

**REED UNION SCHOOL DISTRICT
COUNTY OF MARIN
TIBURON, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2019

REED UNION SCHOOL DISTRICT

JUNE 30, 2019

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REED UNION SCHOOL DISTRICT

JUNE 30, 2019

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Reed Union School District
Tiburon, 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 Reed Union School 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. 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 unmodified and adverse audit opinions.

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the discretely presented component unit are not reported.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the District, as of June 30, 2019, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 Reed Union School District, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of changes in net OPEB liability and related ratios, schedule of OPEB contributions, schedule of investment returns, schedules of the proportionate share of the net pension liabilities, and schedules of contributions 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 Matters (Concluded)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Reed Union School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basis financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 Reed Union 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 the Reed Union 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 Reed Union School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 16, 2019

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Reed Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 14 and 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as an agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved during the course of the year, as total net position increased \$1,819,591.
- Due to the current year level of allocated property tax revenues, the District continued to receive LCFF funding under the basic aid provision.
- Net capital assets decreased \$1,618,451 due to the current year addition of \$21,362 of new capital assets and improvements, and the current year recognition of \$1,639,813 of depreciation expense.
- Total long-term liabilities decreased \$1,271,228, due primarily to the net of the increases in the net pension liabilities related to the District's participation in the CalSTRS and CalPERS pension plans of \$1,086,317, and the payments on the general obligation bonds of \$2,478,068.
- The District's P-2 average daily attendance (ADA) decreased from 1,391 ADA in fiscal year 2017-18 down to 1,305 ADA in fiscal year 2018-19, a decrease of 86 ADA or 6.2%.
- During fiscal year 2018-19, the District's General Fund produced an operating surplus of \$1,605,539.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 3%. During fiscal year 2018-19, General Fund expenditures and other financing uses totaled \$23,966,611. At June 30, 2019, the District had available reserves of \$6,549,650 in the General Fund, which represents a reserve of 27.3%.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and management's discussion and analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Position and the Statement of Activities all amounts presented represent governmental activities, since the District does not provide any services that should be categorized as business-type activities.

The basic services provided by the District, such as regular education and administration are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the Reed Union School District are the General Fund, Bond Interest and Redemption Fund and Granada Lease Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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 operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Fiduciary Funds:

The District is the trustee for funds maintained in student body activity funds. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations.

The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The District's net position increased from a deficit balance of \$1,180,681 at June 30, 2018 to a positive balance of \$638,910 at June 30, 2019.

<u>Comparative Statement of Net Position</u>		
	Governmental Activities	
	2018	2019
<u>Assets</u>		
Deposits and Investments	\$ 10,792,897	\$ 13,064,716
Receivables	1,954,895	1,631,630
Prepaid Expenses	106	106
Capital Assets, net	39,240,974	37,622,523
Total Assets	51,988,872	52,318,975
<u>Deferred Outflow of Resources:</u>		
OPEB Deferrals		225,210
Pension Deferrals	7,120,656	6,839,253
Bond Refunding	1,485,923	1,485,923
Total Deferred Outflow of Resources	8,606,579	8,550,386
<u>Liabilities</u>		
Current	4,038,985	4,134,617
Long-term	55,018,172	53,727,677
Total Liabilities	59,057,157	57,862,294
<u>Deferred Inflows of Resources</u>		
OPEB Deferrals	189,887	160,544
Pension Deferrals	2,529,088	2,207,613
Total Deferred Inflows of Resources	2,718,975	2,368,157
<u>Net Position</u>		
Net Investment in Capital Assets	10,461,683	10,350,411
Restricted	2,827,178	2,883,339
Unrestricted (Deficit)	(14,469,542)	(12,594,840)
Total Net Position (Deficit)	\$ (1,180,681)	\$ 638,910
<i>Table includes financial data of the combined governmental funds.</i>		

The unrestricted deficit balance is due primarily to the requirement for the District to record a liability in the financial statements to reflect the net OPEB liability and the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$1,819,591.

<u>Comparative Schedule of Changes in Net Position</u>		
	Governmental Activities	
	2018	2019
<u>Program Revenues</u>		
Charges for Services	\$ 2,545	\$ 1,393
Operating Grants & Contributions	3,990,594	5,159,109
<u>General Revenues</u>		
Taxes Levied	20,728,441	21,641,754
Federal & State Aid	857,858	870,413
Other Revenues	1,145,703	1,355,469
Total Revenues	26,725,141	29,028,138
<u>Expenses</u>		
Instruction	16,273,854	16,556,826
Instruction-Related Services	2,873,122	3,125,094
Pupil Services	652,823	694,517
General Administration	2,025,773	2,428,084
Plant Services	2,636,796	3,144,177
Other Expenses	1,397,705	1,259,849
Total Expenses	25,860,073	27,208,547
Changes in Net Position	\$ 865,068	\$ 1,819,591

Table includes financial data of the combined governmental funds.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

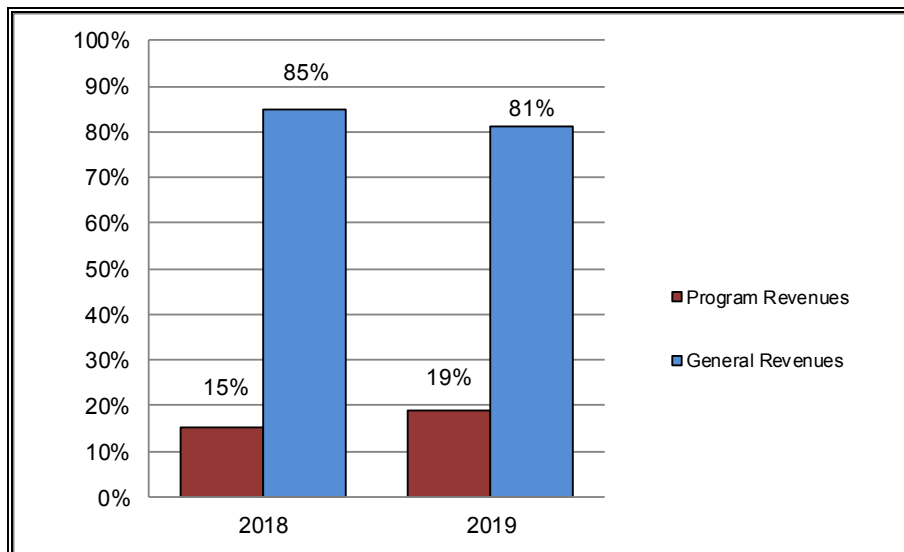
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Comparative Schedule of Costs of Services

