Annual Financial Report
June 30, 2019

Laguna Beach Unified School District

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LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Laguna Beach Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Laguna Beach Unified School District, as of June 30, 2019, and the respective changes in financial position 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 management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 61, schedule of changes in the District's net OPEB liability and related ratios on page 62, schedule of the District's proportionate share of the net pension liability on page 63, and the schedule of District contributions on page 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Laguna Beach Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and 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 (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2019, on our consideration of the Laguna Beach 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 Laguna Beach 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 Laguna Beach Unified School District's internal control over financial reporting and compliance.

Eide Bailly LLP

Rancho Cucamonga, California
November 15, 2019

LAGUNA BEACH
UNIFIED SCHOOL DISTRICT

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

FINANCIAL HIGHLIGHTS

The District's financial status remains positive. Key financial highlights for 2019 are as follows:

- General revenues from property taxes increased 5.2 percent over the prior year and represent 82.7 percent of revenue from governmental activities. Total cost of instruction-related activities increased 7.5 percent over the prior year and represents 69.0 percent of total expenses. Revenues exceeded expenditures for an increase in Net Position by 9.5 percent.
- Capital assets increased 3.5 percent, while long-term commitments decreased by 7.2 percent. The District contracted several major capital improvements that will continue over multiple fiscal years. The projects are funded through reserves, not debt financing; therefore, capital assets are expected to continue to increase while existing debt is redeemed.
- The District's California Employers' Retiree Benefits Trust (CERBT) to fund Other Post-Employment Benefits (OPEB) earnings through June 30, 2018 represented a 93.5 percent funded ratio.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

550 Blumont Street, Laguna Beach, CA 92651

District-Wide Financial Statements

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

The two District-wide financial statements report the District's *net position* and how they have changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

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

- To assess the overall health of the District, it is necessary to consider additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, pupil transportation, maintenance and operations, and administration. Property taxes finance most of these activities.

Fiduciary Activities

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The District establishes other funds to control and manage money for particular purposes.

The District has two kinds of funds:

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

Fiduciary funds **-** The District is the trustee, or *fiduciary,* for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was more on June 30, 2019, than it was in the prior year, an increase of 9.5 percent to $33,177,877. Of this amount, $(8,299,353) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net positions for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2019	2018
Assets		
Current and other assets	$ 43,187,208	$ 40,779,020
Capital assets	58,803,804	56,792,172
Total Assets	**101,991,012**	**97,571,192**
Deferred Outflows of Resources	**15,831,894**	**16,757,168**
Liabilities		
Current liabilities	4,870,970	3,735,539
Long-term obligations	24,095,889	25,978,448
Aggregate net pension liability	52,664,061	51,221,338
Total Liabilities	**81,630,920**	**80,935,325**
Deferred Inflows of Resources	**3,014,109**	**3,081,343**
Net Position		
Net investment in capital assets	36,335,113	32,654,737
Restricted	5,142,117	4,519,110
Unrestricted (deficit)	(8,299,353)	(6,862,155)
Total Net Position	**$ 33,177,877**	**$ 30,311,692**

The $(8,299,353) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by 20.9 percent ($(8,299,353) compared to $(6,862,155)).

Changes in Net Position

The District's total revenues were $68,782,088 (See Table 2), an increase of $3,935,468, or 6.1 percent. This increase was due primarily to property taxes. Table 2 takes the information from the Statement of Activities and rearranges them slightly to indicate total revenues for the year. Property taxes account for most of the District's revenue, about 83 cents of every dollar received or recognized for accounting purposes.

Table 2

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	$ 636,200	$ 699,158
Operating grants and contributions	7,329,927	5,671,512
General revenues:		
Property taxes	56,856,732	54,051,594
Other general revenues	3,959,229	4,424,356
Total Revenues	**68,782,088**	**64,846,620**
Expenses		
Instruction-related	45,447,782	42,286,233
Pupil services	7,382,880	6,931,616
Administration	4,896,656	4,548,865
Plant services	4,841,126	4,530,995
All other services	3,347,459	3,005,592
Total Expenses	**65,915,903**	**61,303,301**
Change in Net Position	**$ 2,866,185**	**$ 3,543,319**

The total cost of all programs and services was $65,915,903. The District's expenses are predominantly related to educating and caring for students (80.1 percent). The purely administrative activities of the District accounted for 7.4 percent of total costs.

Total revenues for governmental activities surpassed expenses, increasing the net position by $2,866,185 over last year, contributing to the District's fiscal status.

Governmental Activities

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

Table 3

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction-related	$ 45,447,782	$ 39,849,348	$ 42,286,233	$ 37,862,302
Pupil services	7,382,880	5,748,298	6,931,616	5,415,191
Administration	4,896,656	4,618,676	4,548,865	4,429,125
Plant services	4,841,126	4,724,729	4,530,995	4,530,995
All other services	3,347,459	3,008,725	3,005,592	2,695,018
Total	**$ 65,915,903**	**$ 57,949,776**	**$ 61,303,301**	**$ 54,932,631**

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (e.g. capital facilities) or to show that it is properly using certain revenues (e.g. cafeteria revenues).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well. The main day-to-day operating fund of the District is the General Fund. The monies deposited into the General Fund represent the Federal, State, and local revenues available for the ongoing cost related to instruction, school and district administration, student transportation, and regular maintenance and operations. During 2018-2019, the General Fund had revenues and transfers in to the fund of $66,092,904 and expenditures and transfers out of the fund of $64,135,228 for an increase of $1,957,676 or 7.6 percent. Excluding transfers to and from other funds of $(2,750,000), General Fund revenues exceeded expenditures by $4,707,676. The District achieves a financial balance between revenues and expenditures for its ongoing day-to-day operations.

The total of all governmental funds saw an increase in fund balance. As the District completed the year, its governmental funds reported combined fund balance of $38,768,634. Expenditures for the General Fund and revenue for the Special Reserve Fund for Capital Outlay Projects reflect transfers of $2,500,000 for the Capital Improvement Plan, and $250,000 to cover cafeteria program costs.

