



Annual Financial Report
June 30, 2019

Azusa Unified School District



AZUSA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Azusa Unified School District
Azusa, 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 Azusa 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.

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 Azusa Unified School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 72, schedule of changes in the District's total OPEB liability and related ratios on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, 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 Azusa 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 December 16, 2019, on our consideration of the Azusa 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 Azusa 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 Azusa Unified School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 16, 2019



Azusa Unified School District

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Board of Education

Xilonin Cruz-Gonzalez	President
Yolanda Rodriguez-Peña	Vice President
Gabriela Arellanes	Clerk
Jeri Bibles-Vogel	Member
Adrian Greer	Member
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This section of Azusa 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 ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

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

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

The Primary unit of the government is the Azusa Unified School District.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its activities as follows:

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

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(142.4) million for the fiscal year ended June 30, 2019. Of this amount, \$(132.3) million was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 99.5	\$ 78.8
Capital assets	88.7	82.3
Total Assets	188.2	161.1
Deferred Outflows of Resources	33.8	36.0
Liabilities		
Current liabilities	16.8	18.7
Long-term obligations	224.9	185.5
Net pension liability	114.4	115.2
Total Liabilities	356.1	319.4
Deferred Inflows of Resources	8.3	5.8
Net Position		
Net investment in capital assets	(24.9)	(21.2)
Restricted	14.8	13.5
Unrestricted	(132.3)	(120.4)
Total Net Position	\$ (142.4)	\$ (128.1)

The \$(132.3) million in unrestricted (deficit) net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position (deficit) - 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 - decreased by 10 percent (\$(132.3) million compared to \$(120.4) million).

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 1.0	\$ 0.6
Operating grants and contributions	36.3	29.6
General revenues:		
Federal and State aid not restricted	74.8	73.1
Property taxes	25.3	25.6
Other general revenues	14.2	3.0
Total Revenues	151.6	131.9
Expenses		
Instruction-related	112.8	92.5
Pupil services	18.1	15.8
Administration	8.2	6.5
Plant services	13.7	11.9
Other	13.1	12.2
Total Expenses	165.9	138.9
Change in Net Position	\$ (14.3)	\$ (7.0)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$165.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$25.3 million because the cost was paid by those who benefited from the programs (\$1.0) million or by other governments and organizations who subsidized certain programs with grants and contributions (\$36.3) million. We paid for the remaining "public benefit" portion of our governmental activities with \$89.0 million in Federal and State funds, and with other revenues, like interest and general entitlements.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, instruction related sources, pupil services, administration, plant services, and other. 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

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Instruction	\$ 93.1	\$ 76.9	\$ 71.5	\$ 60.9
Instruction related services	19.7	15.6	15.1	12.3
Pupil services	18.1	15.8	9.6	7.5
Administration	8.2	6.5	7.1	6.1
Plant services	13.7	11.9	13.2	11.0
Other	13.1	12.2	12.1	10.9
Total	\$ 165.9	\$ 138.9	\$ 128.6	\$ 108.7

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$74.9 million, which is an increase of \$14.2 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2018	Revenues	Expenditures	June 30, 2019
General Fund	\$ 23.7	\$ 123.5	\$ 125.7	\$ 21.5
Building Fund	26.4	25.5	11.4	40.5
Bond Interest and Redemption Fund	8.5	10.5	8.2	10.8
Adult Education Fund	0.9	2.1	1.9	1.1
Child Development Fund	-	1.1	1.1	-
Cafeteria Fund	0.3	6.6	6.8	0.1
Capital Facilities Fund	0.9	0.2	0.2	0.9
Total	\$ 60.7	\$ 169.5	\$ 155.3	\$ 74.9

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Financial Highlights

- The District's General Fund Ending balance for the 2018-2019 fiscal year came very close to Estimated Actuals. Total General Fund revenues were \$114.7 million, and expenditures were \$116.5 million.
- The District expended \$8.3 million on facility construction and modernization from \$24.82 million in the balance of bond issuances of \$26.4 million.
- Grades K-12 average daily attendance declined by 262.66 ADA to 7,739 in 2018-2019.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with amounts paid and received is provided in our annual report on page 72.

- Overall budgeted revenues increased by \$5.8 million from the original budget to Final budget in 2018-2019 due to STRS on behalf requirement that was not budgeted and additional Inter-district revenue received for Special Education programs
- Overall budgeted expenditures increased by \$4.6 million due to an increase in STRS on behalf requirement that was not originally budgeted, Contracted services were budgeted spent higher than originally budgeted and decreased in spending Books and Supplies, increase in interfund transfer to Cafeteria Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2019, the District had \$88.7 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 \$6.4 million, or 7.8 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities	
	2019	2018
Land and construction in progress	\$ 10.7	\$ 25.2
Buildings and improvements	76.8	55.7
Equipment	1.2	1.4
Total	\$ 88.7	\$ 82.3

Net capital assets increased by \$6.4 million as a result of an increase in construction projects during the year.

Several capital projects are planned for the 2019-2020 year, including the completion of the Fire Alarm project, fencing improvement project at various sites, and High school Track and Field project.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

Long-Term Obligations

At the end of this year, the District had \$224.9 million in long-term obligations versus \$185.7 million last year, an increase of 39.2 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2019	2018
General obligation bonds (financed with property taxes)	\$ 183.6	\$ 156.2
Certificates of participation	4.8	4.8
Compensated absences	0.7	0.6
Supplemental early retirement plans	1.0	1.5
Claims liabilities	11.5	0.2
Net other postemployment benefits (OPEB) liability	23.3	22.4
Total	\$ 224.9	\$ 185.7

The District's general obligation bond rating continues to be AA- as rated by Standard & Poors. The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt is significantly below this statutorily-imposed limit.

Other obligations include certificates of participation, supplemental early retirement plans, compensated absences payable, claims liabilities, and net other postemployment benefits (OPEB) liability. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had a net pension liability of \$114.4 million as a result of GASB Statement No. 68. The District's proportionate share of net pension liability for CalSTRS (State Teacher Retirement System) is 0.0912 percent. The District contributed 16.3 percent towards certificated employee payroll costs (\$8.2) million. The District's proportionate share of net pension liability for CalPERS is 0.1145 percent. The District contributed 18.1 percent towards classified employee payroll costs (\$3.3) million.

AZUSA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

1. The District developed the budget for -2019-2020 utilizing the Local Control Funding Formula (LCFF).
2. Since LCFF is fully implemented, there will not be any GAP funding, funding resulting in average funding of \$11,566 per ADA. This represents an increase of 3.26 percent per ADA from the prior year.
3. The District's average daily attendance is projected to decline for 2019-2020 at 7,424. ADA is calculated at 96 percent of projected enrollment 7,709.
4. The District's projected unduplicated pupil count projections for 6,514 or 84.5 percent.
5. Average Teacher Salary for 2018-2019 for 187 days of teaching is \$116,550.
6. The budget was built with the following FTE (full-time equivalent) allocations:
 - a. 485 (Certificated Staff)
 - b. 392 (Classified Staff)
 - c. 86 (Management/Supervisors/Confidential Staff)
7. The fiscal year 2018-2019 includes Step and column increase for Certificated, Classified, and Management effective July 1, 2019.
8. The Restoration of a 3.0 percent contribution to Restricted Routine Maintenance Account.
9. Increase in CalSTRS and CalPERS rates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Marc Bommarito, Assistant Superintendent, Business Services, at Azusa Unified School District, 546 South Citrus Avenue, Azusa, California 91702, or e-mail at mbommarito@azusa.org.

AZUSA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2019

	Governmental Activities
ASSETS	
Deposits and investments	\$ 87,604,915
Receivables	11,264,377
Prepaid expenses	533,146
Stores inventories	70,138
Capital assets	
Land and construction in process	10,725,747
Capital assets being depreciated	187,394,820
Accumulated depreciation	(109,378,704)
Total Capital Assets	88,741,863
Total Assets	188,214,439
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,520,908
Deferred outflows of resources related to OPEB	418,154
Deferred outflows of resources related to pensions	30,841,968
Total Deferred Outflows of Resources	33,781,030
LIABILITIES	
Overdrafts	802,169
Accounts payable	13,868,006
Interest payable	2,075,565
Unearned revenue	57,710
Long-term obligations:	
Current portion of long-term obligations other than pensions	5,788,533
Noncurrent portion of long-term obligations other than pensions	219,129,020
Total Long-Term Obligations	224,917,553
Aggregate net pension liability	114,391,146
Total Liabilities	356,112,149
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	8,272,051
NET POSITION	
Net investment in capital assets	(24,926,593)
Restricted for:	
Debt service	8,687,461
Capital projects	893,026
Educational programs	4,199,581
Other activities	980,366
Unrestricted	(132,222,572)
Total Net Position	\$ (142,388,731)

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

AZUSA UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 93,146,701	\$ 662,866	\$ 21,032,055	\$ (71,451,780)
Instruction-related activities:				
Supervision of instruction	6,414,308	-	2,632,920	(3,781,388)
Instructional library, media, and technology	2,913,100	-	254,722	(2,658,378)
School site administration	10,292,788	7	1,609,660	(8,683,121)
Pupil services:				
Home-to-school transportation	1,178,548	-	38,938	(1,139,610)
Food services	7,112,769	136,602	5,433,309	(1,542,858)
All other pupil services	9,836,700	119,559	2,859,749	(6,857,392)
Administration:				
Data processing	1,203,263	-	62,669	(1,140,594)
All other administration	6,950,750	6,496	970,992	(5,973,262)
Plant services	13,664,143	129	424,259	(13,239,755)
Ancillary services	558,441	-	157	(558,284)
Interest on long-term obligations	8,955,914	-	-	(8,955,914)
Other outgo	3,632,077	117,545	937,424	(2,577,108)
Total Governmental Activities	\$ 165,859,502	\$ 1,043,204	\$ 36,256,854	(128,559,444)
General revenues and subventions:				
				17,368,806
Property taxes, levied for general purposes				7,221,594
Property taxes, levied for debt service				689,735
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				74,761,804
Interest and investment earnings				1,123,092
Interagency revenues				65,390
Miscellaneous				13,040,199
Subtotal, General Revenues				114,270,620
Change in Net Position				(14,288,824)
Net Position - Beginning				(128,099,907)
Net Position - Ending				\$ (142,388,731)