	Total Cost of Services		Net Cost of Services	
	2018	2019	2018	2019
Instruction	\$ 16,273,854	\$ 16,556,826	\$ 13,005,664	\$ 12,702,530
Instruction-Related Services	2,873,122	3,125,094	2,436,753	2,544,514
Pupil Services	652,823	694,517	562,891	595,132
General Administration	2,025,773	2,428,084	2,003,921	2,327,935
Plant Services	2,636,796	3,144,177	2,636,796	2,776,943
Other Expenses	1,397,705	1,259,849	1,220,909	1,100,991
Totals	<u>\$ 25,860,073</u>	<u>\$ 27,208,547</u>	<u>\$ 21,866,934</u>	<u>\$ 22,048,045</u>

Table includes financial data of the combined governmental funds.

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$22,048,045 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



In 2018-19, program revenues financed 19% of the total cost of providing the services listed above, while the remaining 81% was financed by the general revenues of the District.

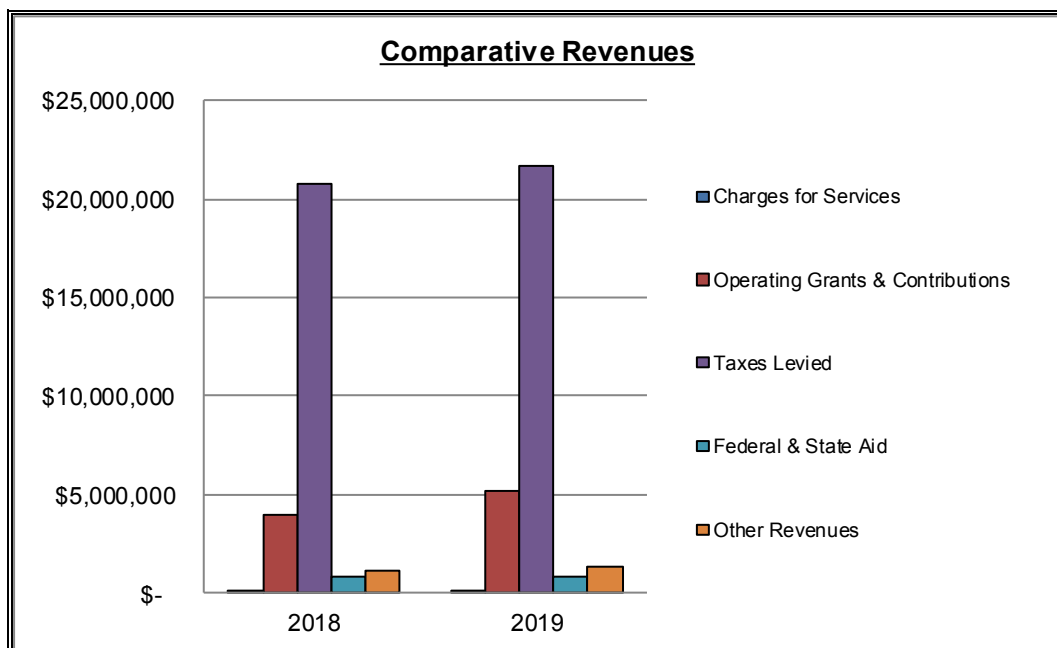
**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Schedule of Revenues For Governmental Functions

	FYE 2018 Amount	Percent of Total	FYE 2019 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 2,545	0.01%	\$ 1,393	0.00%
Operating Grants & Contributions	3,990,594	14.93%	5,159,109	17.77%
<u>General Revenues</u>				
Taxes Levied	20,728,441	77.56%	21,641,754	74.55%
Federal & State Aid	857,858	3.21%	870,413	3.00%
Other Revenues	1,145,703	4.29%	1,355,469	4.67%
Total Revenues	\$ 26,725,141	100.00%	\$ 29,028,138	100.00%



**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

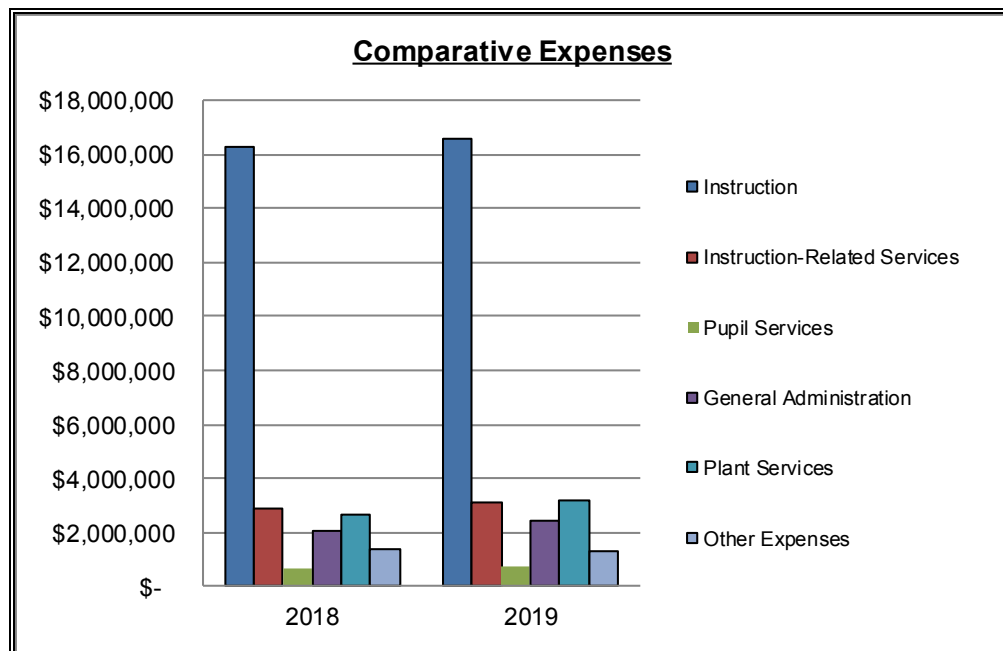
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Schedule of Expenses For Governmental Functions