Table 4

	Balances and Activity			
	July 1, 2018	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2019
General Fund	$ 25,780,716	$ 66,092,904	$ 64,135,228	$ 27,738,392
Special Reserve Fund for Capital Outlay Projects	9,415,623	2,681,552	3,551,236	8,545,939
Adult Education Fund	92,075	97,253	122,128	67,200
Cafeteria Fund	18,212	927,832	915,403	30,641
Capital Facilities Fund	51,668	129,237	37,093	143,812
Bond Interest and Redemption Fund	2,164,000	2,781,100	2,702,450	2,242,650
Total	**$ 37,522,294**	**$ 72,709,878**	**$ 71,463,538**	**$ 38,768,634**

General Fund Budgetary Highlights

Over the course of the year, the Board approves three versions of the operating budget. These budget versions are the following: Adopted Budget, First Interim, and Second Interim with Unaudited Actuals brought forward after the year-end closing is completed.

Budget adjustments to revenues for the year include:

- Adjustment for actual local property taxes revenue received;
- One-time discretionary funds for outstanding mandate claims;
- Increased in other local revenues primary due to higher interest earnings and receipt of donations received throughout the fiscal year; and
- Increased activity and accelerated timeline for major maintenance projects.

While the District's estimated budget for the General Fund anticipated that revenues and expenditures would result in the General Fund ending balance of $24,523,837 the actual ending balance was $27,738,392. This difference was predominantly attributed to property taxes, donations received and program carryover.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had $58,803,804 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $2,011,632, or 3.5 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2019	2018
Land and construction in process	$ 1,638,133	$ 7,869,841
Other capital assets, net of accumulated depreciation	57,165,671	48,922,331
Total	**$ 58,803,804**	**$ 56,792,172**

Long-Term Obligations

At year-end, the District had $24,095,889 in general obligation bonds and other long-term obligations, the majority of which is to be repaid through the use of tax collections. Detailed information regarding long-term obligations is presented in Note 9 to the financial statements.

Table 6

	Governmental Activities	
	2019	2018
General obligation bonds	$ 21,715,000	$ 23,300,000
Premium on issuance	1,886,803	2,096,448
Compensated absences	277,946	306,288
Net other postemployment benefits (OPEB) liability	216,140	275,712
Total	**$ 24,095,889**	**$ 25,978,448**

Net Pension Liability (NPL)

At year-end, the District has a net pension liability of $52,664,061 versus $51,221,338 last year, an increase of $1,442,723, or 2.8 percent.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time, these financial statements were prepared and audited, local property values continued to remain stable. The only known circumstance that could have a significant adverse effect on the District's financial health in the near future would be the devaluation of property values.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Dixon, Assistant Superintendent-Business Services, Laguna Beach Unified School District, 550 Blumont Street, Laguna Beach, California 92651.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Deposits and investments	$ 40,783,909
Receivables	2,350,108
Prepaid expenses	44,181
Stores inventories	9,010
Capital assets:	
Land and construction in process	1,638,133
Other capital assets	90,629,219
Less: Accumulated depreciation	(33,463,548)
Total Capital Assets	58,803,804
Total Assets	101,991,012
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,133,112
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	161,587
Deferred outflows of resources related to pensions	14,537,195
Total Deferred Outflows of Resources	15,831,894
LIABILITIES	
Accounts payable	4,124,486
Accrued interest	452,396
Unearned revenue	294,088
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,710,000
Noncurrent portion of long-term obligations other than pensions	22,385,889
Total Long-Term Obligations	24,095,889
Aggregate pension liability	52,664,061
Total Liabilities	81,630,920
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	3,014,109
NET POSITION	
Net investments in capital assets	36,335,113
Restricted for:	
Debt service	1,790,254
Capital projects	143,812
Educational programs	3,120,515
Other activities	87,536
Unrestricted (deficit)	(8,299,353)
Total Net Position	$ 33,177,877

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction	$ 38,952,138	$ 57	$ 4,978,761	$ (33,973,320)
Instruction-related activities:				
Supervision of instruction	1,262,791	-	262,192	(1,000,599)
Instructional library, media, and technology	1,467,568	-	85,847	(1,381,721)
School site administration	3,765,285	-	271,577	(3,493,708)
Pupil services:				
Home-to-school transportation	1,843,050	-	1,856	(1,841,194)
Food services	1,004,279	510,629	168,365	(325,285)
All other pupil services	4,535,551	4,312	949,420	(3,581,819)
General administration:				
Data processing	820,472	52	32,802	(787,618)
All other general administration	4,076,184	-	245,126	(3,831,058)
Plant services	4,841,126	-	116,397	(4,724,729)
Ancillary services	1,982,651	-	63,930	(1,918,721)
Interest on long-term obligations	1,007,289	-	-	(1,007,289)
Other outgo	357,519	121,150	153,654	(82,715)
Total Governmental Activities	$ 65,915,903	$ 636,200	$ 7,329,927	(57,949,776)

General revenues and subventions:	
Property taxes, levied for general purposes	54,098,730
Property taxes, levied for debt service	2,758,002
Federal and State aid not restricted to specific purposes	2,200,907
Interest and investment earnings	717,114
Miscellaneous	1,041,208
Subtotal, General Revenues	60,815,961
Change in Net Position	2,866,185
Net Position - Beginning	30,311,692
Net Position - Ending	$ 33,177,877