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

AZUSA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2019

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 28,015,382	\$ 41,184,701	\$ 10,751,217
Receivables	5,313,321	294,464	-
Prepaid expenditures	514,161	3,879	-
Stores inventories	-	-	-
Total Assets	\$ 33,842,864	\$ 41,483,044	\$ 10,751,217
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	12,321,673	1,000,741	-
Unearned revenue	50,574	-	-
Total Liabilities	12,372,247	1,000,741	-
Fund Balances:			
Nonspendable	539,161	3,879	-
Restricted	4,199,581	40,478,424	10,751,217
Assigned	3,012,699	-	-
Unassigned	13,719,176	-	-
Total Fund Balances	21,470,617	40,482,303	10,751,217
Total Liabilities and Fund Balances	\$ 33,842,864	\$ 41,483,044	\$ 10,751,217

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 1,894,468	\$ 81,845,768
1,537,824	7,145,609
15,106	533,146
70,138	70,138
<u>\$ 3,517,536</u>	<u>\$ 89,594,661</u>

\$ 802,169	\$ 802,169
528,852	13,851,266
7,136	57,710
<u>1,338,157</u>	<u>14,711,145</u>

105,244	648,284
1,889,080	57,318,302
185,055	3,197,754
-	13,719,176
<u>2,179,379</u>	<u>74,883,516</u>

<u>\$ 3,517,536</u>	<u>\$ 89,594,661</u>
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AZUSA UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		\$ 74,883,516
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	\$ 198,120,567	
Accumulated depreciation is	<u>(109,378,704)</u>	
Net Capital Assets		88,741,863
In governmental funds, the deferred amount on refunding is not recognized until the period in which it matures and is paid. On the government-wide financial statements, it is recognized in the period that it is incurred.		2,520,908
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.		(2,075,565)
An internal service fund is used by the District's management to charge the costs of the property and liability and dental insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		(1,596,855)
Deferred outflows of resources related to pension represent a consumption of net position in a future period and are 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	11,557,113	
Net change in proportionate share of net pension liability	696,629	
Differences between projected and actual earnings on pension plan investments	250,407	
Differences between expected and actual experience in the measurement of the total pension liability	2,261,426	
Changes of assumptions	<u>16,076,393</u>	
Total Deferred Outflows Related to Pensions		30,841,968
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and are 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	(3,824,688)	
Differences between projected and actual earnings on pension plan investments	(3,229,220)	
Differences between expected and actual experience in the measurement of the total pension liability	<u>(1,218,143)</u>	
Total Deferred Inflows Related to Pensions		(8,272,051)

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

AZUSA UNIFIED SCHOOL DISTRICT

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

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

\$ (114,391,146)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and are not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions.

418,154

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

Long-term obligations at year-end consist of:

General obligation bonds	\$ 143,574,283
Premium on general obligation bonds	8,260,379
Certificates of participation	4,920,000
Discount on certificates of participation	(82,995)
Compensated absences (vacations)	706,222
Supplemental early retirement plan	1,001,465
Net other postemployment benefits (OPEB) liability	23,261,055

In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:

31,819,114

Total Long-Term Obligations

(213,459,523)

Total Net Position - Governmental Activities

\$ (142,388,731)

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

AZUSA UNIFIED SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	\$ 88,916,908	\$ -	\$ -
Federal sources	7,621,178	-	-
Other State sources	16,557,301	-	48,749
Other local sources	8,782,440	547,172	7,296,783
Total Revenues	121,877,827	547,172	7,345,532
EXPENDITURES			
Current			
Instruction	74,941,869	-	-
Instruction-related activities:			
Supervision of instruction	5,212,416	-	-
Instructional library, media, and technology	2,680,203	-	-
School site administration	7,632,731	-	-
Pupil services:			
Home-to-school transportation	922,670	-	-
Food services	160,695	-	-
All other pupil services	8,109,053	-	-
Administration:			
Data processing	1,030,307	-	-
All other administration	5,664,071	-	-
Plant services	13,001,535	-	-
Ancillary services	519,579	-	-
Other outgo	3,632,077	-	-
Facility acquisition and construction	25,666	11,089,652	-
Debt service			
Principal	-	-	3,995,000
Interest and other	-	362,375	4,211,431
Total Expenditures	123,532,872	11,452,027	8,206,431
Excess (Deficiency) of Revenues Over Expenditures	(1,655,045)	(10,904,855)	(860,899)
Other Financing Sources (Uses)			
Transfers in	8,084	-	-
Other sources - proceeds from bond issuance	-	25,000,000	-
Other sources - premium on bond issuance	-	-	3,098,121
Transfers out	(578,829)	-	-
Net Financing Sources (Uses)	(570,745)	25,000,000	3,098,121
NET CHANGE IN FUND BALANCES	(2,225,790)	14,095,145	2,237,222
Fund Balance - Beginning	23,696,407	26,387,158	8,513,995
Fund Balance - Ending	\$ 21,470,617	\$ 40,482,303	\$ 10,751,217

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 88,916,908
5,591,541	13,212,719
3,319,252	19,925,302
685,438	17,311,833
<u>9,596,231</u>	<u>139,366,762</u>
1,614,828	76,556,697
201,840	5,414,256
-	2,680,203
758,454	8,391,185
-	922,670
6,557,719	6,718,414
142,389	8,251,442
-	1,030,307
406,556	6,070,627
123,574	13,125,109
-	519,579
-	3,632,077
213,505	11,328,823
-	3,995,000
-	4,573,806
<u>10,018,865</u>	<u>153,210,195</u>
<u>(422,634)</u>	<u>(13,843,433)</u>
548,829	556,913
-	25,000,000
-	3,098,121
<u>(8,084)</u>	<u>(586,913)</u>
<u>540,745</u>	<u>28,068,121</u>
118,111	14,224,688
2,061,268	60,658,828
<u>\$ 2,179,379</u>	<u>\$ 74,883,516</u>

AZUSA 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 **\$ 14,224,688**

**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 outlays exceed depreciation in the period.

Capital outlays	\$ 12,338,411	
Depreciation expense	<u>(5,946,179)</u>	
Net Expense Adjustment		6,392,232

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$130,468. Special termination benefits earned were less than the amount used by \$500,733.

370,265

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.

(3,875,392)

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.

(629,469)

Proceeds received from General Obligation Bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

(25,000,000)

Payment of principal on the general obligation bonds 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.

3,995,000

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

AZUSA UNIFIED SCHOOL DISTRICT

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

Governmental funds report the effects of premiums and deferred amounts on a refunding when debt is first issued, whereas the amounts are deferred and amortized on the Statement of Activities. This amount is the net effect of these related items.

Premium on bond issuance	\$ (3,098,121)	
Amortization of deferred charge on refunding	(250,907)	
Amortization of premium on bonds	514,240	
Amortization of discount on certificates of participation	<u>(4,045)</u>	
Net Expense Adjustment		\$ (2,838,833)

Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported on the Statement of Activities is a result of two factors. First, accrued interest on general obligation bonds and certificates of participation increased by \$736,234. Second, \$3,905,162, of additional accumulated interest accreted on the District's general obligation bonds.

(4,641,396)

An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation and dental insurance programs to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

(2,285,919)

Change in Net Position of Governmental Activities

\$ (14,288,824)

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 5,759,147
Receivables	4,118,768
Total Assets	<u>\$ 9,877,915</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 16,740
Claim liabilities - current portion	702,800
Total Current Liabilities	<u>719,540</u>
Noncurrent Liabilities	
Noncurrent portion of claims liabilities	<u>10,755,230</u>
NET POSITION	
Unrestricted (deficit)	<u>\$ (1,596,855)</u>

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED JUNE 30, 2019

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 2,822,682</u>
OPERATING EXPENSES	
Other operating costs	<u>13,369,142</u>
Operating loss	<u>(10,546,460)</u>
NONOPERATING REVENUES	
Interest income	15,543
Return of equity from joint powers authority	<u>8,214,998</u>
Total Nonoperating Revenues	<u>8,230,541</u>
Loss before Transfers	(2,315,919)
Transfers in	<u>30,000</u>
Change in Net Position	<u>(2,285,919)</u>
Total Net Position - Beginning	<u>689,064</u>
Total Net Position - Ending	<u><u>\$ (1,596,855)</u></u>

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

AZUSA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,783,677
Other operating cash receipts	27,736
Cash payments to other suppliers of goods or services	(2,064,978)
Net Cash Provided by Operating Activities	<u>746,435</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from other funds	30,000
Return of equity from joint powers authority	4,107,499
Net Cash Provided by Noncapital Financing Activities	<u>4,137,499</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	15,543
Net Increase in Cash and Cash Equivalents	<u>4,899,477</u>
Cash and Cash Equivalents - Beginning	859,670
Cash and Cash Equivalents - Ending	<u><u>\$ 5,759,147</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (10,546,460)
Changes in assets:	
Receivables	(11,269)
Accrued liabilities	11,304,164
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 746,435</u></u>

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

AZUSA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2019

	Agency Funds
ASSETS	
Deposits and investments	\$ 381,635
Receivables	664,112
Total Assets	\$ 1,045,747
LIABILITIES	
Overdrafts	\$ 663,718
Due to student groups	382,029
Total Liabilities	\$ 1,045,747

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Azusa Unified School District (the District) was organized in 1961 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 - 12 as mandated by the State and/or Federal agencies. The District operates eleven elementary schools, three middle schools, two high schools, and two alternative education schools.

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

The Azusa Unified School District Facilities Corporation's (the Corporation) financial activity is presented in the financial statements in the Building Fund. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for Corporation.

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 three broad fund categories: governmental, proprietary, 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:

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, do not currently meet the GASB Statement No. 54 definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenue within these funds would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$5,810,289.

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

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).

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.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

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).

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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).

State School Building Lease-Purchase Fund The State School Building Lease Purchase Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacement of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

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.

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Proprietary Funds Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service Funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates dental care and workers' compensation self-insurance programs that are accounted for in the internal service fund. In addition, the District accounts for their property and liability premium payments in an internal service fund.

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.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and employee voluntary deductions.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the District and 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 allocates 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 asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund 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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

Certain grants received 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.

Cash and Cash Equivalents

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 values of investments in the county pool are 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 expenditure when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated acquisition 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 is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; furniture, equipment, and vehicles, 5 to 15 years.

Interfund Balances

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental 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 governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations 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 are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums and discounts 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and MPP. For this purpose, the District Plan and MPP recognizes benefit payments when due and payable in accordance with the benefit terms.

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.

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

Unassigned - all other spendable amounts.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Spending Order Policy

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

Minimum Fund Balance Policy

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 five 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. 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 \$14,760,434, of restricted net position which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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JUNE 30, 2019

- 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.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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	\$ 86,802,746
Fiduciary funds	(282,083)
Total Deposits and Investments	<u>\$ 86,520,663</u>

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

Cash on hand and in banks	\$ 383,385
Cash in revolving	45,000
Cash with fiscal agent	567,901
Investments	85,524,377
Total Deposits and Investments	<u>\$ 86,520,663</u>

Deposits and investments include negative cash in county balances that are classified as overdrafts in the financial statements

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County pool and money market funds. The District maintains an investment of \$85,159,902, with the Los Angeles County Investment Pool. This investment has an average weighted maturity of 547 days. The District's investments in money market funds of \$364,475, generally have a maturity of less than 60 days.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 Los Angeles County Investment Pool and money market funds are not required to be rated, nor have they been rated as of June 30, 2019.