	FYE 2018 Amount	Percent of Total	FYE 2019 Amount	Percent of Total
<u>Expenses</u>				
Instruction	\$ 16,273,854	62.93%	\$ 16,556,826	60.85%
Instruction-Related Services	2,873,122	11.11%	3,125,094	11.49%
Pupil Services	652,823	2.52%	694,517	2.55%
General Administration	2,025,773	7.83%	2,428,084	8.92%
Plant Services	2,636,796	10.20%	3,144,177	11.56%
Other Expenses	1,397,705	5.40%	1,259,849	4.63%
Total Expenses	<u>\$ 25,860,073</u>	<u>100.00%</u>	<u>\$ 27,208,547</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds.



**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2018	2019
Land	\$ 2,049,951	\$ 2,049,951
Sites and Improvements	9,039,585	9,039,585
Buildings and Improvements	54,218,835	54,218,835
Furniture and Equipment	185,285	185,285
Construction-in-Progress	0	21,362
Subtotals	65,493,656	65,515,018
Less: Accumulated Depreciation	(26,252,682)	(27,892,495)
Capital Assets, net	<u>\$ 39,240,974</u>	<u>\$ 37,622,523</u>

Net capital assets decreased \$1,618,451 due to the current year addition of \$21,362 of new capital assets and improvements, and the current year recognition of \$1,639,813 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2018	2019
Compensated Absences	\$ 132,969	\$ 141,056
General Obligation Bonds	30,666,728	28,188,660
Capital Leases	966,085	569,375
Net OPEB Liability	4,163,006	4,672,152
Net Pension Liabilities	22,097,131	23,183,448
Totals	<u>\$ 58,025,919</u>	<u>\$ 56,754,691</u>

The general obligation bonds are financed by the local taxpayers and represent 49.7% of the District's total long-term liabilities, the net OPEB liability represent 8.2%, and the net pension liabilities represent 40.8%. The District has satisfied all debt service requirements on its bonded debt and continues to maintain an excellent credit rating on its debt issue. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**REED UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

The fund balance of the General Fund increased \$1,605,539, and the combined fund balances of all other District governmental funds increased \$238,513.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim to reflect the most current financial information available at that point in time.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the near future. In addition, the economy has finished its tenth year of expansion, lasting five years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislature and local governments, including local education agencies, to plan for the next recession.

Accordingly, the District's budget should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact the District Office, Reed Union School District, 277A Karen Way, Tiburon, California 94920.

REED UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 13,064,716
Receivables (Note 3)	1,631,630
Prepaid Expenses (Note 1H)	106
Capital Assets, Not Depreciated (Note 5)	2,071,313
Capital Assets, Net of Accumulated Depreciation	35,551,210
Total Assets	52,318,975
<u>Deferred Outflows of Resources</u>	
OPEB Deferrals (Note 8)	225,210
Pension Deferrals (Note 9)	6,839,253
Bond Refunding (Note 1H)	1,485,923
Total Deferred Outflows of Resources	8,550,386
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	760,691
Accrued Interest Payable	294,766
Unearned Revenue (Note 1H)	52,146
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Compensated Absences (Note 1H)	141,056
General Obligation Bonds (Note 6)	2,563,068
Capital Leases (Note 7)	322,890
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 6)	25,625,592
Capital Leases (Note 7)	246,485
Net OPEB Liability (Note 8)	4,672,152
Net Pension Liabilities (Note 9)	23,183,448
Total Liabilities	57,862,294
<u>Deferred Inflows of Resources</u>	
OPEB Deferrals (Note 8)	160,544
Pension Deferrals (Note 9)	2,207,613
Total Deferred Inflows of Resources	2,368,157
<u>Net Position</u>	
Net Investment in Capital Assets	10,350,411
Restricted:	
For Capital Projects	398,074
For Debt Service	1,863,415
For Educational Programs	619,744
For Other Purposes	2,106
Unrestricted (Deficit)	(12,594,840)
Total Net Position	\$ 638,910

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**REED UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