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 29,437,936	$ 8,832,584	$ 2,513,389	$ 40,783,909
Receivables	2,252,356	16,998	80,754	2,350,108
Due from other funds	485	-	-	485
Prepaid expenditures	44,181	-	-	44,181
Stores inventories	-	-	9,010	9,010
Total Assets	$ 31,734,958	$ 8,849,582	$ 2,603,153	$ 43,187,693
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 3,702,478	$ 303,643	$ 118,365	$ 4,124,486
Due to other funds	-	-	485	485
Unearned revenue	294,088	-	-	294,088
Total Liabilities	3,996,566	303,643	118,850	4,419,059
Fund Balances				
Nonspendable	94,181	-	10,305	104,486
Restricted	3,120,515	-	2,473,998	5,594,513
Committed	17,885,439	8,545,939	-	26,431,378
Assigned	3,504,633	-	-	3,504,633
Unassigned	3,133,624	-	-	3,133,624
Total Fund Balances	27,738,392	8,545,939	2,484,303	38,768,634
Total Liabilities and Fund Balances	$ 31,734,958	$ 8,849,582	$ 2,603,153	$ 43,187,693

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Total Fund Balances - Governmental Funds		**$ 38,768,634**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is the following	$ 92,267,352	
Accumulated depreciation is the following	(33,463,548)	
Total Capital Assets		58,803,804
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		1,133,112
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	5,070,063	
Net change in proportionate share of net pension liability	916,652	
Differences between projected and actual earnings on pension plan investments	111,345	
Differences between expected and actual experience in the measurement of the total pension liability	1,011,137	
Changes of assumptions	7,427,998	
Total Deferred Outflows of Resources Related to Pensions		14,537,195
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(941,139)	
Differences between projected and actual earnings on pension plan investments	(1,505,179)	
Differences between expected and actual experience in the measurement of the total pension liability	(567,791)	
Total Deferred Inflows of Resources Related to Pensions		(3,014,109)

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2019

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds.		
OPEB contributions subsequent to measurement date.	$ 127,479	
Differences between projected and actual earnings on OPEB plan investments	34,108	
Total Deferred Inflows of Resources Related to OPEB		$ 161,587
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(52,664,061)
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(452,396)
Long-term obligations at year-end consist of the following:		
General obligation bonds	21,715,000	
Premium on issuance	1,886,803	
Compensated absences	277,946	
Net other postemployment benefits (OPEB) liability	216,140	
Total Long-Term Obligations		(24,095,889)
Total Net Position - Governmental Activities		**$ 33,177,877**

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	$ 55,189,300	$ -	$ -	$ 55,189,300
Federal sources	912,049	-	156,847	1,068,896
Other State sources	5,921,517	-	108,741	6,030,258
Other local sources	4,070,038	181,552	3,419,834	7,671,424
Total Revenues	66,092,904	181,552	3,685,422	69,959,878
EXPENDITURES				
Current				
Instruction	36,276,820	-	93,099	36,369,919
Instruction-related activities:				
Supervision of instruction	1,268,059	-	-	1,268,059
Instructional library, media, and technology	1,425,544	-	7,839	1,433,383
School site administration	3,489,567	-	-	3,489,567
Pupil services:				
Home-to-school transportation	1,841,737	-	-	1,841,737
Food services	69,870	-	915,403	985,273
All other pupil services	4,297,085	-	-	4,297,085
General administration:				
Data processing	884,187	-	-	884,187
All other general administration	4,146,843	-	-	4,146,843
Plant services	4,750,280	-	21,190	4,771,470
Ancillary services	1,967,070	-	-	1,967,070
Other outgo	357,519	-	-	357,519
Facility acquisition and construction	610,647	3,551,236	37,093	4,198,976
Debt service				
Principal	-	-	1,585,000	1,585,000
Interest and other	-	-	1,117,450	1,117,450
Total Expenditures	61,385,228	3,551,236	3,777,074	68,713,538
Excess (Deficiency) of Revenues Over Expenditures	4,707,676	(3,369,684)	(91,652)	1,246,340
Other Financing Sources (Uses):				
Transfers in	-	2,500,000	250,000	2,750,000
Transfers out	(2,750,000)	-	-	(2,750,000)
Net Financing Sources (Uses)	(2,750,000)	2,500,000	250,000	-
NET CHANGE IN FUND BALANCES	1,957,676	(869,684)	158,348	1,246,340
Fund Balances - Beginning	25,780,716	9,415,623	2,325,955	37,522,294
Fund Balances - Ending	$ 27,738,392	$ 8,545,939	$ 2,484,303	$ 38,768,634

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

LAGUNA BEACH 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

Total Net Change in Fund Balances - Governmental Funds		**$ 1,246,340**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlays	$ 5,360,367	
Depreciation expense	(3,109,833)	
Net Expense Adjustment		2,250,534
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(238,902)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was more than the amounts earned by $28,342.		28,342
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(2,180,312)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.		65,022
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		1,585,000

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

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

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium	$ 209,645	
Amortization of deferred charge on refunding	(125,901)	
		$ 83,744
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		26,417
Change in Net Position of Governmental Activities		**$ 2,866,185**

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

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Agency Funds
ASSETS	
Deposits and investments	$ 1,049,222
Accounts receivable	1,591
Total Assets	$ 1,052,261
LIABILITIES	
Due to student groups	$ 131,092
Due to bond holders	921,169
Total Liabilities	$ 1,052,261

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Laguna Beach Unified School District was organized in 1936 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten through twelve as mandated by the State and/or Federal agencies. The District operates two elementary schools, one middle school, one high school, and an adult education program.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may 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. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

Community Facility District (CFD) No. 98-1 has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for the inclusion of the CFD as a component unit of the District. Accordingly, the financial activities of the CFD have been included in the financial statements of the District. The financial statements present the CFD's financial activity within the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and are not included in the District-wide Financial Statements.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in fund balance and revenues of $17,385,439, and $317,824, and a decrease in other financing uses of $500,000, respectively, as of June 30, 2019.

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

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is 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).