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 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. At June 30, 2019, the District's bank balance of \$130,482, was exposed to custodial credit risk because it was insured and uncollateralized.

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.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Uncategorized - Investments in the Los Angeles 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	Reported Amount	Fair Value Measurements Using	
		Level 2 Inputs	Uncategorized
U.S. Bank Money Market Funds	\$ 364,475	\$ 364,475	\$ -
Los Angeles County Treasury Investment Pool	85,159,902	-	85,159,902
Total	<u>\$ 85,524,377</u>	<u>\$ 364,475</u>	<u>\$ 85,159,902</u>

NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 3,175,316	\$ -	\$ 916,065	\$ -	\$ 4,091,381	\$ -
State Government						
Categorical aid	459,689	-	-	-	459,689	-
Lottery	399,909	-	612,214	-	1,012,123	-
Due from SELPA	929,102	-	-	-	929,102	-
Local Government						
Interest	5,888	202,634	4,799	11,269	224,590	-
Azusa USD	-	-	-	-	-	663,718
Other Local Sources	343,417	91,830	4,746	4,107,499	4,547,492	394
Total	<u>\$ 5,313,321</u>	<u>\$ 294,464</u>	<u>\$ 1,537,824</u>	<u>\$ 4,118,768</u>	<u>\$ 11,264,377</u>	<u>\$ 664,112</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,491,489	\$ -	\$ -	\$ 1,491,489
Construction in progress	23,755,707	10,207,476	24,728,925	9,234,258
Total Capital Assets Not Being Depreciated	25,247,196	10,207,476	24,728,925	10,725,747
Capital Assets Being Depreciated:				
Land improvements	8,892,714	14,780,727	-	23,673,441
Buildings and improvements	143,070,939	11,875,752	-	154,946,691
Furniture and equipment	8,571,307	203,381	-	8,774,688
Total Capital Assets Being Depreciated	160,534,960	26,859,860	-	187,394,820
Total Capital Assets	185,782,156	37,067,336	24,728,925	198,120,567
Less Accumulated Depreciation:				
Land improvements	3,846,458	736,677	-	4,583,135
Buildings and improvements	92,368,549	4,872,906	-	97,241,455
Furniture and equipment	7,217,518	336,596	-	7,554,114
Total Accumulated Depreciation	103,432,525	5,946,179	-	109,378,704
Governmental Activities Capital Assets, Net	\$ 82,349,631	\$ 31,121,157	\$ 24,728,925	\$ 88,741,863

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

Governmental Activities	
Instruction	\$ 4,638,111
School site administration	356,777
Home-to-school transportation	118,927
All other pupil services	118,927
All other administration	297,316
Data processing	59,343
Plant services	356,778
Total Depreciation Expenses Governmental Activities	<u>\$ 5,946,179</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

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

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 8,084	\$ 8,084
Non-Major Governmental Funds	548,829	-	548,829
Internal Service Funds	30,000	-	30,000
Total	<u>\$ 578,829</u>	<u>\$ 8,084</u>	<u>\$ 586,913</u>

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for program contribution. \$ 548,829

The General Fund transferred to the Self-Insurance Fund for program contribution. 30,000

The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for reimbursement of project costs. 8,084

Total \$ 586,913

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Salaries and benefits	\$ 7,885,336	\$ -	\$ 315,531	\$ -	\$ 8,200,867
LCFF apportionment	2,177,703	-	-	-	2,177,703
Materials and supplies	379,743	-	77,172	-	456,915
Other services	901,730	382,287	125,629	16,740	1,426,386
Construction	-	605,650	-	-	605,650
Due to other LEAs	908,202	-	-	-	908,202
Other payables	68,959	12,804	10,520	-	92,283
Total	<u>\$ 12,321,673</u>	<u>\$ 1,000,741</u>	<u>\$ 528,852</u>	<u>\$ 16,740</u>	<u>\$ 13,868,006</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 50,574	\$ 7,136	\$ 57,710

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	\$ 150,483,235	\$ 28,905,162	\$ 3,995,000	\$ 175,393,397	\$ 4,585,000
Premium on bond issuance	5,676,498	3,098,121	514,240	8,260,379	-
Certificates of participation	4,920,000	-	-	4,920,000	-
Discount on issuance	(87,040)	-	(4,045)	(82,995)	-
Compensated absences	575,754	130,468	-	706,222	-
Supplemental early retirement plan	1,502,198	-	500,733	1,001,465	500,733
Claims liability	169,997	12,400,353	1,112,320	11,458,030	702,800
Net other postemployment benefits (OPEB) liability	22,411,846	944,440	95,231	23,261,055	-
Total	\$ 185,652,488	\$ 45,478,544	\$ 6,213,479	\$ 224,917,553	\$ 5,788,533

Payments for General obligation bonds are made in the Bond Interest and Redemption Fund. Payments for certificates of participation are made by the Building Fund. The compensated absences will be paid for by the fund in which the employee worked. Claims liabilities are paid by the Internal Service Fund. The Supplemental early retirement plans and net other postemployment benefits (OPEB) liability are paid by the General Fund.

Bonded Debt

The District has pledged all revenues from the ad valorem taxes collected by Los Angeles County for the payment of all bonds of the District, heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in the Bond Interest and Redemption Fund to the payment of the principal or redemption price of and interest on the bonds.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Issued	Accreted	Redeemed	Bonds	
				Outstanding					Outstanding	
				July 1, 2018					June 30, 2019	
7/10/2002	7/1/2027	2.50 to 5.375%	\$ 29,998,763	\$ 5,537,976		\$ -	\$ 362,002	\$ -	\$ 5,899,978	
1/7/2010	8/1/2049	2.00 to 7.50%	57,455,978	58,870,259		-	3,543,160	265,000	62,148,419	
9/1/2011	7/1/2024	2.00 to 5.00%	20,285,000	15,720,000		-	-	1,705,000	14,015,000	
8/4/2015	8/1/2044	2.00 to 5.00%	28,000,000	24,135,000		-	-	-	24,135,000	
9/1/2016	8/1/2032	2.00 to 5.00%	21,525,000	21,220,000		-	-	145,000	21,075,000	
12/21/2017	8/1/2042	2.00 to 5.00%	25,000,000	25,000,000		-	-	1,880,000	23,120,000	
4/3/2019	8/1/2044	4.00 to 5.00%	25,000,000	-		25,000,000	-	-	25,000,000	
				<u>\$ 150,483,235</u>		<u>\$ 25,000,000</u>	<u>\$ 3,905,162</u>	<u>\$ 3,995,000</u>	<u>\$ 175,393,397</u>	

2002 General Obligation Bonds, Series 2002

On July 10, 2002, the District issued General Obligation Bonds, Election of 2002, Series 2002, in the amount of \$29,998,763. The bonds were authorized at an election of the registered voters of the District held on March 5, 2002, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$75 million of general obligation bonds. The issue consisted of Current Interest Serial Bonds of \$22,590,000 with stated interest rates ranging from 2.5 percent to 5.375 percent and fully maturing on July 1, 2022, Term Bonds of \$5,330,000 with a stated interest rate of 5.0 percent due July 1, 2027, and Capital Appreciation Serial Bonds of \$2,078,763 with a final maturity of July 1, 2027. The proceeds from the sale of the bonds were used to finance the renovation, construction, acquisition, and improvement of local school facilities within the District. At June 30, 2019, the principal balance outstanding was \$5,899,978.

2010 General Obligation Revenue Bonds

On January 7, 2010, the District issued \$57,455,978 of General Obligation Revenue Bonds through the California School Facilities Financing Authority (the "Authority"). The net proceeds of \$53,357,775 (after issuance costs of \$3,799,143 and original issue discount of \$299,060) were used to advance refund \$59.0 million of the District's outstanding 2004 certificates of participation, in addition to paying the costs of issuance of the bonds. The bonds have interest rates ranging from 2.0 percent to 7.50 percent, with a final maturity date of August 1, 2049. A portion of the bonds were refunded with the issuance of the General Obligation Refunding Bonds, Series 2016. At June 30, 2019, the principal balance still outstanding was \$62,148,419.

2011 General Obligation Refunding Bonds

On September 1, 2011, the District issued \$20,285,000 of General Obligation Refunding Bonds. The Bonds consist of serial bonds bearing fixed rates ranging from 2.0 percent to 5.0 percent with annual maturities from July 2012 through July 2024. The net proceeds of \$21,442,821 (after issuance costs of \$428,613 and original issue premium of \$1,586,434) were used to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series 2002. Deferred charges on refunding of \$367,168 remain to be amortized. As of June 30, 2019, the principal balance outstanding was \$14,015,000 and unamortized premium was \$610,168.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

General Obligation Bonds, Election of 2014, Series A

On August 4, 2015, the District issued General Obligation Bonds, Election of 2014, Series A, in the amount of \$28,000,000. The bonds were authorized at an election of the registered voters of the District held on November 4, 2014, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$92 million of general obligation bonds. The bonds were issued to finance certain authorized projects approved by the voters of the District. The bonds have a final maturity date of August 1, 2044, with interest rates ranging from 2.00 to 5.00 percent. The District received net proceeds of \$28,129,364 (representing the principal amount of \$28,000,000 plus a premium of \$129,364). At June 30, 2019, the principal balance outstanding was \$24,135,000, and unamortized premium was \$111,521.

General Obligation Refunding Bonds, Series 2016

On September 1, 2016, the District issued \$21,525,000 of General Obligation Refunding Bonds. The Bonds consist of current interest bonds bearing fixed rates ranging from 2.0 percent to 5.0 percent with a final maturity date of August 1, 2032. The net proceeds of \$23,780,757 (after issuance costs of \$332,701 and original issue premium of \$2,588,458) were used to refund a portion of the District's outstanding 2010 General Obligation Revenue Bonds. The refunding resulted in a cumulative cash flow savings of \$3,845,600 over the life of the new debt and an economic gain of \$3,004,761, based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.47 percent. Deferred charges on refunding of \$2,153,740 remain to be amortized. As of June 30, 2019, the principal balance outstanding was \$21,075,000 and unamortized premium was \$2,103,122.

