscal year. Total long-term obligations have increased by \$172,936,916 over the past two years.

Average daily attendance has increased by 37 ADA over the past two years. ADA is anticipated to increase by 63 during the 2019-20 fiscal year.

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

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

There were no adjustments necessary to reconcile fund balances between the Annual Financial and Budget Report with the Audited Financial Statements.

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

Charter #	Charter School	Status	Included in Audit Report
1983	Pivot Charter School - San Diego II	Active	No

**SAN MARCOS UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Adult Education Fund	Cafeteria Fund	Foundation Special Revenue Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Foundation Permanent Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	\$ 27,784	\$ 1,265,214	\$ 53,175	\$ 3,720,306	\$ 1,313,566	\$ 16,719,411	\$ 38,292	\$ 23,137,748
Accounts receivable	29,507	884,578	363	24,592	8,719	50,580	254	998,593
Due from other funds	-	10,118	-	-	-	-	-	10,118
Stores inventory	-	180,418	-	-	-	-	-	180,418
Total Assets	\$ 57,291	\$ 2,340,328	\$ 53,538	\$ 3,744,898	\$ 1,322,285	\$ 16,769,991	\$ 38,546	\$ 24,326,877
LIABILITIES								
Accrued liabilities	\$ 11,755	\$ 226,897	\$ -	\$ -	\$ -	\$ 38,073	\$ -	\$ 276,725
Due to other funds	33,719	528,051	300	-	-	-	-	562,070
Unearned revenue	-	125,978	-	-	-	-	-	125,978
Total Liabilities	45,474	880,926	300	-	-	38,073	-	964,773
FUND BALANCES								
Non-spendable	-	190,418	-	-	-	-	-	190,418
Restricted	11,817	1,268,984	-	3,744,898	1,322,285	16,731,918	38,546	23,118,448
Committed	-	-	53,238	-	-	-	-	53,238
Total Fund Balances	11,817	1,459,402	53,238	3,744,898	1,322,285	16,731,918	38,546	23,362,104
Total Liabilities and Fund Balance	\$ 57,291	\$ 2,340,328	\$ 53,538	\$ 3,744,898	\$ 1,322,285	\$ 16,769,991	\$ 38,546	\$ 24,326,877

See accompanying note to supplementary information.

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

	Adult Education Fund	Cafeteria Fund	Foundation Special Revenue Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Foundation Permanent Fund	Non-Major Governmental Funds
REVENUES								
Federal sources	\$ 23,731	\$ 5,369,471	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,393,202
Other state sources	99,457	443,263	-	-	-	-	-	542,720
Other local sources	396	1,960,873	1,041	66,437	23,569	6,799,338	684	8,852,338
Total Revenues	123,584	7,773,607	1,041	66,437	23,569	6,799,338	684	14,788,260
EXPENDITURES								
Current								
Instruction	103,210	-	2,605	-	-	-	-	105,815
Instruction-related services								
School site administration	17,638	-	-	-	-	-	-	17,638
Pupil services								
Food services	-	7,735,698	-	-	-	-	-	7,735,698
General administration								
All other general administration	3,719	302,071	-	-	-	-	-	305,790
Plant services	2,053	173,463	-	-	6,746	404,715	-	586,977
Ancillary services	-	-	400	-	-	-	-	400
Enterprise activities	-	3,630	-	-	-	-	-	3,630
Debt service								
Principal	-	-	-	-	-	1,700,000	-	1,700,000
Interest and other	-	-	-	-	-	1,800,237	-	1,800,237
Total Expenditures	126,620	8,214,862	3,005	-	6,746	3,904,952	-	12,256,185
Excess (Deficiency) of Revenues Over Expenditures	(3,036)	(441,255)	(1,964)	66,437	16,823	2,894,386	684	2,532,075
Other Financing Sources (Uses)								
Other sources	-	-	-	-	-	7,199,937	-	7,199,937
Transfers out	-	-	-	-	-	(770,599)	-	(770,599)
Net Financing Sources (Uses)	-	-	-	-	-	6,429,338	-	6,429,338
NET CHANGE IN FUND BALANCE	(3,036)	(441,255)	(1,964)	66,437	16,823	9,323,724	684	8,961,413
Fund Balance - Beginning	14,853	1,900,657	55,202	3,678,461	1,305,462	7,408,194	37,862	14,400,691
Fund Balance - Ending	\$ 11,817	\$ 1,459,402	\$ 53,238	\$ 3,744,898	\$ 1,322,285	\$ 16,731,918	\$ 38,546	\$ 23,362,104

See accompanying note to supplementary information.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2019**

The Board of Supervisors of San Diego County adopted a resolution on May 27, 1975, creating a new unified school district comprising the area of Rich-Mar Union School District named "San Marcos Unified School District". The District serves the San Marcos community located in north San Diego County. The District operates eleven elementary schools, three middle schools, one K-8 school, two comprehensive high schools, a continuation high school, one independent study high school (one high school with two distinct programs and campuses), and an adult school.