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. 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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB) and funds held for the Community Facilities District No. 98-1. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Basis of Accounting - Measurement Focus

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

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

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

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Unearned Revenue

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

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

Investments

Investments held at June 30, 2019, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair value of investments in the Orange County Treasury Investment Pool is determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the statement of net position, except for the net residual amounts due between governmental and fiduciary funds, which are presented as accounts receivables and payables.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive 0.004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

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

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In the governmental fund financial statements, bond premiums and discounts, as well as issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption as approved by the governing board.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than four percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District has related debt outstanding as of June 30, 2019. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $5,142,117 of restricted net position.

Interfund Activity

Transfers between governmental and fiduciary activities in the government-wide financial statements are reported in the same manner as general revenues.

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 on the financial statements.

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.

Property Tax

Secured property taxes attach as an enforceable lien on property as of March 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 and become delinquent after November 1. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

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

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

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

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

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

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

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

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

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

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

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

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

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	$ 40,783,909
Fiduciary funds	1,049,222
Total Deposits and Investments	$ 41,833,131

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	$ 1,185,283
Cash in revolving	51,295
Investments	40,596,553
Total Deposits and Investments	$ 41,833,131

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by holding the majority of its investments in the Orange County Treasury Investment Pool. The pool purchases shorter-term investments and attempts to time cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Reported Amount	Average Maturity in Days
Orange County Treasury Investment Pool	$ 40,596,553	310

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balances of $10,182 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Investment Type	Fair Value	Uncategorized
Orange County Treasury Investment Pool	$ 40,596,553	$ 40,596,553

NOTE 4 - RECEIVABLES

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

	General	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government					
Categorical aid	$ 1,070,773	$ -	$ 27,168	$ 1,097,941	$ -
State Government					
Categorical aid	74,074	-	1,609	75,683	-
Lottery	140,009	-	-	140,009	-
SELPA	521,848	-	-	521,848	-
Local Government					
Interest	78,496	16,998	7,951	103,445	-
Other Local Sources	367,156	-	44,026	411,182	1,591
Total	$ 2,252,356	$ 16,998	$ 80,754	$ 2,350,108	$ 1,591

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 1,173,934	$ -	$ -	$ 1,173,934
Construction in process	6,695,907	3,665,298	9,897,006	464,199
Total Capital Assets Not Being Depreciated	7,869,841	3,665,298	9,897,006	1,638,133
Capital Assets Being Depreciated				
Land improvements	18,713,009	-	-	18,713,009
Buildings and improvements	51,116,901	9,967,084	495,457	60,588,528
Portable classrooms and structures	102,700	-	12,500	90,200
Furniture and equipment	9,897,558	1,624,991	285,067	11,237,482
Total Capital Assets Being Depreciated	79,830,168	11,592,075	793,024	90,629,219
Less Accumulated Depreciation				
Land improvements	10,204,840	912,820	-	11,117,660
Buildings and improvements	16,555,867	1,382,255	270,203	17,667,919
Portable classrooms and structures	90,246	2,384	12,500	80,130
Furniture and equipment	4,056,884	812,374	271,419	4,597,839
Total Accumulated Depreciation	30,907,837	3,109,833	554,122	33,463,548
Governmental Activities Capital Assets, Net	$ 56,792,172	$ 12,147,540	$ 10,135,908	$ 58,803,804

Depreciation expense charged to governmental activities was as follows.

Governmental Activities	
Instruction	$ 2,798,850
School site administration	155,492
All other pupil services	155,491
Total Depreciation Expenses Governmental Activities	$ 3,109,833

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

The balance of $485 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for reimbursement of payroll expenditures.

Operating Transfers

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

Transfer To	Transfer From General Fund
Special Reserve Fund for Capital Outlay Projects	$ 2,500,000
Non-Major Governmental Funds	250,000
Total	$ 2,750,000

The General Fund transferred $2,500,000 to the Special Reserve Fund for Capital Outlay Projects for the Capital Improvement Plan (CIP).

The General Fund transferred $250,000 to the Cafeteria Non-Major Governmental Fund to cover program costs.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	$ 1,470,820	$ -	$ 48,399	$ 1,519,219
Supplies and materials	142,628	-	-	142,628
Services	715,295	-	47,597	762,892
Construction	66,649	297,544	-	364,193
Due to South Orange County SELPA	203,002	-	-	203,002
Due to College and Career Advantage Program	175,821	-	-	175,821
Golden handshake retirement incentive	701,878		-	701,878
Other vendor payables	226,385	6,099	22,369	254,853
Total	$ 3,702,478	$ 303,643	$ 118,365	$ 4,124,486

NOTE 8 - UNEARNED REVENUE

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

	General Fund
Other local	$ 294,088

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General obligation bonds	$ 23,300,000	$ -	$ 1,585,000	$ 21,715,000	$ 1,710,000
Premium on issuance	2,096,448	-	209,645	1,886,803	-
Compensated absences	306,288	-	28,342	277,946	-
Net other postemployment benefits (OPEB) liability	275,712	536,384	595,956	216,140	-
	$ 25,978,448	$ 536,384	$ 2,418,943	$ 24,095,889	$ 1,710,000

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The compensated absences will be paid by the fund for which the employee worked. Net other postemployment benefits (OPEB) liability is generally paid by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2018	Redeemed	Bonds Outstanding June 30, 2019
7/8/10	8/1/28	2.00-5.00%	$ 30,090,000	$ 23,300,000	$ 1,585,000	$ 21,715,000

2010 General Obligation Refunding Bonds

In July 2010, the District issued the $30,090,000 2010 General Obligation Refunding Bonds. The bonds have a final maturity that occurs August 1, 2028, with interest rates from 2.00 to 5.00 percent. The net proceeds of $33,688,894 from the issuance (issuance of $30,090,000 net of premium received of $3,773,607 and costs incurred on issuance of $174,713) were used to advance refund a portion of the District's outstanding 2001 General Obligation Bonds, Series 2001 and 2003. At June 30, 2019, the principal balance outstanding on the 2010 General Obligation Refunding Bonds was $21,715,000. Unamortized premium and deferred charge on refunding received on issuance of the bonds amounted to $1,886,803 and $1,133,112 as of June 30, 2019, respectively.