General Obligation Bonds, Election of 2014, Series B

On December 21, 2017, the District issued General Obligation Bonds, Election of 2014, Series B, in the amount of \$25,000,000. The bonds were authorized at an election of the registered voters of the District held on November 4, 2014, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$92 million of general obligation bonds. The bonds were issued to finance certain authorized projects approved by the voters of the District. The bonds have a final maturity date of August 1, 2042, with interest rates ranging from 2.00 to 5.00 percent. The District received net proceeds of \$27,396,473 (representing the principal amount of \$25,000,000, plus a premium of \$2,670,473, and issuance costs of \$273,750). At June 30, 2019, the principal balance outstanding was \$23,120,000, and unamortized premium was \$2,456,605.

General Obligation Bonds, Election of 2014, Series C

On April 3, 2019, the District issued General Obligation Bonds, Election of 2014, Series C, in the amount of \$25,000,000. The bonds were authorized at an election of the registered voters of the District held on November 4, 2014, at which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$92 million of general obligation bonds. The bonds were issued to finance certain authorized projects approved by the voters of the District. The bonds have a final maturity date of August 1, 2044, with interest rates ranging from 4.00 to 5.00 percent. The District received net proceeds of \$27,396,473 (representing the principal amount of \$25,000,000, plus a premium of \$3,098,121, and issuance costs of \$273,750). At June 30, 2019, the principal balance outstanding was \$25,000,000, and unamortized premium was \$2,978,963.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Debt Service Requirements to Maturity

The bonds mature through 2050 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Compound Interest Paid at Maturity	Total
2020	\$ 4,574,160	\$ 10,840	\$ 4,917,656	\$ 9,502,656
2021	5,512,129	42,871	4,936,180	10,491,180
2022	5,124,970	85,030	4,742,705	9,952,705
2023	3,820,015	134,985	4,589,405	8,544,405
2024	4,005,738	194,262	4,475,589	8,675,589
2025-2029	22,349,292	4,530,708	20,906,278	47,786,278
2030-2034	38,013,890	5,970,910	14,344,794	58,329,594
2035-2039	33,346,898	40,716,952	9,197,625	83,261,475
2040-2044	36,961,923	58,612,457	4,029,258	99,603,638
2045-2049	19,641,092	76,518,738	333,203	96,493,033
2050	2,043,290	17,261,710	-	19,305,000
Total	<u>\$ 175,393,397</u>	<u>\$ 204,079,463</u>	<u>\$ 72,472,692</u>	<u>\$ 451,945,552</u>

Certificates of Participation

On May 28, 2015, the District issued \$4,920,000 of certificates of participation. The certificates consist of serial certificates for \$2,020,000 with interest rates ranging between 2.0 to 3.75 percent, with maturity dates through August 1, 2030. Additionally, the certificates consist of term certificates of \$750,000 and \$2,150,000 with interest rates of 4.0 percent and 4.25 percent, respectively. The term certificates mature on August 1, 2033 and August 1, 2040, respectively. The net proceeds were used to refund the District's outstanding 2012 certificates of participation. At June 30, 2019, the principal balance outstanding was \$4,920,000 and unamortized discount was \$82,995.

The certificates mature through 2041 as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ -	\$ 182,375	\$ 182,375
2021	-	182,375	182,375
2022	180,000	180,575	360,575
2023	185,000	176,694	361,694
2024	185,000	172,300	357,300
2025-2029	1,015,000	775,934	1,790,934
2030-2034	1,205,000	579,691	1,784,691
2035-2039	1,470,000	306,000	1,776,000
2040-2041	680,000	29,113	709,113
Total	<u>\$ 4,920,000</u>	<u>\$ 2,585,057</u>	<u>\$ 7,505,057</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$706,222.

Supplemental Early Retirement Plan

During 2015-2016, the District offered a voluntary retirement program to qualified certificated and classified employees. Eligibility requirements are that employees must be at least age 55 with 10 or more years of continuous service in the District as of June 30, 2016. VRP benefits are based on 90 percent of the STRS/PERS creditable compensation for the fiscal year. All contributions to the VRP plan will be made by the District, no employee contributions are required to participate. The District will fund the benefits over a five-year period. Currently, there are 31 employees participating in this plan and the District's obligation to those retirees as of June 30, 2019, is \$1,001,465.

Future payments are as follows:

Year Ending June 30,	Payment
2020	\$ 500,733
2021	500,732
Total	<u>\$ 1,001,465</u>

Claims Liability

Liabilities associated with dental claims and workers' compensation claims are reported when it is probably that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred by not reported (IBNR). Claims liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for claims is reported in the Internal Service Fund. The outstanding claims liability as of June 30, 2019 amounted to \$11,458,030 using a discount factor of 1.0 percent. See Note 11 for additional details.

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, 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	\$ 22,634,163	\$ 418,154	\$ 1,593,812
Medicare Premium Payment (MPP) Program	626,892	-	(95,231)
Total	<u>\$ 23,261,055</u>	<u>\$ 418,154</u>	<u>\$ 1,498,581</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The details of each plan are as follows:

District Plan

Plan Administration

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

Plan Membership

At July 1, 2017, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	553
Active employees	67
	620

Benefits Provided

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Azusa Educators Association (AEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements, as determined annually through the agreements with the District, AEA, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District paid \$869,112 in benefits (including implicit rate subsidies).

Total OPEB Liability of the District

The District's total OPEB liability of \$22,634,163 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions

The total OPEB liability for the June 30, 2019 measurement period was determined by applying updated procedures to the financial reporting actuarial valuation as of July 1, 2017 and rolling forward the total OPEB liability to June 30, 2019. The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.79 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	2.79 percent
Health care cost trend rates	7.00 percent for 2019

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The discount rate was based on the 20-bond municipal bond yield.

Mortality rates for CalSTRS (certificated employees) were based on the 2015 experience study. Mortality rates for CalPERS (classified employees) were based on the 2017 experience study. 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 July 1, 2017 valuation were based on the results of an actual experience study as of that date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 21,689,723
Service cost	863,624
Interest	659,235
Contributions-employer	(869,112)
Changes of assumptions or other inputs	290,693
Net change in total OPEB liability	944,440
Balance at June 30, 2019	<u>\$ 22,634,163</u>

Changes of assumptions and other inputs are as follows:

- A change in the discount rate as of the end of the fiscal year changed from 2.98 percent to 2.79 percent based on the change in 20-year municipal bond yields.

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

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

Discount Rate	Total OPEB Liability
1% decrease (1.79%)	\$ 24,196,153
Current discount rate (2.79%)	22,634,163
1% increase (3.79%)	21,130,240

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (6.00%)	\$ 20,420,016
Current healthcare cost trend rate (7.00%)	22,634,163
1% increase (8.00%)	25,186,601

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,593,812. At June 30, 2019, the District reported deferred outflows of resources for changes of OPEB assumptions of \$418,154.

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	\$ 70,953
2021	70,953
2022	70,953
2023	70,953
2024	70,953
Thereafter	63,389
	<u>\$ 418,154</u>

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program 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>.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

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

Net OPEB Liability and OPEB Expense

At June 30, 2019, the District reported a liability of \$626,892, for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability 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 June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.1638 percent, and 0.1716 percent, resulting in a net decrease in the proportionate share of 0.0078 percent.

For the year ended June 30, 2019, the District recognized OPEB expense of \$(95,231).

Actuarial Methods and Assumptions

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

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

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

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018, is 3.87 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability 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 OPEB Liability
1% decrease (2.87%)	\$ 693,375
Current discount rate (3.87%)	626,892
1% increase (4.87%)	566,864

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 571,663
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	626,892
1% increase (4.7% Part A and 5.1% Part B)	686,291

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 20,000	\$ 45,000
Stores inventories	-	-	-	70,138	70,138
Prepaid expenditures	514,161	3,879	-	15,106	533,146
Total Nonspendable	539,161	3,879	-	105,244	648,284
Restricted					
Legally restricted programs	4,199,581	-	-	980,366	5,179,947
Capital projects	-	40,478,424	-	896,905	41,375,329
Debt service	-	-	10,751,217	11,809	10,763,026
Total Restricted	4,199,581	40,478,424	10,751,217	1,889,080	57,318,302
Assigned					
Deferred maintenance	2,212,699	-	-	-	2,212,699
AEA reserve	500,000	-	-	-	500,000
Summer projects	300,000	-	-	-	300,000
Adult education program	-	-	-	175,371	175,371
Child development program	-	-	-	9,509	9,509
Capital projects	-	-	-	175	175
Total Assigned	3,012,699	-	-	185,055	3,197,754
Unassigned					
Reserve for economic uncertainties	13,719,176	-	-	-	13,719,176
Total	\$ 21,470,617	\$ 40,482,303	\$ 10,751,217	\$ 2,179,379	\$ 74,883,516

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2019, the District has established an Internal Service Fund to account for and finance its uninsured risks of loss for property and liability coverage. During the fiscal year ending June 30, 2019, the District participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) joint powers agency (JPA) for property and liability insurance coverage. Settled claims have not exceeded the insured coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2019, the District participated in ASCIP for workers' compensation coverage. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Participation in ASCIP is limited to districts that can meet the ASCIP's selection criteria.

The District previously participated in the San Gabriel Valley Schools Districts' Self-Insurance Authority (SGVSDSIA) JPA for workers' compensation coverage. This JPA is in the process of dissolving. During the year the District received a refund of \$4,107,499, from the SGVSDSIA, representing a 50% share of its equity in the JPA and anticipates receiving additional payouts of its remaining equity position. The remaining share has been recorded as accounts receivable. Workers' compensation claims previously insured through SGVSDSIA are now the responsibility of the District. As such, claims liabilities associated with these tail claims have been recorded in the financial statements.

Employee Medical Benefits

Employee health benefits are covered by commercial insurance policies purchased by the District. The District has contracted with the Aetna Health Care, Kaiser Permanente, SafeGuard and Delta Dental, and SafeGuard and VSP to provide employee health benefits. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

Claims Liabilities

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Unpaid Claims Liabilities

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

	Dental Care	Workers' Compensation	Total
Liability Balance, July 1, 2017	\$ 154,000	\$ -	\$ 154,000
Claims and changes in estimates	1,035,976	-	1,035,976
Claims payments	(1,019,979)	-	(1,019,979)
Liability Balance, June 30, 2018	169,997	-	169,997
Claims and changes in estimates	969,604	11,430,749	12,400,353
Claims payments	(976,801)	(135,519)	(1,112,320)
Liability Balance, June 30, 2019	<u>\$ 162,800</u>	<u>\$ 11,295,230</u>	<u>11,458,030</u>
Assets available to pay claims at June 30, 2019	<u>\$ 846,567</u>	<u>\$ 8,936,232</u>	<u>\$ 9,782,799</u>

NOTE 12 - 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	\$ 83,862,092	\$ 22,197,783	\$ 8,056,623	\$ 9,629,613
CalPERS	30,529,054	8,644,185	215,428	5,802,892
Total	<u>\$ 114,391,146</u>	<u>\$ 30,841,968</u>	<u>\$ 8,272,051</u>	<u>\$ 15,432,505</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
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 \$8,224,381.