					Net (Expense) Revenue and Changes in Net Position
Functions	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					
Instruction	\$ 16,556,826	\$ 899	\$ 3,853,397		\$ (12,702,530)
Instruction-Related Services:					
Supervision of Instruction	1,589,532	111	365,956		(1,223,465)
Instructional Library and Technology	631,368		193,330		(438,038)
School Site Administration	904,194		21,183		(883,011)
Pupil Services:					
Home-to-School Transportation	20,815				(20,815)
Food Services	51,189				(51,189)
Other Pupil Services	622,513	63	99,322		(523,128)
General Administration:					
Data Processing Services	734,257		20,254		(714,003)
Other General Administration	1,693,827		79,895		(1,613,932)
Plant Services	3,144,177		367,234		(2,776,943)
Ancillary Services	19,316		1,376		(17,940)
Interest on Long-Term Debt	603,324				(603,324)
Other Outgo	637,209	320	157,162		(479,727)
Total Governmental Activities	<u>\$ 27,208,547</u>	<u>\$ 1,393</u>	<u>\$ 5,159,109</u>	<u>\$ 0</u>	<u>(22,048,045)</u>
<u>General Revenues</u>					
Taxes Levied for General Purposes					16,332,394
Taxes Levied for Debt Service					2,976,252
Taxes Levied for Specific Purposes					2,333,108
Federal and State Aid - Unrestricted					870,413
Interest and Investment Earnings					174,747
Transfers from Other Agencies					105
Miscellaneous					1,180,617
Total General Revenues					<u>23,867,636</u>
Change in Net Position					1,819,591
Net Position (Deficit) - July 1, 2018					<u>(1,180,681)</u>
Net Position - June 30, 2019					\$ 638,910

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**REED UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General	Bond Interest and Redemption	Granada Lease	Non-Major Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 8,009,924	\$ 2,158,181	\$ 1,650,272	\$ 1,246,339	\$ 13,064,716
Receivables (Note 3)	1,631,630				1,631,630
Prepaid Expenditures (Note 1H)	106				106
Total Assets	<u>\$ 9,641,660</u>	<u>\$ 2,158,181</u>	<u>\$ 1,650,272</u>	<u>\$ 1,246,339</u>	<u>\$ 14,696,452</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 755,224		\$ 5,355	\$ 112	\$ 760,691
Unearned Revenue (Note 1H)			52,146		52,146
Total Liabilities	<u>755,224</u>		<u>57,501</u>	<u>112</u>	<u>812,837</u>
Fund Balances: (Note 12)					
Nonspendable	2,106				2,106
Restricted	619,744	\$ 2,158,181		398,074	3,175,999
Assigned	1,714,936		1,592,771	848,153	4,155,860
Unassigned	6,549,650				6,549,650
Total Fund Balances	<u>8,886,436</u>	<u>2,158,181</u>	<u>1,592,771</u>	<u>1,246,227</u>	<u>13,883,615</u>
Total Liabilities and Fund Balances	<u>\$ 9,641,660</u>	<u>\$ 2,158,181</u>	<u>\$ 1,650,272</u>	<u>\$ 1,246,339</u>	<u>\$ 14,696,452</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

REED UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balances - Governmental Funds	\$ 13,883,615
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Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

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

Capital Assets	\$ 65,515,018	
Accumulated Depreciation	(27,892,495)	
Net		37,622,523

Deferred outflows and inflows of resources related to other post employment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources related to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources related to OPEB are reported. The net of deferred outflows and inflows was:

64,666

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

4,631,640

Unamortized costs: In governmental funds, any gain or loss that results from debt refunding activities is recognized in the current year. In the government-wide statements, the gain or loss is deferred and amortized as interest over the life of the new or refunded debt, whichever period is shorter. The deferred amount from refunding, reported as deferred outflows of resources, was:

1,485,923

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Compensated Absences	141,056	
General Obligation Bonds	28,188,660	
Capital Leases	569,375	
Net OPEB Liability	4,672,152	
Net Pension Liabilities	23,183,448	
Total		(56,754,691)

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

(294,766)

Total Net Position - Governmental Activities	\$ 638,910
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

	<u>General</u>	<u>Bond Interest and Redemption</u>	<u>Granada Lease</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
LCFF Sources:					
State Apportionment / Transfers	\$ 334,840				\$ 334,840
Local Taxes	16,332,394				16,332,394
Total LCFF Sources	16,667,234				16,667,234
Federal Revenue	274,829				274,829
State Revenue	2,736,140	\$ 6,641			2,742,781
Local Revenue	5,484,547	2,992,753	\$ 723,123	\$ 142,871	9,343,294
Total Revenues	25,162,750	2,999,394	723,123	142,871	29,028,138
<u>Expenditures</u>					
Current:					
Instruction	14,831,318				14,831,318
Supervision of Instruction	1,444,682				1,444,682
Instructional Library and Technology	556,328				556,328
School Site Administration	667,858				667,858
Home-To-School Transportation	19,500				19,500
Food Services	47,954				47,954
Other Pupil Services	560,079				560,079
Data Processing Services	630,429				630,429
Other General Administration	1,463,598			7,985	1,471,583
Plant Services	2,666,720		88,551	15,340	2,770,611
Facilities Acquisition and Construction	21,362				21,362
Ancillary Services	18,934				18,934
Other Outgo	634,429				634,429
Debt Service:					
Principal Retirement	396,710	2,145,000			2,541,710
Interest and Issuance Costs	6,710	960,599			967,309
Total Expenditures	23,966,611	3,105,599	88,551	23,325	27,184,086
Excess of Revenues Over (Under) Expenditures	1,196,139	(106,205)	634,572	119,546	1,844,052
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	409,400				409,400
Operating Transfers Out			(409,400)		(409,400)
Total Other Financing Sources (Uses)	409,400	0	(409,400)	0	0
Net Change in Fund Balances	1,605,539	(106,205)	225,172	119,546	1,844,052
Fund Balances - July 1, 2018	7,280,897	2,264,386	1,367,599	1,126,681	12,039,563
Fund Balances - June 30, 2019	\$ 8,886,436	\$ 2,158,181	\$ 1,592,771	\$ 1,246,227	\$ 13,883,615

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

Net Change in Fund Balances - Governmental Funds	\$ 1,844,052
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

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

Capital Outlay Expenditures	\$	21,362	
Depreciation Expense		(1,639,813)	
Net			(1,618,451)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	2,874,778
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Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned during the fiscal year. The difference between amounts paid and amounts earned was:	(8,087)
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Other post employment benefits (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:	(254,593)
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Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense is recognized in the period that it is incurred. Unmatured interest owed at the end of the period, less matured interest paid during the period but owed from the prior period, was:	28,137
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Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:	(1,046,245)
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Change in Net Position of Governmental Activities	\$ 1,819,591
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REED UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 54,968	\$ 54,968
<u>Liabilities</u>		
Due to Student Groups	54,968	54,968
<u>Net Position</u>		
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Reed Union School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five-member Board of Trustees elected by registered voters of the District, which comprises an area in Marin County. The District serves students in kindergarten through grade eight.