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	$ 1,710,000	$ 1,043,000	$ 2,753,000
2021	1,870,000	953,500	2,823,500
2022	2,030,000	856,000	2,886,000
2023	2,200,000	750,250	2,950,250
2024	2,385,000	635,625	3,020,625
2025-2029	11,520,000	1,285,500	12,805,500
Total	$ 21,715,000	$ 5,523,875	$ 27,238,875

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to $277,946.

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	$ 216,140	$ 161,587	$ 93,680

<u>District Plan</u>

Plan Administration

The California Public Employees' Retirement System (CalPERS) administers the Laguna Beach Unified School District's Postemployment Benefits Plan (the Plan) by maintaining the assets provided and payment at the direction of the District. The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. Financial information for CalPERS can be found on the CalPERS website at: https://calpers.ca.gov/pages/forms-publications

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	16
Active employees	303
	319

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Laguna Beach Unified Faculty Association (LBUFA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, LBUFA, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District contributed $425,529 to the Plan, of which $149,817 was used for current premiums and $275,712 was used to fund the OPEB Trust.

Net OPEB Liability of the District

The District's net OPEB liability of $216,140 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2018, were as follows:

Total OPEB liability	$ 3,319,740
Plan fiduciary net position	(3,103,600)
District's net OPEB liability	$ 216,140
Plan fiduciary net position as a percentage of the total OPEB liability	93.49%

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75	percent
Salary increases	2.75	percent, average, including inflation
Investment rate of return	6.00	percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00	percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2017	$ 2,980,812	$ 2,705,100	$ 275,712
Service cost	305,234	-	305,234
Interest	183,511	-	183,511
Contributions-employer	-	425,529	(425,529)
Expected investment income	-	170,427	(170,427)
Investment Gains/Losses	-	(42,636)	42,636
Benefit payments	(149,817)	(149,817)	-
Administrative expense	-	(5,003)	5,003
Net change in total OPEB liability	338,928	398,500	(59,572)
Balance at June 30, 2018	$ 3,319,740	$ 3,103,600	$ 216,140

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

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

Discount Rate	Net OPEB Liability
1% decrease (5.0%)	$ 442,981
Current discount rate (6.0%)	216,140
1% increase (7.0%)	7,680

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

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

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (3.0%)	$ (13,625)
Current healthcare cost trend rate (4.0%)	216,140
1% increase (5.0%)	451,229

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $93,680. At June 30, 2018, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
OPEB contributions subsequent to measurement date	$ 127,479
Net difference between projected and actual earnings on OPEB plan investments	34,108
Total	$ 161,587

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	$ 8,528
2021	8,528
2022	8,528
2023	8,524
	$ 34,108

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issued by the Community Facility District as authorized by the Mello-Roos Community Facilities Act of 1982 as amended and are payable from special taxes levied on property within the Community Facilities District according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders. The Community Facilities District Special Tax Bonds currently active include Community Facilities District No. 98-1 with a remaining balance as of June 30, 2019, of $8,040,000.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 50,000	$ -	$ 1,295	$ 51,295
Stores inventories	-	-	9,010	9,010
Prepaid expenditures	44,181		-	44,181
Total Nonspendable	94,181	-	10,305	104,486
Restricted				
Legally restricted programs	3,120,515	-	-	3,120,515
Special revenue funds	-	-	87,536	87,536
Capital projects funds	-	-	143,812	143,812
Debt service funds	-	-	2,242,650	2,242,650
Total Restricted	3,120,515	-	2,473,998	5,594,513
Committed				
Basic aid differential	17,885,439	-	-	17,885,439
Aliso property	-	5,270,572	-	5,270,572
Capital Improvement Plan	-	2,201,127	-	2,201,127
Facilities repair and replacement program	-	1,074,240	-	1,074,240
Total Committed	17,885,439	8,545,939	-	26,431,378
Assigned				
Carryover for reallocation	585,270	-	-	585,270
Potential one-time expenditures	2,919,363	-	-	2,919,363
Total Assigned	3,504,633	-	-	3,504,633
Unassigned				
Reserve for economic uncertainties	3,133,624	-	-	3,133,624
Total	$ 27,738,392	$ 8,545,939	$ 2,484,303	$ 38,768,634

NOTE 12 – EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Retiree Information

Nine employees have retired in exchange for the additional two years of service credit. Cost for the replacement employees is reflected below:

	Employee	Service	Retired Employee		Replacement Employee	
Position Vacated	Age	Credit	Salary	Benefits	Salary	Benefits
Assistant Principal	59.8	26	$ 174,154	$ 32,974	$ 146,408	$ 29,075
Teacher	60.8	31	140,676	26,635	-	-
Teacher	60.4	28	141,559	26,804	85,935	17,066
Teacher	64.4	18	121,983	23,097	95,682	19,001
Teacher	60.3	25	110,438	20,909	-	-
Teacher	64.8	20	124,096	23,496	-	-
Counselor	65.8	13	122,875	23,265	90,442	17,961
Teacher	64.5	23	139,969	26,502	-	-
Teacher	63.4	20	117,548	22,257	-	-
Total			$ 1,193,298	$ 225,939	$ 418,467	$ 83,103

Additional Costs

As a result of this early retirement incentive program, the District expects to incur $701,878 in additional costs. The breakdown in additional costs in presented below:

Retirement costs	$ 699,268
Administrative costs	2,610
Total Additional Costs	$ 701,878

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in a public entity risk pool for its workers' compensation program. Refer to Note 16 for additional information regarding the public entity risk pool.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 39,089,127	$ 10,791,042	$ 2,926,509	$ 4,649,190
CalPERS	13,574,934	3,746,153	87,600	2,601,185
Total	$ 52,664,061	$ 14,537,195	$ 3,014,109	$ 7,250,375

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required State contribution rate	9.828%	9.828%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were $3,830,598.