GOVERNING BOARD

Member	Office	Term Expires
Stacy Carlson	President	December 2022
Janet McClean	Vice President	December 2020
Victor Graham	Clerk	December 2020
Pam Lindamood	Member	December 2020
Sydney Kerr	Member	December 2022

DISTRICT ADMINISTRATORS

Carmen Garcia, Ed.D
Superintendent

Mark A. Schiel
Assistant Superintendent of Business Services

Gina Bishop
Assistant Superintendent of Instructional Services

Henry Voros
Assistant Superintendent of Human Resources

David McAdams
*Executive Director of Finance**

**On August 12, 2019, Lourdes Hernandez became the Executive Director of Finance.*

**SAN MARCOS 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		\$ 15,031,185
Medi-Cal Billing Option	93.778	<u>128,983</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$15,160,168</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.

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.

**SAN MARCOS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2019**

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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
San Marcos Unified School District
San Marcos, 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, business-type activities, each major fund, and the aggregate remaining fund information of San Marcos 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 San Marcos Unified School District's basic financial statements, and have issued our report thereon dated November 18, 2019

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Marcos 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*.

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

November 18, 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
San Marcos Unified School District
San Marcos, California

Report on Compliance for Each Major Federal Program

We have audited San Marcos 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 San Marcos Unified School District's major federal programs for the year ended June 30, 2019. San Marcos 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 San Marcos 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 San Marcos 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 San Marcos Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, San Marcos 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 San Marcos 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 San Marcos 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 San Marcos 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
November 18, 2019

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

Governing Board
San Marcos Unified School District
San Marcos, California

Report on State Compliance

We have audited San Marcos 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 San Marcos 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 San Marcos 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 as regulations. 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 San Marcos 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 San Marcos Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, San Marcos 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 San Marcos 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	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
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 ADA was below the level which required testing.

Christy White, Inc.

San Diego, California
November 18, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SAN MARCOS 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>None Reported</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>
84.027, 84.027A, 84,173, 84.173A	Special Education Cluster

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>

**SAN MARCOS 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

There were no financial statement findings for the year ended June 30, 2019.

**SAN MARCOS 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 federal award findings or questioned costs for the year ended June 30, 2019.

**SAN MARCOS 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 state award findings or questioned costs for the year ended June 30, 2019.

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

FINDING #2018-001 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as English Learners (EL) in the EL Designation column of the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Condition: Three (3) out of 15 students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as English Learners (EL) did not have proper supporting documentation to justify their designation. Upon further review of the entire population of students listed as only EL and not receiving FRPM benefits, we identified a total of 54 students that were incorrectly classified as to EL Designation. The error was isolated to the EL process, so extrapolation to the rest of the population was not necessary.

Cause: CALPADS reporting information did not appear to accurately reflect the EL information contained in the Synergy Student Information Software.

Effect: The District is not in compliance with applicable State requirements.

Context: Three (3) of 15 students reported as English Learners did not have proper supporting documentation to support their designation.

Questioned Costs: \$12,456. This was determined by taking the difference between the District’s original total LCFF revenues and the LCFF revenues adjusted for the decrease in the unduplicated pupil count as calculated below. Total enrollment of 62,514 was not adjusted based on the results of our procedures.

CalPADS Unduplicated Pupil Count	Audit Adjustment	Revised Unduplicated Pupil Count
26,103	(54)	26,049

Recommendation: We recommend that the District ensure that CALPADS reporting correctly reflects the EL designation assigned to students upon enrollment and following the completion of any EL evaluations that take place during the year.

Corrective Action Plan: The District has conducted an internal review of the unduplicated local control funding formula pupil counts and identified changes we can make when our school site staff enrolls students. We currently rely on the parent’s entries in our Enrollment Form’s Home Language Survey section to identify whether a student should be referred to our English Learner Resource Center, but given the error rate of this process, we will be conducting internal reviews on an ongoing basis, and not rely on parent’s entries. Also, we will be comparing our CALPADS data with our SIS Data following the same process we do for internal reviews and send any discrepancies to our English Learner Resource Center (ELRC) for further review. Our ELRC will contact the parents, assesses the students, if needed, and will update the student’s classification in our SIS. This process will help us resolve the issues identified.

Current Status: Implemented.