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

The financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, the organization should be included as a component unit.

The nucleus of a financial reporting entity is usually a primary government. Governmental Accounting Standards Board (GASB) Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*, defines a *primary government* as any state government, general-purpose local government, or special-purpose government that meets all of the following criteria:

- It has a separately elected governing body
- It is legally separate
- It is fiscally independent of other state and local governments

The primary government consists of all funds that make up the legal entity. The primary government also consists of funds for which it has a fiduciary responsibility, even though those funds may represent organizations that do not meet the definition for inclusion in the financial reporting entity.

Component units include legally separate organizations (whether governmental, not-for-profit, or for-profit organizations) for which elected officials of the primary government are financially accountable. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board. The primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

In addition, GASB 61 also requires certain organizations to be included as component units if the nature and significance of their relationship with the primary government are such that excluding them would cause the financial reporting entity's financial statements to be misleading.

Based on the GASB 61 criteria and definitions, the District is the primary government and there are no material potential component units which should be included in the Financial Reporting Entity in these financial statements.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that the Foundation for Reed Schools (the Foundation), a non-profit, public benefit corporation, meets the criteria set forth in GASB 39. However, since the Foundation does not issue audited financial statements, the financial statements of the District include only the financial data of the primary government, which consists of all funds that comprise the District's legal entity, and all funds for which it has a fiduciary responsibility. The financial statements do not include financial data of the Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, these financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Financial Reporting Entity, or the respective changes in its financial position.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

The District has determined that the cost of including audited financial data, of its legally separate component unit, in the financial statements of the District, exceeds the benefits to be received by including such data. In addition, since the District's various oversight agencies do not require such data to be included, the District has elected to omit such data from its financial statements.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. The effect of interfund activity within the governmental activities column has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

C. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. 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 apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District maintains the following fund governmental types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed, or assigned to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

General Fund is the general operating fund of the District. For financial reporting purposes the financial activities and balances of the Deferred Maintenance Fund have been included within the General Fund presentation.

Bond Interest and Redemption Fund is used to account for the accumulation of resources for the repayment of District bonds, interest, and related costs.

Granada Lease Fund is used to account for proceeds realized from the leasing of Granada School, a surplus facility. The net income derived from the leasing operation is transferred to the General Fund.

Non-major Governmental Funds:

Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Capital Projects - Special Reserve Fund is used to account for proceeds realized from the sale of District property. Amounts held in this fund are used for capital outlay purposes.

Fiduciary Fund:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund to account for the student body activities at Bel Aire Elementary School and Del Mar Middle School. The student body funds are used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Concluded)

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budget is presented for the General Fund as required supplementary information on page 57.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

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 County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

1. Deposits and Investments (Concluded)

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

2. Prepaid Expenses/Expenditures

Prepaid expenses/expenditures 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. Reported prepaid expense/expenditures are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	7-36
Buildings and Improvements	20-50
Furniture and Equipment	6-10

4. Deferred Outflows/Inflows of Resources

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

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Deferred Outflows/Inflows of Resources (Concluded)

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

5. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

6. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

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

7. Other Post Employment Benefits (OPEB)

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

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS), and additions to/deductions from the CalSTRS' and CalPERS' 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. Investments are reported at fair value.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

9. Long-term Liabilities

In the government-wide financial statements, long-term obligations are reported as long-term liabilities in the Statement of Net Position. Bond premiums and discounts as well as refunding costs, when applicable, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premiums, discounts, or refunding.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance and refunding costs, when debt is issued. The face amount of the debt issued, premiums, discounts, and issuance or refunding costs are reported as other financing sources or uses.

10. Fund Balances

Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision-making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision-making authority or a body or official that has been given the authority to assign funds.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

10. Fund Balances (Concluded)

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

11. Local Control Funding Formula (LCFF)/Property Tax

The LCFF creates funding targets based on student characteristics and provides greater flexibility to use these funds to improve student outcomes. For school districts, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that are calculated based on student demographic factors. District funding under the LCFF is generally provided by a mix of State aid and local taxes.

The County of Marin is responsible for assessing, collecting and apportioning property taxes to the District. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund and is known as LCFF State Aid.

Since the amount of property taxes received by the District exceeds the amount of the LCFF transition entitlement, the District is considered to be a "basic aid" school district and is permitted to keep all of its property tax revenue. In addition, as guaranteed by the California Constitution, the State must apportion \$120 per pupil to the District. However, the categorical aid that the District receives counts toward this requirement.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 54,968
Cash in Revolving Fund	\$ 2,000	
County Pool Investments	<u>13,062,716</u>	
Totals	<u>\$ 13,064,716</u>	<u>\$ 54,968</u>

Cash on Hand and in Banks

Cash on hand and in banks consists of cash held by the District, and cash maintained in commercial bank accounts owned by the District, exclusive of amounts in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds as well as petty cash funds.

County Pool Investments

County pool investments consist of District cash held by the Marin County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are 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.

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 Marin County Investment Pool.

General Authorization

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

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization (Concluded)

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/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 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

Weighted Average Maturity

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

Investment Type	Carrying Value	Fair Value	Weighted Average Days to Maturity
County Pool Investments	\$ 13,062,716	\$ 13,152,814	218

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. Investments in the County Treasury are not required to be rated.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District does not have a bank balance that is exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District. As of June 30, 2019, the District's bank balance was not exposed to custodial credit risk.