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

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

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	$ 39,089,127
State's proportionate share of the net pension liability associated with the District	22,380,353
Total	$ 61,469,480

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0425 percent and 0.0425 percent, resulting in a no change in the proportionate share.

For the year ended June 30, 2019, the District recognized pension expense of $4,649,190. In addition, the District recognized pension expense and revenue of $2,629,187 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,830,598	$ -
Net change in proportionate share of net pension liability	766,629	853,539
Differences between projected and actual earnings on pension plan investments	-	1,505,179
Differences between expected and actual experiences in the measurement of the total pension liability	121,214	567,791
Changes of assumptions	6,072,601	-
Total	$ 10,791,042	$ 2,926,509

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	$ 326,817
2021	(237,147)
2022	(1,262,786)
2023	(332,063)
Total	$ (1,505,179)

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

Year Ended June 30,	Deferred Outflows of Resources
2020	$ 1,089,409
2021	1,089,409
2022	1,089,408
2023	990,466
2024	1,277,214
Thereafter	3,208
Total	$ 5,539,114

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 57,260,996
Current discount rate (7.10%)	39,089,127
1% increase (8.10%)	24,022,883

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were $1,239,465.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $13,574,934. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0509 percent and 0.0501 percent, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2019, the District recognized pension expense of $2,601,185. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,239,465	$ -
Net change in proportionate share of net pension liability	150,023	87,600
Differences between projected and actual earnings on pension plan investments	111,345	-
Differences between expected and actual experiences in the measurement of the total pension liability	889,923	-
Changes of assumptions	1,355,397	-
Total	$ 3,746,153	$ 87,600

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	$ 404,986
2021	96,848
2022	(310,364)
2023	(80,125)
Total	$ 111,345

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

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	$ 1,029,291
2021	947,060
2022	331,392
Total	$ 2,307,743

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 19,764,455
Current discount rate (7.15%)	13,574,934
1% increase (8.15%)	8,439,841

Tax Deferred Annuity/Social Security

As established by Federal law, all public-sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $2,065,561 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

The District is involved in various litigations 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.

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Middle School - Classroom construction	$ 3,300,000	2019-2020
Middle School - Field construction	1,800,000	2021-2022
	$ 5,100,000	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES, AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP), Schools Excess Liability Fund (SELF), and Western Orange County Self-Funded Workers' Compensation Agency public entity risk pools, and the College and Career Advantage Program. The District pays an annual premium to ASCIP and Western Orange County Self-Funded Workers' Compensation Agency for its property liability coverage and workers' compensation, respectively. Payments for excess insurance for property liability coverage are purchased through ASCIP from SELF. Payments for regional occupational services received are paid to the College and Career Advantage Program. The relationships between the District, the pools, and the JPA are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed two board members to the Governing Board of College and Career Advantage Program.

During the year ended June 30, 2019, the District made payments of $278,961, $374,573, and $175,821 to ASCIP, Western Orange County Self-Funded Workers' Compensation Agency, and College and Career Advantage Program, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 54,802,500	$ 55,131,355	$ 55,189,300	$ 57,945
Federal sources	912,640	931,122	912,049	(19,073)
Other State sources	3,675,081	4,097,571	5,921,517	1,823,946
Other local sources	2,629,692	3,583,905	4,070,038	486,133
Total Revenues [1]	62,019,913	63,743,953	66,092,904	2,348,951
EXPENDITURES				
Current				
Certificated salaries	23,727,881	23,366,268	22,992,784	373,484
Classified salaries	8,777,322	8,822,886	8,813,575	9,311
Employee benefits	14,013,691	14,475,580	15,905,971	(1,430,391)
Books and supplies	2,536,376	2,545,458	2,235,044	310,414
Services and operating expenditures	9,510,938	10,267,360	9,338,315	929,045
Other outgo	335,800	397,120	357,518	39,602
Capital outlay	1,478,000	1,876,160	1,742,021	134,139
Total Expenditures [1]	60,380,008	61,750,832	61,385,228	365,604
Excess of Revenues Over Expenditures	1,639,905	1,993,121	4,707,676	2,714,555
Other Financing Uses				
Transfers out	(2,265,000)	(3,250,000)	(2,750,000)	500,000
NET CHANGE IN FUND BALANCE	(625,095)	(1,256,879)	1,957,676	3,214,555
Fund Balance - Beginning	25,780,716	25,780,716	25,780,716	-
Fund Balance - Ending	$ 25,155,621	$ 24,523,837	$ 27,738,392	$ 3,214,555

[1] Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund are included in the Actual (GAAP Basis) revenues and expenditures and included in the original and final General Fund budgets. On behalf payments of $2,065,561 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	2019	2018
Total OPEB Liability		
Service cost	$ 305,234	$ 355,725
Interest	183,511	165,777
Benefit payments	(149,817)	(261,339)
Net change in total OPEB liability	338,928	260,163
Total OPEB liability - beginning	2,980,812	2,720,649
Total OPEB liability - ending (a)	$ 3,319,740	$ 2,980,812
Plan Fiduciary Net Position		
Contributions - employer	$ 425,529	$ 525,623
Expected Investment investment income	170,427	105,639
Investment Gains/Losses	(42,636)	
Benefit payments	(149,817)	(261,339)
Administrative expense	(5,003)	(1,277)
Net change in plan fiduciary net position	398,500	368,646
Plan fiduciary net position - beginning	2,705,100	2,336,454
Plan fiduciary net position - ending (b)	$ 3,103,600	$ 2,705,100
District's net OPEB liability - ending (a) - (b)	$ 216,140	$ 275,712
Plan fiduciary net position as a percentage of the total OPEB liability	93.49%	90.75%
Covered-employee payroll	$ 32,300,995	$ 26,358,431
District's net OPEB liability as a percentage of covered-employee payroll	0.67%	1.05%

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

See accompanying note to required supplementary information.