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	\$ 83,862,092
State's proportionate share of the net pension liability associated with the District	48,014,970
Total	<u>\$ 131,877,062</u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0912 percent and 0.0948 percent, resulting in a net decrease in the proportionate share of 0.0036 percent.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$9,629,613. In addition, the District recognized pension expense and revenue of \$4,003,375, 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	\$ 8,224,381	\$ -
Net change in proportionate share of net pension liability	685,147	3,609,260
Differences between projected and actual earnings on pension plan investments	-	3,229,220
Differences between expected and actual experience in the measurement of the total pension liability	260,053	1,218,143
Changes of assumptions	13,028,202	-
Total	<u>\$ 22,197,783</u>	<u>\$ 8,056,623</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 701,154
2021	(508,777)
2022	(2,709,190)
2023	(712,407)
Total	<u>\$ (3,229,220)</u>

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,884,932
2021	1,884,932
2022	1,884,931
2023	1,828,093
2024	2,077,870
Thereafter	(414,759)
Total	<u>\$ 9,145,999</u>

Actuarial Methods and Assumptions

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 122,848,151
Current discount rate (7.10%)	83,862,092
1% increase (8.10%)	51,538,866

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

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

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
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%

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$3,332,732.

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 \$30,529,054. 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 0.1145 percent and 0.1151 percent, resulting in a net decrease in the proportionate share of 0.0006 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$5,802,892. 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	\$ 3,332,732	\$ -
Net change in proportionate share of net pension liability	11,482	215,428
Differences between projected and actual earnings on pension plan investments	250,407	-
Differences between expected and actual experience in the measurement of the total pension liability	2,001,373	-
Changes of assumptions	3,048,191	-
Total	<u>\$ 8,644,185</u>	<u>\$ 215,428</u>

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 910,784
2021	217,805
2022	(697,988)
2023	(180,194)
Total	<u>\$ 250,407</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,167,242
2021	2,050,041
2022	628,335
Total	<u>\$ 4,845,618</u>

Actuarial Methods and Assumptions

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

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

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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%)	\$ 4,448,842
Current discount rate (7.15%)	30,529,054
1% increase (8.15%)	18,980,596

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,431,496 (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 not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

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

NOTE 13 - 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.

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Construction Commitments

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

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Adult Education Parking lot	\$ 1,100,000	6/30/2020
Azusa HS and Center MS Fencing, Landscaping & Drainage	56,157	11/30/2019
Azusa HS and Gladstone HS Marquee Sign	648,509	11/1/2019
Azusa HS and Gladstone HS Track & Field	7,200,000	6/30/2020
Center MS Modernization	9,150,000	12/31/2022
Consulting Services for Planning & Construction	358,000	8/31/2020
Dalton ES Modernization	5,200,000	12/31/2022
Data Wiring at Ellington, Center MS, Foothill MS, and Slauson MS	139,689	6/30/2020
DSA Closeouts	38,470	6/30/2020
Fencing Improvements at 3 Sites- Slauson MS, Dalton ES, and Magnolia ES	1,578,158	6/30/2020
Fire Alarm Project at CMS, Dalton, and Paramount	2,857,000	6/30/2020
Lee ES Modernization	5,200,000	12/31/2022
Lee ES Roof HVAC and Fire Alarm Project	7,114	11/1/2019
Lee ES UG and Electrical Infrastructure	74,250	11/30/2019
Paramount ES Classroom Modernization	5,200,000	12/31/2022
Paramount UG and Electrical Infrastructure	2,619,135	11/30/2019
Slauson MS Modernization	9,500,000	12/31/2022
	<u>\$ 50,926,482</u>	

AZUSA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District participates in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) joint powers authority (JPAs) for property and liability and workers' compensation coverage. The District also participates in the Schools Excess Liability Fund JPA (SELF) for excess liability coverage above the ASCIP limit of \$5 million.

The California School Facilities Financing Authority (CSFFA) joint powers authority was formed for the public purpose of assisting in financing public capital improvements for the District.

The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes. All debt issued by CSFFA on behalf of the District is included in the District's financial statements.

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

During the year ended June 30, 2019, the District made payments of \$2,632,643, and \$51,944, to ASCIP and SELF, respectively.

NOTE 15 – SUBSEQUENT EVENTS

On September 26, 2019, the District issued \$22,635,000 of General Obligation Refunding Bonds, Series 2019. The Bonds consist of federally taxable serial bonds bearing interest rates ranging from 1.7 percent to 2.58 percent with a final maturity date of August 1, 2034. The bonds are being issued to refund, on an advance basis, a portion of the District's outstanding 2017 General Obligation Bonds, Election of 2014, Series B.



REQUIRED SUPPLEMENTARY INFORMATION

AZUSA UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 88,313,162	\$ 89,046,518	\$ 88,916,908	\$ (129,610)
Federal sources	6,409,528	7,033,941	7,621,178	587,237
Other State sources	6,922,740	7,533,494	16,557,301	9,023,807
Other local sources	7,192,634	7,647,867	8,782,440	1,134,573
Total Revenues ¹	108,838,064	111,261,820	121,877,827	10,616,007
EXPENDITURES				
Current				
Certificated salaries	49,708,054	49,388,324	49,532,066	(143,742)
Classified salaries	17,707,996	18,034,498	18,020,849	13,649
Employee benefits	20,742,552	20,744,795	28,820,177	(8,075,382)
Books and supplies	7,994,833	7,355,353	6,662,672	692,681
Services and operating expenditures	10,544,498	14,025,062	15,229,422	(1,204,360)
Other outgo	4,203,875	3,450,596	3,225,522	225,074
Capital outlay	-	65,000	2,042,164	(1,977,164)
Total Expenditures ¹	110,901,808	113,063,628	123,532,872	(10,469,244)
Excess of Revenues				
Over Expenditures	(2,063,744)	(1,801,808)	(1,655,045)	146,763
Other Financing Sources (Uses)				
Transfers in	3,000	3,000	8,084	5,084
Transfers out	(1,030,000)	(1,120,000)	(578,829)	541,171
Net Financing Sources (Uses)	(1,027,000)	(1,117,000)	(570,745)	546,255
NET CHANGE IN FUND BALANCES	(3,090,744)	(2,918,808)	(2,225,790)	693,018
Fund Balance - Beginning	23,696,407	23,696,407	23,696,407	-
Fund Balance - Ending	\$ 20,605,663	\$ 20,777,599	\$ 21,470,617	\$ 693,018

¹ On behalf payments of \$8,690,045 (including those related to Senate Bill 90), are included in the actual revenues and expenditures, but have not been included in the original and final budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these funds are included in the actual revenues and expenditures, however are not included in the original and final budgeted amounts.

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	2019	2018
Total OPEB Liability		
Service cost	\$ 863,624	\$ 871,811
Interest	659,235	664,637
Changes of assumptions	290,693	229,272
Benefit payments	(869,112)	(870,505)
Net change in total OPEB liability	944,440	895,215
Total OPEB liability - beginning	21,689,723	20,794,508
Total OPEB liability - ending	<u>\$ 22,634,163</u>	<u>\$ 21,689,723</u>
 Covered payroll	 N/A ¹	 N/A ¹
 District's total OPEB liability as a percentage of covered payroll	 N/A ¹	 N/A ¹

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

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

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

Year ended June 30,	2019	2018
District's proportion of the net OPEB liability	0.1638%	0.1716%
District's proportionate share of the net OPEB liability	\$ 626,892	\$ 722,123
District's covered-employee payroll	N/A ¹	N/A ¹
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	-0.40%	0.01%

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S 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	0.0912%	0.0948%
District's proportionate share of the net pension liability	\$ 83,862,092	\$ 87,679,321
State's proportionate share of the net pension liability associated with the District	48,014,970	51,870,346
Total	<u>\$ 131,877,062</u>	<u>\$ 139,549,667</u>
District's covered - employee payroll	<u>\$ 49,886,757</u>	<u>\$ 48,783,800</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	168%	180%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%
CalPERS		
District's proportion of the net pension liability	0.1145%	0.1151%
District's proportionate share of the net pension liability	\$ 30,529,054	\$ 27,489,271
District's covered - employee payroll	\$ 15,142,991	\$ 14,354,356
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	202%	192%
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.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0963%</u>	<u>0.0972%</u>	<u>0.0950%</u>
\$ 77,905,059	\$ 65,435,675	\$ 55,515,150
<u>44,349,960</u>	<u>34,608,259</u>	<u>33,522,444</u>
<u>\$ 122,255,019</u>	<u>\$ 100,043,934</u>	<u>\$ 89,037,594</u>
<u>\$ 47,216,533</u>	<u>\$ 40,030,755</u>	<u>\$ 43,087,648</u>
<u>165%</u>	<u>163%</u>	<u>129%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.1167%</u>	<u>0.1163%</u>	<u>0.1152%</u>
<u>\$ 23,039,876</u>	<u>\$ 17,147,484</u>	<u>\$ 13,078,005</u>
<u>\$ 13,856,698</u>	<u>\$ 11,917,553</u>	<u>\$ 12,259,185</u>
<u>166%</u>	<u>144%</u>	<u>107%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

AZUSA UNIFIED SCHOOL DISTRICT

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

	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 8,224,381	\$ 7,198,659
Contributions in relation to the contractually required contribution	(8,224,381)	(7,198,659)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 50,518,311</u>	<u>\$ 49,886,757</u>
Contributions as a percentage of covered - employee payroll	<u>16.28%</u>	<u>14.43%</u>
CalPERS		
Contractually required contribution	\$ 3,332,732	\$ 2,351,858
Contributions in relation to the contractually required contribution	(3,332,732)	(2,351,858)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 18,451,622</u>	<u>\$ 15,142,991</u>
Contributions as a percentage of covered - employee payroll	<u>18.06%</u>	<u>15.53%</u>

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

See accompanying note to required supplementary information.

2017	2016	2015
\$ 6,137,002	\$ 5,066,334	\$ 3,554,731
(6,137,002)	(5,066,334)	(3,554,731)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 48,783,800	\$ 47,216,533	\$ 40,030,755
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
\$ 1,993,820	\$ 1,641,603	\$ 1,402,696
(1,993,820)	(1,641,603)	(1,402,696)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 14,354,356	\$ 13,856,698	\$ 11,917,553
<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

At June 30, 2019, the District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual*	Excess
General Fund	\$ 114,183,628	\$ 124,111,701	\$ (9,928,073)

* Includes on behalf payments of \$8,690,046.