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 specific 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 reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
County Pool Investments	<u>\$ 13,152,814</u>	<u>\$ 13,152,814</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2019 consist of the following:

	<u>General Fund</u>
Federal Government	\$ 205,030
State Government	91,346
Local Governments	83,436
Miscellaneous	<u>1,251,818</u>
Total	<u>\$ 1,631,630</u>

NOTE 4 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2018-19 were as follows:

Granada Lease Fund transfer to General Fund excess income derived from leasing operations	<u>\$ 409,400</u>
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REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, are shown below:

	Balances July 1, 2018	Additions	Deletions	Balances June 30, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 2,049,951			\$ 2,049,951
Construction-in-Progress		\$ 21,362		21,362
Total Capital Assets Not Being Depreciated	2,049,951	21,362	\$ 0	2,071,313
Capital Assets Being Depreciated:				
Sites and Improvements	9,039,585			9,039,585
Buildings and Improvements	54,218,835			54,218,835
Furniture and Equipment	185,285			185,285
Total Capital Assets Being Depreciated	63,443,705	0	0	63,443,705
Less Accumulated Depreciation:				
Sites and Improvements	6,238,573	245,601		6,484,174
Buildings and Improvements	19,856,688	1,390,232		21,246,920
Furniture and Equipment	157,421	3,980		161,401
Total Accumulated Depreciation	26,252,682	1,639,813	0	27,892,495
Total Capital Assets Being Depreciated, Net	37,191,023	(1,639,813)	0	35,551,210
Capital Assets, Net	\$ 39,240,974	\$ (1,618,451)	\$ 0	\$ 37,622,523

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 1,046,300
Instruction-Related Services	197,489
Pupil Services	43,889
General Administration	153,441
Plant Services	198,694
Total	<u>\$ 1,639,813</u>

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - GENERAL OBLIGATION BONDS

On September 27, 2011, the District issued general obligation refunding bonds in the amount of \$26,900,000, with interest rates from 2.0% to 4.0%. The refunding bonds were issued to refund certain bonds approved by the voters of the District in the Election of 2001.

On October 25, 2012, the District issued general obligation refunding bonds in the amount of \$10,915,000, with interest rates from 2.0% to 4.0%. The refunding bonds were issued to refund certain bonds approved by the voters of the District in the Election of 2005, Series 2006.

On November 8, 2016, the District issued general obligation refunding bonds in the amount of \$7,500,000, with interest rates from 2.0% to 4.0%, for purposes of refunding, on an advance basis, \$7.8 million of the District's outstanding 2011 General Obligation Refunding Bonds, maturing August 1, 2021 through August 1, 2028, and to pay costs of issuance of the bonds.

The general obligation bonds are secured by the full faith and credit of the District. Marin County is obligated to annually levy and collect ad valorem taxes upon all property within the District subject to taxation for the payment of interest and principal of the bonds. The outstanding general obligation debt, excluding \$3,128,660 of unamortized premiums, as of June 30, 2019, is as follows:

Date of Issue	Interest Rate %	Date of Maturity	Amount of Original Issue	Outstanding July 1, 2018	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2019
9/27/11	2.00-4.00	8/1/28	\$ 26,900,000	\$ 11,165,000		\$ 1,605,000	\$ 9,560,000
10/25/12	2.00-4.00	6/1/31	10,915,000	8,620,000		540,000	8,080,000
11/8/16	2.00-4.00	8/1/28	7,500,000	7,420,000			7,420,000
Totals			<u>\$ 45,315,000</u>	<u>\$ 27,205,000</u>	<u>\$ 0</u>	<u>\$ 2,145,000</u>	<u>\$ 25,060,000</u>

The annual requirements to amortize the bonds payable, outstanding as of June 30, 2019, are as follows:

Year Ended June 30	Principal	Interest	Totals
2020	\$ 2,230,000	\$ 870,719	\$ 3,100,719
2021	2,330,000	780,019	3,110,019
2022	2,430,000	685,319	3,115,319
2023	2,525,000	586,719	3,111,719
2024	2,620,000	490,569	3,110,569
2025-2029	11,390,000	1,093,971	12,483,971
2030-2034	1,535,000	69,450	1,604,450
Totals	<u>\$ 25,060,000</u>	<u>\$ 4,576,766</u>	<u>\$ 29,636,766</u>

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - CAPITAL LEASES

The District has lease purchase agreements for technology equipment valued at \$1,295,893. The agreements provide for title to pass upon expiration of the lease periods and are secured by the underlying equipment. Future minimum lease payments under these agreements are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Lease</u> <u>Payments</u>
2020	\$ 328,670
2021	248,184
Total lease payments	576,854
Less amounts representing interest	(7,479)
Present value of net minimum lease payments	<u>\$ 569,375</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for these leased assets.

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Descriptions / Benefits Provided

Reed Union School District's Other Post Employment Benefits Plan (Plan), is a single employer defined benefit healthcare plan administered by the District. No separate financial statements were issued for the plan. The District provides varying coverage to retirees from the various employee groups. The benefits provided to eligible retirees are as follows:

Active Employee Coverage

Integrated medical/prescription drug coverage is provided through CalPERS under the Public Employees' Medical and Hospital Care Act (PEMHCA). Employees can choose from a variety of HMO and PPO options providing comprehensive medical and prescription drug coverage. For purposes of its contract with PEMHCA, the District uses a statutory schedule to determine its monthly contribution on behalf of each active employee. The statutory amount is \$133.00 for 2018 and 2019 and will be indexed by the Medical CPI each year thereafter. The District also pays an administrative fee, currently 0.31% of total premium, on behalf of all retirees.