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

	2019	2018
CalSTRS		
District's proportion of the net pension liability	0.0425%	0.0425%
District's proportionate share of the net pension liability	$ 39,089,127	$ 39,259,595
State's proportionate share of the net pension liability associated with the District	22,380,353	23,225,645
Total	$ 61,469,480	$ 62,485,240
District's covered - employee payroll	$ 22,905,565	$ 22,399,666
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	170.65%	175.27%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%
CalPERS		
District's proportion of the net pension liability	0.0509%	0.0501%
District's proportionate share of the net pension liability	$ 13,574,934	$ 11,961,743
District's covered - employee payroll	$ 6,614,281	$ 6,431,380
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	205.24%	185.99%
Plan fiduciary net position as a percentage of the total pension liability	71%	72%

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

See accompanying note to required supplementary information.

2017	2016	2015
0.0421%	0.0441%	0.0424%
$ 34,074,498	$ 29,723,141	$ 24,794,719
19,398,004	15,720,265	14,972,122
$ 53,472,502	$ 45,443,406	$ 39,766,841
$ 20,910,792	$ 20,133,829	$ 19,189,962
162.95%	147.63%	129.21%
70%	74%	77%
0.0512%	0.0502%	0.0505%
$ 10,108,492	$ 7,397,321	$ 5,735,409
$ 6,068,439	$ 5,507,921	$ 5,382,462
166.57%	134.30%	106.56%
74%	79%	83%

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	2019	2018
CalSTRS		
Contractually required contribution	$ 3,830,598	$ 3,305,273
Contributions in relation to the contractually required contribution	3,830,598	3,305,273
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 23,529,472	$ 22,905,565
Contributions as a percentage of covered - employee payroll	16.28%	14.43%
CalPERS		
Contractually required contribution	$ 1,239,465	$ 1,027,264
Contributions in relation to the contractually required contribution	1,239,465	1,027,264
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 6,862,280	$ 6,614,281
Contributions as a percentage of covered - employee payroll	18.062%	15.531%

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

See accompanying note to required supplementary information.

2017	2016	2015
$ 2,817,878	$ 2,243,728	$ 1,787,884
2,817,878	2,243,728	1,787,884
$ -	$ -	$ -
$ 22,399,666	$ 20,910,792	$ 20,133,829
12.58%	10.73%	8.88%
$ 893,190	$ 718,928	$ 648,337
893,190	718,928	648,337
$ -	$ -	$ -
$ 6,431,380	$ 6,068,439	$ 5,507,921
13.888%	11.847%	11.771%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

Change in Benefit Terms – There were no changes in the benefit terms.

Change of Assumptions – There were no changes of assumptions.

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 192,119
Title II, Part A, Supporting Effective Instruction	84.367	14341	49,891
Title III, English Learner Student Program	84.365	14346	11,323
Title III, Immigrant Education Program	84.365	15146	8,261
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	13,950
Passed through South Orange County SELPA:			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	512,877
Preschool Grants, Part B, Section 619	84.173	13430	14,387
Preschool Staff Development, Part B, Sec 619	84.173A	13431	152
Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	31,159
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	2,901
Subtotal Special Education (IDEA) Cluster			561,476
Passed through California Department of Rehabilitation:			
Workability II, Transitions Partnership Program	84.126	10006	74,646
Total for U.S. Department of Education			911,666
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	106,152
Basic Breakfast	10.553	13525	22,799
Commodities	10.555	13396	27,896
Subtotal Child Nutrition Cluster			156,847
Total for U.S. Department of Agriculture			156,847
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	385
Subtotal Medicaid Cluster			385
Total Federal Expenditures			$ 1,068,898

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

The Laguna Beach Unified School District was established 1936 and consists of an area comprising approximately 23 square miles. The District operates two elementary schools, one middle school, one high school, and one adult education program. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Jan Vickers	President	2020
Dee Perry	Clerk	2021
James Kelly	Member	2021
Carol Normandin	Member	2021
Peggy Wolff	Member	2020

ADMINISTRATION

NAME	TITLE
Jason Viloria	Superintendent
Jeff Dixon	Assistant Superintendent, Business Services
Leisa Winston	Deputy Superintendent, Human Resources and Instructional Services

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period Report 294A13D8	Annual Report 36E6DBFB
Regular ADA		
Transitional kindergarten through third	617.61	618.07
Fourth through sixth	578.93	577.84
Seventh and eighth	521.98	521.84
Ninth through twelfth	1,014.47	1,011.07
Total Regular ADA	2,732.99	2,728.82
Extended Year Special Education		
Transitional kindergarten through third	0.99	0.99
Fourth through sixth	0.51	0.51
Seventh and eighth	0.31	0.31
Ninth through twelfth	0.42	0.42
Total Extended Year Special Education	2.23	2.23
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	1.92	1.94
Ninth through twelfth	3.67	4.11
Total Special Education, Nonpublic, Nonsectarian Schools	5.59	6.05
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.22	0.22
Ninth through twelfth	0.67	0.67
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.89	0.89
Total ADA	2,741.70	2,737.99

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	37,650	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,342	180	N/A	Complied
Grade 2		54,342	180	N/A	Complied
Grade 3		54,342	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,974	180	N/A	Complied
Grade 5		55,974	180	N/A	Complied
Grade 6		57,993	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		57,993	180	N/A	Complied
Grade 8		57,748	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,920	180	N/A	Complied
Grade 10		64,920	180	N/A	Complied
Grade 11		64,920	180	N/A	Complied
Grade 12		64,920	180	N/A	Complied