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

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

Change in Benefit Terms – There were no changes in the benefits terms since the previous valuation.

Change of Assumptions – A change in the discount rate as of the end of the fiscal year changed from 2.98 percent to 2.79 percent based on the change in 20-year municipal bond yields.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

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

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

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

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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

AZUSA 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):			
Adult Education-Basic Grants to States Cluster			
Adult Basic Education: Adult Basic Education & ESL	84.002A	14508	\$ 67,336
Adult Education: Adult Secondary Education	84.002	13978	32,450
Adult Education: English Literacy & Civics Education	84.002A	14109	35,112
Subtotal Adult Education - Basic Grants to States Cluster			<u>134,898</u>
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	3,205,553
Title II, Part A - Supporting Effective Instruction	84.367	14341	379,144
Title III - English Learner Student Program	84.365	14346	315,229
Title IV, Part A - Student Support and Academic Enrichment	84.424	15396	94,280
Title IV, Part B - 21st Century Community Learning Center	84.287	14349	214,000
Special Education Cluster			
Local Assistance Entitlement	84.027	13379	1,943,490
Preschool Grants, Part B, Sec 619	84.173	13430	55,287
Preschool Staff Development, Part B Sec 619	84.173A	13431	986
Mental Health Allocation, Part B, Sec 611	84.027A	15197	351,895
Subtotal Special Education Cluster			<u>2,351,658</u>
Early Intervention Grants, Part C	84.181	23761	113,731
Career and Technical Education - Basic Grants to States			
Vocational and Applied Technology Secondary II C, Sec 131	84.048	14894	97,576
Total U.S. Department of Education			<u>6,906,069</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Program Cluster:			
Especially Needy Breakfast	10.553	13526	955,479
National School Lunch	10.555	13396	3,081,041
Commodities	10.555	13396	425,218
Meals Supplements	10.556	13392	5,913
Summer Food Service Program Operation	10.559	13004	146,619
Summer Food Service Sponsor Admin	10.559	13006	14,939
Subtotal Child Nutrition Program Cluster			<u>4,629,209</u>
Child and Adult Care Food Program	10.558	13393	741,431
Equipment Assistance Grant	10.579	14906	58,481
Forest Service Schools and Roads Cluster			
Forest Reserve	10.665	10044	7,467
Total U.S. Department of Agriculture			<u>5,436,588</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	140,591
Total U.S. Department of Health and Human Services			<u>140,591</u>
Total Expenditures of Federal Awards			<u>\$ 12,483,248</u>

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The Azusa Unified School District was established in 1961 and consists of an area comprising approximately 150 square miles. The District operates eleven elementary schools, three middle schools, two high schools, and two alternative education schools. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Xilonin Cruz-Gonzalez	President	2022
Yolanda Rodriguez-Peña	Vice President	2020
Gabriela Arellanes	Clerk	2022
Jeri Bibles-Vogel	Member	2020
Adrian Greer	Member	2022

ADMINISTRATION

Dr. Linda Kaminski	Superintendent
Ramiro Rubalcaba	Assistant Superintendent, Human Resources
Marc Bommarito	Assistant Superintendent, Business Services
Arturo Ortega	Assistant Superintendent, Educational Services and Student Achievement

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period	Annual
	Report No. 01D040DE	Report No. 78E502AC
Regular ADA		
Transitional kindergarten through third	2,399.45	2,414.29
Fourth through sixth	1,770.08	1,766.14
Seventh and eighth	1,179.22	1,179.32
Ninth through twelfth	2,373.20	2,359.43
Total Regular ADA	7,721.95	7,719.18
Extended Year Special Education		
Transitional kindergarten through third	4.01	4.01
Fourth through sixth	2.12	2.12
Seventh and eighth	4.68	4.68
Ninth through twelfth	9.50	9.50
Total Extended Year Special Education	20.31	20.31
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.99	2.36
Fourth through sixth	2.40	2.58
Seventh and eighth	3.28	2.94
Ninth through twelfth	20.04	20.34
Total Special Education, Nonpublic, Nonsectarian Schools	27.71	28.22
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.11	0.27
Fourth through sixth	0.05	0.10
Seventh and eighth	0.15	0.19
Ninth through twelfth	0.98	1.86
Total Special Education, Nonpublic, Nonsectarian Schools	1.29	2.42
Total ADA	7,771.26	7,770.13

See accompanying note to supplementary information.

AZUSA 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		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	42,160	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,831	180	N/A	Complied
Grade 2		50,831	180	N/A	Complied
Grade 3		50,831	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,341	180	N/A	Complied
Grade 5		54,341	180	N/A	Complied
Grade 6		54,341	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,341	180	N/A	Complied
Grade 8		54,341	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,160	180	N/A	Complied
Grade 10		65,160	180	N/A	Complied
Grade 11		65,160	180	N/A	Complied
Grade 12		65,160	180	N/A	Complied

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Internal Service Fund
NET POSITION	
Balance, June 30, 2019, Unaudited Actuals	\$ 5,590,876
Increase in:	
Accounts receivable	4,107,499
Claims liability	<u>(11,295,230)</u>
Balance, June 30, 2019, Audited Financial Statements	<u><u>\$ (1,596,855)</u></u>

See accompanying note to supplementary information.

AZUSA 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	\$ 110,051,836	\$ 121,750,978	\$ 117,688,504	\$ 115,022,287
Other sources	3,000	8,084	8,154	11,008
Total Revenues and Other Sources	110,054,836	121,759,062	117,696,658	115,033,295
Expenditures	112,364,950	121,985,756	116,570,510	113,063,400
Other uses and transfers out	1,480,000	1,578,829	499,706	1,023,118
Total Expenditures and Other Uses	113,844,950	123,564,585	117,070,216	114,086,518
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,790,114)	\$ (1,805,523)	\$ 626,442	\$ 946,777
ENDING FUND BALANCE	\$ 11,870,215	\$ 15,660,329	\$ 17,465,852	\$ 16,839,410
AVAILABLE RESERVES ²	\$ 5,783,538	\$ 13,719,176	\$ 16,661,313	\$ 15,439,154
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	5.08%	11.10%	14.23%	13.53%
LONG-TERM OBLIGATIONS	N/A	\$ 224,917,553	\$ 185,652,488	\$ 158,472,030
K-12 AVERAGE DAILY ATTENDANCE AT P-2	7,424	7,771	8,002	8,383

The General Fund balance has decreased by \$1,179,081 over the past two years. The fiscal year 2019-2020 budget projects an additional decrease of \$3,790,114 (24.9 percent). For a district this size, the State recommends available reserves of at least 3 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 but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have increased by \$55,445,523 over the past two years.

Average daily attendance has decreased by 612 over the past two years. An additional decline of 347 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 and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

AZUSA UNIFIED SCHOOL DISTRICT

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

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 964,703	\$ -	\$ -
Receivables	220,558	430,740	882,303
Prepaid expenses	15,106	-	-
Stores inventories	-	-	70,138
Total Assets	\$ 1,200,367	\$ 430,740	\$ 952,441
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ 355,123	\$ 447,046
Accounts payable	90,946	65,908	346,899
Unearned revenue	-	-	7,136
Total Liabilities	90,946	421,031	801,081
Fund Balances:			
Nonspendable	15,106	-	90,138
Restricted	918,944	200	61,222
Assigned	175,371	9,509	-
Total Fund Balances	1,109,421	9,709	151,360
Total Liabilities and Fund Balances	\$ 1,200,367	\$ 430,740	\$ 952,441

See accompanying note to supplementary information.

Capital Facilities Fund	State School Building Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 917,836	\$ 175	\$ 11,754	\$ 1,894,468
4,168	-	55	1,537,824
-	-	-	15,106
-	-	-	70,138
<u>\$ 922,004</u>	<u>\$ 175</u>	<u>\$ 11,809</u>	<u>\$ 3,517,536</u>

\$ -	\$ -	\$ -	\$ 802,169
25,099	-	-	528,852
-	-	-	7,136
<u>25,099</u>	<u>-</u>	<u>-</u>	<u>1,338,157</u>

-	-	-	105,244
896,905	-	11,809	1,889,080
-	175	-	185,055
<u>896,905</u>	<u>175</u>	<u>11,809</u>	<u>2,179,379</u>
<u>\$ 922,004</u>	<u>\$ 175</u>	<u>\$ 11,809</u>	<u>\$ 3,517,536</u>

AZUSA 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	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ 134,898	\$ -	\$ 5,456,643
Other State sources	1,903,179	1,058,458	357,615
Other local sources	57,606	8,358	332,592
Total Revenues	2,095,683	1,066,816	6,146,850
EXPENDITURES			
Current			
Instruction	876,672	738,156	-
Instruction-related activities:			
Supervision of instruction	27,639	174,201	-
School site administration	677,827	80,627	-
Pupil services			
Food services	-	-	6,557,719
All other pupil services	142,389	-	-
Administration			
All other administration	78,421	41,370	286,765
Plant services	88,745	29,904	4,925
Facility acquisition and construction	-	-	-
Total Expenditures	1,891,693	1,064,258	6,849,409
Excess (Deficiency) of Revenues Over Expenditures	203,990	2,558	(702,559)
Other Financing Sources (Uses)			
Transfers in	-	-	548,829
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	548,829
NET CHANGE IN FUND BALANCES	203,990	2,558	(153,730)
Fund Balance - Beginning	905,431	7,151	305,090
Fund Balance - Ending	\$ 1,109,421	\$ 9,709	\$ 151,360

See accompanying note to supplementary information.

Capital Facilities Fund	State School Building Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 5,591,541
-	-	-	3,319,252
286,636	3	243	685,438
286,636	3	243	9,596,231
-	-	-	1,614,828
-	-	-	201,840
-	-	-	758,454
-	-	-	6,557,719
-	-	-	142,389
-	-	-	406,556
-	-	-	123,574
213,505	-	-	213,505
213,505	-	-	10,018,865
73,131	3	243	(422,634)
-	-	-	548,829
(8,084)	-	-	(8,084)
(8,084)	-	-	540,745
65,047	3	243	118,111
831,858	172	11,566	2,061,268
\$ 896,905	\$ 175	\$ 11,809	\$ 2,179,379

AZUSA UNIFIED SCHOOL DISTRICT

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. No federal financial assistance has been provided to subrecipients.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option Program funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the General Fund.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 13,212,719
Child and Adult Care Food Program	10.558	(27,522)
Medi-Cal Billing Option	93.778	(701,949)
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,483,248</u>

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.