Post-retirement Coverage

The District offers the same medical plans to its retirees as to its active employees, with the exception that once a retiree becomes eligible for Medicare (that is, reaches age 65), he or she must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payer. Employees of all classifications (including management and confidential) become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service (age 52 and 5 years for PEPPA employees), or age 55 and 10 years of covered STRS service, as applicable.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Plan Descriptions / Benefits Provided (Concluded)

Post-retirement Coverage (Concluded)

Coverage is available for the lifetime of the retiree and spouse or surviving spouse (and dependent children up to the age of 26). The District's contribution on behalf of all eligible retirees and surviving spouses is the same as its contribution for active employees (\$133.00 for 2018 and 2019, indexed by the Medical CPI thereafter), in addition to an administrative fee, which is currently 0.31% of total premium.

Retirees who have attained age 55 or more at the time of retirement may receive a supplemental District contribution of \$355/month for five years following retirement (or the earlier of five years or age 65 for Certificated and Certificated Management retirees). This supplement may be used towards coverage under either PEMHCA or the District's dental plan, or both. The supplement is paid in addition to the statutory minimum. There is one management retiree receiving full two-party coverage for 5 years under a special agreement that is not expected to be repeated in the future.

Retirees who were hired on or after January 1, 2009 are subject to a vesting schedule of 0% for fewer than 10 years of service and 50% for at least 10 but fewer than 20 years of service, and 100% for 20 or more years of service. These percentages apply to the statutory minimum contribution only but not the \$355 supplement.

Plan benefits and contribution requirements for both the employee and the District are established by labor agreements. All contracts with District employees may be renegotiated at various times in the future and, thus, benefits and costs are subject to change.

Employees Covered by Benefit Terms

The number of employees covered by the benefit terms of the Plan as of July 1, 2017 are as follows:

Inactive employees currently receiving benefit payments	42
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	<u>172</u>
Total number of participants	<u><u>214</u></u>

Net OPEB Liability

The District's net OPEB liability of \$4,672,152 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to roll forward to the measurement date from the actuarial valuation.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial Assumptions

The total OPEB liability was determined using the following actuarial methods, assumptions, and other inputs, applied to all periods unless otherwise specified:

Measurement Date	June 30, 2018 to June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.00%
Discount Rates	3.92% for June 30, 2018 (net of investment expenses) 3.52% for June 30, 2019 (net of investment expenses)
Healthcare cost trend rates	8.0% for 2017-18, decreasing to 5.00% for 2020-21 and after

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

The long-term expected rate of return on OPEB plan investments of 7.59% was determined by the California Employers' Retiree Benefit Trust (CERBT) using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The discount rate of 3.52% is a blend of the Bond Buyer 20-bond General Obligation Index as of the measurement date (3.50%) for the unfunded portion and the CERBT Strategy 1 target rate of return (7.59%) for the funded portion, based on the results of a cross-over test performed as of the valuation date. The cross-over test assumed that the District would make no further contributions to CERBT.

California Employers' Retiree Benefit Trust (CERBT):

During fiscal year 2015-16, the District joined the California Employers' Retiree Benefit Trust (CERBT), which is an agent multiple-employer plan with more than 500 members as defined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), with pooled administrative and investment functions. The CERBT Fund is a Section 115 trust fund dedicated to prefunding Other Post Employment Benefits (OPEB) for all eligible California public agencies. The District participates in CERBT primarily as an investment vehicle for amounts set aside to pay for future costs associated with the District's single employer defined benefit healthcare plan. There are three investment options offered by the fund, of which the District has chosen to participate in the CERBT Strategy 1 portfolio. As a result, the District owns a percentage of the CERBT Strategy 1 portfolio.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

California Employers' Retiree Benefit Trust (CERBT) (Concluded):

The CalPERS Board of Directors oversees the CERBT Fund. The CalPERS Board of Directors consists of six elected members, three appointed members and four ex officio members. CalPERS issues publicly available reports that include a full description of the CERBT plan provisions, membership information, and a current list of the Board of Directors, which can be found on the CalPERS website at www.calpers.ca.gov.

OPEB Trust Investments: The CERBT mirrors the investment policies of the CalPERS system as a whole. These policies are adopted by the CalPERS Investment Committee, which sets forth the Systems overarching investment belief, purposes, and objectives with respect to all investment programs. In addition, the CERBT has separate Board-approved asset allocation policies in place for the three investment options offered by the fund. The District's OPEB assets have been invested in the CERBT Strategy 1 portfolio.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	59%	+/-5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	+/-5%	Bloomberg Barclays Long Liability Index
Treasury Inflation - Protected Securities	5%	+/-3%	Bloomberg Barclays U.S. TIPS Index
Real Estate Investment Trusts ("REITs")	8%	+/-5%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	+/-3%	S & P GSCI Total Return Index
Cash	-	+2%	91 Day Treasury Bill

Rate of Return: For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2018	\$ 4,665,779	\$ 502,773	\$ 4,163,006
Changes for the year:			
Service cost	282,501		282,501
Interest on total OPEB liability	190,148		190,148
Differences between expected and actual experience	(7,831)		(7,831)
Changes in assumptions or other inputs	262,460		262,460
Contributions from employer		187,307	(187,307)
OPEB plan net investment income		31,073	(31,073)
Benefit payments	(187,307)	(187,307)	0
OPEB plan administrative expenses		(248)	248
Net changes	539,971	30,825	509,146
Balances at June 30, 2019	\$ 5,205,750	\$ 533,598	\$ 4,672,152

There were no changes in benefit terms since the July 1, 2017 valuation.