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

	(Budget) 2020 [1]	2019	2018	2017
GENERAL FUND [3]				
Revenues	$ 65,170,311	$ 65,775,080	$ 60,445,109	$ 57,705,575
Other sources and transfers in	-	-	-	500,000
Total Revenues and Other Sources	65,170,311	65,775,080	60,445,109	58,205,575
Expenditures	60,698,776	61,385,228	56,308,978	55,995,461
Other uses and transfers out	2,850,000	3,250,000	2,390,000	2,265,000
Total Expenditures and Other Uses	63,548,776	64,635,228	58,698,978	58,260,461
INCREASE (DECREASE) IN FUND BALANCE	$ 1,621,535	$ 1,139,852	$ 1,746,131	$ (54,886)
ENDING FUND BALANCE	$ 11,974,488	$ 10,352,953	$ 9,213,101	$ 7,466,970
AVAILABLE RESERVES [2]	$ 3,200,000	$ 3,133,624	$ 2,934,949	$ 2,913,024
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [4]	5.04%	5.00%	5.00%	5.00%
LONG-TERM OBLIGATIONS	N/A	$ 24,095,889	$ 25,978,448	$ 27,702,106
K-12 AVERAGE DAILY ATTENDANCE AT P-2	2,755	2,742	2,788	2,878

The General Fund balance has increased by $2,885,983 over the past two years. The fiscal year 2019-2020 budget projects an increase of $1,621,535 (15.7 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2019-2020 fiscal year. Total long-term obligations have decreased by $3,606,217 over the past two years.

Average daily attendance has decreased by 136 over the past two years. However, a growth of 13 ADA is anticipated during fiscal year 2019-2020.

[1] Budget 2020 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.
[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Outlay Projects as required by GASB Statement No. 54.
[4] On behalf payments of $2,065,561, relating to SB Senate Bill 90, have been excluded from the calculation of available reserve for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
ASSETS					
Deposits and investments	$ 114,888	$ 18,631	$ 144,676	$ 2,235,194	$ 2,513,389
Receivables	8,181	64,877	240	7,456	80,754
Stores inventories	-	9,010	-	-	9,010
Total Assets	$ 123,069	$ 92,518	$ 144,916	$ 2,242,650	$ 2,603,153
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 55,869	$ 61,392	$ 1,104	$ -	$ 118,365
Due to other funds	-	485	-	-	485
Total Liabilities	55,869	61,877	1,104	-	118,850
Fund Balances					
Nonspendable	-	10,305	-	-	10,305
Restricted	67,200	20,336	143,812	2,242,650	2,473,998
Total Fund Balances	67,200	30,641	143,812	2,242,650	2,484,303
Total Liabilities and Fund Balances	$ 123,069	$ 92,518	$ 144,916	$ 2,242,650	$ 2,603,153

See accompanying note to supplementary information.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES					
Federal sources	$ -	$ 156,847	$ -	$ -	$ 156,847
Other State sources	95,691	7,910	-	5,140	108,741
Other local sources	1,562	513,075	129,237	2,775,960	3,419,834
Total Revenues	97,253	677,832	129,237	2,781,100	3,685,422
EXPENDITURES					
Current					
Instruction	93,099	-	-	-	93,099
Instruction-related activities:					
Supervision of instruction	-	-	-	-	-
Instructional library, media, and technology	7,839	-	-	-	7,839
Pupil services:					
Food services	-	915,403	-	-	915,403
Plant services	21,190	-	-	-	21,190
Facility acquisition and construction	-	-	37,093	-	37,093
Debt service					
Principal	-	-	-	1,585,000	1,585,000
Interest and other	-	-	-	1,117,450	1,117,450
Total Expenditures	122,128	915,403	37,093	2,702,450	3,777,074
Excess (Deficiency) of Revenues Over Expenditures	(24,875)	(237,571)	92,144	78,650	(91,652)
Other Financing Sources					
Transfers in	-	250,000	-	-	250,000
NET CHANGE IN FUND BALANCES	(24,875)	12,429	92,144	78,650	158,348
Fund Balances - Beginning	92,075	18,212	51,668	2,164,000	2,325,955
Fund Balances - Ending	$ 67,200	$ 30,641	$ 143,812	$ 2,242,650	$ 2,484,303

See accompanying note to supplementary information.

NOTE 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 District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Funds Balances, and the related expenditures reported on the schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 1,068,896
Medi-Cal Billing Option	93.778	2
Total Schedule of Expenditures of Federal Awards		$ 1,068,898

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Independent Auditor's Reports

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

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Laguna Beach Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Laguna Beach Unified School District's basic financial statements, and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Laguna Beach 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*.

We noted certain matters that we reported to management of Laguna Beach Unified School District in a separate letter dated November 15, 2019.

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.

Eide Bailly LLP

Rancho Cucamonga, California
November 15, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on Compliance for Each Major Federal Program

We have audited Laguna Beach Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Laguna Beach Unified School District's major Federal programs for the year ended June 30, 2019. Laguna Beach 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 the 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Laguna Beach 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 Laguna Beach 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 Laguna Beach 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 Laguna Beach 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Eide Bailly LLP

Rancho Cucamonga, California
November 15, 2019

CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

Report on State Compliance

We have audited Laguna Beach Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Laguna Beach Unified School District's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

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

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Unmodified Opinion

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

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

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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

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

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

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

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

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

The District did not expend any California Clean Energy Job Act funds in the current year; therefore, we did not perform any procedures related to the California Clean Energy Job Act Program.

The District did not elect to operate as a District of Choice; therefore, we did not perform any procedures related to the District of Choice Program.

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

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

The District does not have any Charter Schools; therefore, we did not perform any procedures related to the Charter School Programs.

Eide Bailly LLP

Rancho Cucamonga, California
November 15, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, and 84.173A	Special Education (IDEA) Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

None reported.

LAGUNA BEACH UNIFIED SCHOOL DISTRICT

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

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

Governing Board
Laguna Beach Unified School District
Laguna Beach, California

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

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 15, 2019, on the financial statements of Laguna Beach Unified School District.

ASSOCIATED STUDENT BODY (ASB)

Laguna Beach High School

Observation

One of the three deposits tested were not deposited in a timely manner. The delay in deposit was 12 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

The ASB should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

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

Eide Bailly LLP

Rancho Cucamonga, California
November 15, 2019