AZUSA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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
Azusa Unified School District
Azusa, 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 Azusa 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 Azusa Unified School District's basic financial statements, and have issued our report thereon dated December 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Azusa 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 Azusa Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Azusa 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Azusa 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 Azusa Unified School District in a separate letter dated December 16, 2019

Azusa Unified School District's Response to Findings

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

Purpose of this Report

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

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

Rancho Cucamonga, California
December 16, 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
Azusa Unified School District
Azusa, California

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

In our opinion, Azusa 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 Azusa 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 Azusa 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 Azusa 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.



Rancho Cucamonga, California
December 16, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Azusa Unified School District
Azusa, California

Report on State Compliance

We have audited Azusa 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 Azusa 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 Azusa 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 Azusa 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 Azusa Unified School District's compliance with those requirements.

Basis for Qualified Opinion on School Accountability Report Cards

As described in the accompanying schedule of findings and questioned costs, Azusa Unified School District did not comply with requirements regarding School Accountability Report Cards, 2019-003. Compliance with such requirements is necessary, in our opinion, for Azusa Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on School Accountability Report Cards

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Azusa Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Programs

In our opinion, Azusa 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, except as described in the Schedule of State Awards Findings and Questioned Costs Section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Azusa 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	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	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	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
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 offer an Independent Study Program; however, the ADA is below the threshold required for testing, therefore; we did not perform procedures related to the Independent Study Program.

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

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive 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 have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

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

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

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

The District does not offer an Independent Study – Course Based Program; therefore, we did not perform any procedures for the Independent Study – Course Based Program

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

Esde Bailly LLP

Rancho Cucamonga, California
December 16, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AZUSA UNIFIED SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program</u>
<u>84.010</u>	<u>Title I, Part A - Basic Grants Low Income and Neglected</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which were qualified:	
	<u>Name of Program</u>
	<u>School Accountability Report Cards</u>

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

The following findings represent material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control
60000	Miscellaneous

2019-001 60000

Criteria or Specific Requirements

According to Title 5 California Code of Regulations Section 15450(a), available reserves for any budget year or two subsequent years are not less than three percent for Districts with 1,001 to 30,000 Average Daily Attendance (ADA). The available reserves are unrestricted amounts in the Reserve for Economic Uncertainties and the Unassigned/Unappropriated accounts in the General Fund and the Special Reserve Fund for Other than Capital Outlay Projects.

Condition

During the current fiscal year, the District has deficit spent by over \$1.8 million. The 2019-2020 budget projects further deficit spending by \$3.8 million at adopted budget. The updated budget for 2019-2020 at first interim reflects an increase in deficit spending from the adopted budget from \$3.8 million to \$4.6 million. The ongoing trend of deficit spending into 2020-2021 and 2021-2022 will ultimately result in the District falling significantly below the three percent reserve requirement, and ultimately become a going concern district, if significant budget cuts are not identified and implemented by 2020-2021. The budget concerns for the District are compounded by the declining enrollment trend, which includes a loss of over 600 in the past two years, with a projected loss of enrollment of over 1,400 over the next three years.

Questioned costs

There are no questioned costs associated with this finding.

Context

The condition was identified during the final year-end audit procedures of the unaudited actuals along with the subsequent review of the 2019-2020 budget information and multi-year projections at first interim.

Effect

The deficit spending trend places the District in a financial condition that currently impacts the District's fiscal stability into 2020-2021 and beyond. The District is in a place where strict budgetary controls and decision making by the Board are necessary to ensure improvement of its financial health. Without budget cuts, the District is at risk of become a going concern in 2020-2021.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Cause

The significant factors contributing to the District's condition include the following:

1. Significant deficit spending that took place in the current year, with ongoing deficit spending planned for the next two years without resolution.
2. Declining enrollment/ADA which impairs the revenue growth needed to sustain increased level of spending.
3. Rising costs that cannot be controlled such as STRS and PERS pension costs.

Recommendation

District management and the Board need to develop a fiscal/budget stabilization plan that identifies a viable corrective action plan to ensure that fiscal solvency can be sustained. The stabilization plan must incorporate adequate expenditure mitigation objectives to ensure the minimum reserve requirement stipulated by the State is maintained for the years currently projected as falling below this minimum.

Corrective Action Plan

The District has closed two of the elementary schools beginning this year. The Parent Advisory Committee Plus (PAC+) was formed to recommend savings to the board. The committee consist of union leadership, parents from each school and staff representatives to review budget cuts of \$6.5 million in 2020-2021 fiscal year. The PAC+ committee has already recommended school reorganization, program and personnel cuts. It was presented to Board on December 10, 2019 Board meeting. The Board is in the process of reviewing the recommendations. The district will need to reduce expenditures by an additional \$5.8 million in 2021-2022 and \$5.2 million in 2022-2023. The reductions are required to meet the minimum reserve of three percent stipulated by the State.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

2019-002 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should include a review of account balances to ensure that they have been reported completely and accurately.

Condition

In prior years, the District insured its workers' compensation liability claims through participation in the San Gabriel Valley School Districts' Self-Insurance Authority (the Authority). During the current year, the Authority closed, and all associated claims became the liability of the District. In closing, the Authority calculated members' equity balances for distribution back to each member. An initial distribution approximating 50 percent of the total distribution was paid to members during 2018-2019. The remaining 50 percent distribution is estimated to be paid during the 2019-2020 fiscal year. With the transfer of the assets and liabilities from the Authority to the District, the District should account for these balances and the ongoing activity for the tail expenditures of these workers' compensation claims in their financial statements. The District operates an Internal Service Fund for purposes of accounting for self-insured activities, however, the District did not account for the activity related to this event. As a result, audit adjustments were required to reflect the effect of this change. The implications are as follows:

1. The Internal Service Fund adjustments included an increase in accounts receivable of \$4,107,499 for the remaining equity distribution that will be paid next year and an increase claims liability for a total of \$(11,295,230) for the tail claims from the Authority that will still continue until resolved. The net effect of the adjustments was a reduction of net position of the Internal Service Fund of \$(7,187,731).
2. Prior to this event, the Internal Service Fund reported ending net position of \$5,590,875. The impact of the adjustment of \$(7,187,731) resulted in the Internal Service Fund reflecting a negative net position of \$(1,596,855), which indicates that the Internal Service fund is currently underfunded.
3. Lastly, although the audit adjustment was recorded for claims liability totaling \$11,295,230, this was based on an actuarial report as of June 30, 2018, which is considered outdated. A more current actuarial study most likely would have yielded a different outcome.

Questioned costs

There were no questioned costs associated with the conditions identified.

AZUSA UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Context

The conditions were identified through inquiry with District personnel and through review of available District records related to balances reported in the District's 2018-2019 unaudited financial statements and supporting documentation related to the closure of the Authority.

Effect

The effect of these errors resulted in material misstatements that were not detected or prevented by the District's internal accounting control and review process.

Cause

The cause of the condition identified appears to be due to a change in the District's workers' compensation insurance program and lack of communication regarding the impact this change had on the financial statements.

Recommendation

Management should review financial account balances to ensure that they have been correctly reported. Balances should be traced to supporting records to verify the accuracy and completeness of reported information.

Corrective Action Plan

The District has approved a contract for actuarial service to evaluate the risk associated with tail claims. The associated risk will be recorded as liabilities in the future. The District will record audit adjustments in 2019-2020 year and also will fund the underfunded Internal Service Fund with higher contribution every year.

AZUSA UNIFIED SCHOOL DISTRICT

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

None reported.

AZUSA UNIFIED SCHOOL DISTRICT

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

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
72000	School Accountability Report Card

2019-003 Code 72000

Criteria or Specific Requirements

As required by California *Education Code* Section 33126(b)(8), the School Accountability Report Card (SARC) shall include, but is not limited to, assessment of the safety, cleanliness, and adequacy of school facilities, including any need for maintenance. California *Education Code* Section 17002(d)(1) requires the use of the Facilities Inspection Tool (FIT), School Facility Conditions Evaluation, developed by the Office of Public School Construction (OPSC) and approved by the State Allocation Board, or a local evaluation instrument that meets the same criteria, to evaluate and document the condition of each school's facilities.

Condition

The SARC, among other information, includes a report on the adequacy of school facilities which is derived from the information recorded on the Facilities Inspection Tool (FIT). We noted that the District did not use a FIT developed by the OPSC or a local evaluation instrument that meets the same criteria to documents its own inspection of those sites not evaluated by representatives from the Los Angeles County Office of Education. Upon review of the SARC and the corresponding facilities evaluation for Gladstone High School and Powell Elementary School, we noted that the facilities ratings on the SARC were inconsistent with the information recorded on the facilities evaluation report.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of our review of the District's SARCs and their related facilities inspections documentation.

Effect

The District has not complied with requirements identified in California *Education Code* Section 33126, which states in part that the SARC shall provide data including the adequacy of school facilities, and California *Education Code* Section 17002(d)(1), which stipulates the format of the documentation of its evaluation of the school facilities in order to provide consistent information that parents may use to compare schools.

AZUSA UNIFIED SCHOOL DISTRICT

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

Cause

The condition identified was caused by the District's failure to document the condition of Gladstone High School's and Powell Elementary School's facilities and report them on the SARC in the consistent manner that allows parents to compare schools.

Recommendation

District staff should review the requirements identified in California *Education Code* Sections 17002 (d)(1) and 33126. The Facility Inspection Tools, or similar document, should be kept on file to substantiate the condition of the District's facilities as reported on the SARC. Additionally, the District should provide management oversight to employees responsible for performing key compliance requirements.

Corrective Action Plan

The District has developed a local evaluation tool that meets the criteria to the Facilities Inspection Tool (FIT) and will ensure the SARC is updated.

AZUSA UNIFIED SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

2018-001 Code 30000

Purchasing Deficiency – Credit Card Use

Criteria or Specific Requirements

At times, a District may find it necessary to engage in utilizing credit cards to make certain purchases. The District issues credit cards to authorized individuals to use for situations where purchase orders are not accepted. Expenditures made with credit cards are subject to similar documentation requirements as general disbursements, including approval for the expenditure by the person responsible for the budget being charged and the maintenance of documentation for the expenditure.

Condition

Of 18 credit card expenditures noted on the two monthly statements selected for testing, we identified 16 that were missing detailed receipts to document the items purchased or the service provided. The statements also lacked management-level approval for payment.

Questioned costs

There were no specific questioned costs associated with this condition. However, the expenditures noted totaled \$2,768.

Context

The condition was identified through the course of review and assessment of the District's credit card payments, and through inquiry with the District's accounts payable personnel.

Effect

While the District has established credit card purchasing procedures, the District appears to have circumvented its own protocol. The foundation of internal control relies on following and adhering to established procedures. Given the condition identified, it appears that there is a significant deficiency with respect the District's credit card purchasing procedures.

Cause

It appears that the condition materialized due to inadequate adherence to the District's existing policies.

AZUSA UNIFIED SCHOOL DISTRICT

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

Recommendation

We encourage the District to provide training to all staff who are issued credit cards on the District's proper purchasing protocol, which includes documenting approval for expenditures and the maintenance of backup documentation for expenditures.

Current Status

Implemented

2018-002 Code 30000

Capital Assets

Criteria or Specific Requirements

Financial Statements prepared in accordance with GASB Statement 34, must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital asset activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress."

Condition

Although the current year's capital asset additions have been captured for financial reporting purposes, the District does not have an adequate method of tracking and monitoring its capital asset activities. The following conditions were noted:

- There is currently no procedure in place to properly identify equipment acquisitions above the District's capitalization threshold of \$5,000.
- There is currently no procedure to track the District's on-going construction activities for the purpose of identifying cumulative costs under the "construction-in-progress" capital asset category.

There appears to be no specific personnel assigned to the tracking and inventorying of the District's capital assets.

Questioned costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through inquiry with District personnel and through review of available District records related to the capital asset activities.

AZUSA UNIFIED SCHOOL DISTRICT

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

Effect

Due to the condition identified, the District's capital assets reported on the government-wide statements may be subject to misstatements. As a result, a significant deficiency in internal controls over fixed asset accounting has been identified.

Cause

The cause of the condition identified appears to have been triggered by the recent changes in the District's Business Department personnel.

Recommendation

The District should consider the following actions:

- 1) Utilize a third-party vendor capital asset system and have District personnel input the capital assets listing into the Fixed Assets Module to ensure completeness and accuracy of the District's capital assets.
- 2) Review historical capital outlay records related to the District's modernization and new construction projects and assess the balance carried as "construction in progress." The District should dissect the cumulative "construction in progress" balance into each applicable on-going project and reduce the balance for completed projects, as necessary.
- 3) Assign/delegate District personnel with the knowledge and capability of recording, tracking, and monitoring the District's capital asset activities. Provide necessary training to designated District employee(s) to properly maintain the Capital Assets.

Current Status

Implemented

2018-003 Code 30000

Warrant Pass-Through Fund

Criteria or Specific Requirements

The District operates a warrant pass-through fund which is used to account for voluntary deductions and the associated disbursement of amounts withheld from employee payroll. Ideally, all amounts deposited into the warrant pass-through fund should be eventually disbursed. However, procedures should be in place to ensure that the activity in the warrant pass-through fund is properly reconciled.

AZUSA UNIFIED SCHOOL DISTRICT

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

Condition

During our review of the reconciliation process over the warrant pass-through fund, we identified that the reconciliations performed are not being done in a timely manner. In addition, because the warrant pass-through fund has not been reconciled or reimbursed for payments made to vendors, as of June 30, 2018, the warrant pass-through fund has an overdraft cash in county treasury balance of \$2,050,130. It appears this balance is owed from the General Fund.

Questioned costs

There were no questioned costs associated with this condition.

Context

The condition was identified through the course of review of activity in the fund and the audit of its year-end balances.

Effect

While in the current year there does not appear to be any financial statement adjustments required, in a prior year, there were adjustments as a result of the reconciliations not being performed. Untimely reconciliations could result in adjustments again in the future. As a result, there appears to be a significant deficiency in internal controls over the warrant pass-through fund.

Cause

The cause of the condition identified appears to be the result of insufficient resources available to ensure the timely reconciliation of the warrant pass-through fund.

Recommendation

The District should enforce formalized procedures related to reconciliation of the warrant pass-through fund, including the monthly reconciliation of the fund to ensure all necessary adjustments and corrections are made in a timely manner.

Current Status

Implemented

AZUSA UNIFIED SCHOOL DISTRICT

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

State Awards Findings

2018-004 Code 40000

Unduplicated Pupil Count

Criteria or Specific Requirements

California *Education Code* Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System (CALPADS).

Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported 37 students as having designation of Free or Reduced Meal Program (FRPM) on the CALPADS Report 1.18 – "FRPM/English Learner/Foster Youth – Student List."

Questioned Costs

The District over claimed the total eligible pupils by 37, resulting in a decrease of approximately \$30,495 in Local Control Funding Formula (LCFF) funding.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 - FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the 2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Section 19489(a)(1). We selected a sample of 40 students from the FRPM Income Eligibility category under the LCFF, and we noted one exception. The status of one student was changed to Paid after the verification process required by the National School Lunch Program (NSLP) was performed by the Nutrition Services Department. The auditor requested that the District identify all remaining students whose status changed to Paid as a result of the verification process. The District's review of all remaining students resulted in total of 37 students identified who were incorrectly designated as having FRPM status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

AZUSA UNIFIED SCHOOL DISTRICT

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

Effect

As a result of our testing, we determined that the District did not update the Form 1.18 – "FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the FRPM eligibility information from the District's Nutrition Services Department as of the Census Day. The following schedule identifies the exceptions:

Total Enrollment	Unduplicated FRPM/EL/Foster Youth Total	Adjustment by Auditor	Adjusted Total Unduplicated Pupil Count	Total Adjusted Enrollment
8,286	7,046	(37)	7,009	8,286

Cause

The cause is due to the District not updating the status in CALPADS of students whose FRPM eligibility changed to Paid during the income verification process required by the NSLP.

Recommendation

The District should implement a procedure to ensure that any changes to students' FRPM eligibility as of Census Day is included in the CALPADS and Form 1.18 prior to certification of Form 1.17.

Current Status

Implemented

2018-005 Code 70000

Criteria or Specific Requirements

According to the California *Education Code* Section 60119, for the District to be eligible to receive funds under the Instructional Material Funding Realignment Program, the governing board shall hold a public hearing regarding whether each pupil in each school in the District has sufficient instructional materials, and the governing board shall provide ten-day notice in advance of the public hearing date. The notice shall contain the time, place, and purpose of the hearing and shall be posted in three public places in the school district.

Condition

While the District did hold the public hearing as required by California *Education Code* Section 60119, the notice was not posted ten days in advance of the meeting, as required.

Questioned Costs

There are no questioned costs associated with this finding.

AZUSA UNIFIED SCHOOL DISTRICT

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

Context

We reviewed documentation provided by the District regarding posting the notice for the public hearing. The documentation identified that the notice was posted 7 days prior to the board meeting.

Effect

As a result of our testing, we determined that the District did not comply with California *Education Code* Section 60119 for the 2017-2018 fiscal year, specific to meeting the ten-day notice requirement.

Cause

No specific cause was identified.

Recommendation

It is recommended that the District implement procedures to ensure that the notice of public hearing is posted as required by California *Education Code* Section 60119.

Current Status

Implemented



Management
Azusa Unified School District
Azusa, California

In planning and performing our audit of the financial statements of Azusa 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 matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 16, 2019, on the government-wide financial statements of the District.

INTERNAL CONTROLS

Bank Reconciliations – District Office

Observation

The bank reconciliations for the revolving fund and the clearing account have not been signed and dated by the preparer or reviewer. Therefore, the auditor is not able to determine who prepared the reconciliation, if it was reviewed, or if the reconciliation and review were completed timely. In addition, the District revolving account was not reconciled to its imprest balance of \$25,000.

Recommendation

Timely and accurate bank reconciliation preparation and review are a prudent and necessary practice of normal business operations. Bank reconciliations are an important function of cash monitoring. The District should strive to implement procedures and assign personnel to conduct reconciliations of all cash accounts. The reconciliations should be reviewed by someone other than the preparer. Both the preparer and the reviewer should document their work by signing and dating the reconciliations.

The District's revolving cash account should be reconciled at two different levels. First, the District should reconcile back to the balance reflected on the check register using ending bank statement balances. Secondly, the District should reconcile the fund to the imprest amount established by the District by taking into account those expenditure transactions that have yet to be reimbursed. Both levels of reconciliation should be performed on a monthly basis and reviewed independently, preferably by an administrator with accounting knowledge, to ensure proper monitoring of the District's revolving cash transactions.

Bank Reconciliation – Nutrition Services

Observation

The revolving account was created for emergency or small disbursements and reimbursed periodically throughout the year. The revolving account should be reconciled and recorded at the imprest amount of \$20,000; however, the Nutrition Department is not reconciling to the imprest amount.

In addition, stale dated checks are not being written off. Auditor noted 36 stale dated checks over a year old on the bank reconciliation. Stale dated checks should be written off, typically after six months.

Recommendation

The department needs to be reconciling to the imprest amount to assure that all monies for the revolving account can be accounted for and properly utilized.

Checks issued should be monitored for clearing in subsequent months. If they become stale-dated (typically after six months), they should be written off as it is unlikely that these checks will be cashed/honored by the bank and will have to be reissued, if needed. This will ensure that the right amount of cash is reflected on the balance sheet. In the event that any of these check(s) need to be reissued, it can be reestablished as an outstanding item at that time.

ASSOCIATED STUDENT BODY FUNDS (ASB)

Gladstone High School

Observation

During the testing of ASB funds, the following issues were noted:

One of three revenue potential forms selected for testing was incomplete; it did not reconcile between expected and actual results of the fund raiser.

Recommendation

Revenue potential forms should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit anticipated. Discrepancies should be investigated and explained, and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future. The revenue potential form also serves to document advance approval of the fund raiser by the student council and site administration.

Center Middle School

Observations

During the testing of ASB funds, the following issues were noted:

1. Bank deposits are not timely. Three of 15 deposits selected for testing were deposited between 14 and 37 days after cash was receipted.
2. Cash count sheets do not show that two people were present for the count.
3. Gift cards were purchased with ASB funds.
4. Revenue potential forms were not used to document, and control two of four fund-raising activities selected for testing. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
5. Approval for one of four fundraisers selected for testing was not approved by the Student Council and documented in the Student Council minutes.
6. The ASB sold food within 30 minutes of the end of the school day.

Recommendations

1. ASB receipts should be deposited weekly at a minimum to minimize the amount of cash held at the site. During weeks of high cash collections, there may be a need for more frequent deposits.
2. Cash should be counted by two people, and both should sign the cash count sheet.
3. Gift cards are similar to cash and should not be purchased with ASB funds.
4. Revenue potential forms should be prepared to assist the ASB in identifying whether a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit anticipated. Discrepancies should be investigated and explained, and a determination should be made as to whether it is beneficial to conduct the fundraiser in the future.
5. The FCMAT ASB manual notes that minutes should record the details of student council proceedings including budgeting procedures, fund raising approvals, and expenditure authorizations.
6. ASB are not allowed to compete with the District's food service program and are not allowed to sell food during the school day or within 30 minutes of the end of the school day.

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

Eide Bailly LLP

Rancho Cucamonga, California
December 16, 2019