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

The following table presents the District's net OPEB liability as of the measurement date, calculated using the current discount rate of 3.52%, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.52%) or one percentage point higher (4.52%) than the current rate:

	Discount Rate 1% Decrease 2.52%	Discount Rate Current Rate 3.52%	Discount Rate 1% Increase 4.52%
District's Net OPEB Liability	\$ 5,432,361	\$ 4,672,152	\$ 4,053,594

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

The following table presents the District's net OPEB liability as of the measurement date, calculated using the current healthcare cost trend rate of 8.00%, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.00%) or one percentage point higher (9.00%) than the current rate:

	Healthcare Cost Trend Rate 1% Decrease 7.00%	Healthcare Cost Trend Rate Current Rate 8.00%	Healthcare Cost Trend Rate 1% Increase 9.00%
District's Net OPEB Liability	\$ 4,509,336	\$ 4,672,152	\$ 4,844,412

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$441,576. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 32,279
Changes of assumptions and other inputs	\$ 222,656	128,265
Net differences between projected and actual earnings on OPEB plan investments	2,554	
Totals	<u>\$ 225,210</u>	<u>\$ 160,544</u>

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

Year Ended June 30	
2020	\$ 5,596
2021	5,596
2022	5,596
2023	6,217
2024	18,722
Thereafter	22,939

The average of expected remaining service lives was 6.5938 years as of the June 30, 2018 and June 30, 2019 measurement dates. This factor was used to recognize the difference between expected and actual experience and changes in assumptions and other inputs. The net difference between projected and actual earnings on OPEB plan investments is being recognized on a straight-line basis over 5 years.

NOTE 9 - RETIREMENT PLANS

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

The District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense in the accompanying government-wide financial statements as follows:

Pension Plan	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 16,699,384	\$ 5,002,701	\$ 2,081,927	\$ 3,485,446
CalPERS	6,484,064	1,836,552	125,686	1,432,643
Totals	<u>\$ 23,183,448</u>	<u>\$ 6,839,253</u>	<u>\$ 2,207,613</u>	<u>\$ 4,918,089</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers and certain other employees of the public-school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature and Governor, established the plan and CalSTRS as the administrator. The terms of the plan may be amended through legislation. CalSTRS issues publicly available reports that include a full description of the pension plan that can be found on the CalSTRS website.

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California 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 STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided (Concluded) - CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to a maximum of 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, up to the 2.4% maximum.

CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and are detailed in the Teachers' Retirement Law. A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Pursuant to AB 1469, the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2018-19. Under CalSTRS 2% at 62, the member contribution rate was 10.205% of applicable member earnings for fiscal year 2018-19.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Contributions (Concluded)

Employers: Pursuant to AB 1469, the employer contribution rate was 16.28% of applicable member earnings for fiscal year 2018-19. The District contributed \$1,538,369 to the plan for the fiscal year ended June 30, 2019.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2019 was 5.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 9.828% for the fiscal year ended June 30, 2019.

District's Proportionate Share of the Net Pension Liability, Pension Expense, 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 associated with the District was as follows:

District's proportionate share of the net pension liability	\$ 16,699,384
State's proportionate share of the net pension liability associated with the District	<u>9,561,178</u>
Total net pension liability attributed to District	<u><u>\$ 26,260,562</u></u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers and the State. The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0182%
Proportion - June 30, 2017	<u>0.0178%</u>
Change - Increase (Decrease)	<u><u>0.0004%</u></u>

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$3,485,446, which includes \$1,524,188 of 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:

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to the measurement date	\$ 1,538,369	
Differences between expected and actual experience	50,850	\$ 255,611
Changes of assumptions	2,547,310	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	866,172	1,231,170
Net differences between projected and actual earnings on plan investments		595,146
Totals	<u>\$ 5,002,701</u>	<u>\$ 2,081,927</u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 569,857
2021	295,015
2022	(139,355)
2023	81,572
2024	537,563
2025	37,753

Differences between expected and actual experience, changes of assumptions, and changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2018. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following methods and assumptions:

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Continued)

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses.

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 of 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% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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

Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Actuarial Methods and Assumptions (Concluded)

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	<u>100%</u>	

* 20-year average

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates as previously described. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those 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 the total pension liability.

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

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

	<u>Discount Rate 1% Decrease 6.10%</u>	<u>Discount Rate Current Rate 7.10%</u>	<u>Discount Rate 1% Increase 8.10%</u>
District's proportionate share of the net pension liability	\$ 24,462,643	\$ 16,699,384	\$ 10,262,888

Pension Plan's Fiduciary Net Position

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

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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. The total plan contributions are determined through 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. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 7.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 18.062% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2019 was \$589,433.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2019, the District reported a liability of \$6,484,064 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. 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 employers, actuarially determined.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)

The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0243%
Proportion - June 30, 2017	<u>0.0234%</u>
Change - Increase (Decrease)	<u><u>0.0009%</u></u>

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$1,432,643, which includes \$219,853 of support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 589,433	
Differences between expected and actual experience	424,375	
Changes of assumptions	627,104	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	124,296	\$ 125,686
Net differences between projected and actual earnings on plan investments	<u>71,344</u>	
Totals	<u><u>\$ 1,836,552</u></u>	<u><u>\$ 125,686</u></u>

The deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2020	\$ 615,006
2021	507,553
2022	37,146
2023	(38,272)

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2018. The net difference between projected and actual earnings on pension plan investments is amortized over a 5-year period on a straight-line basis.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Wage Growth	Varies
Investment Rate of Return	7.15%
Post Retirement Benefit Increase (1)	

(1) 2.00% until Purchasing Power Protection Allowance Floor
on Purchasing Power applies, 2.50% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study from 1997 to 2015. Further details of the experience study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments were applied to all periods of projected benefit payments to determine the total pension liability.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Discount Rate (Concluded)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, 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 (geometric) returns were calculated over the short-term (first 10 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 table below reflects expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

<u>Asset Class ¹</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 ²</u>	<u>Real Return Years 11+ ³</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100%		

(1) In the CalPERS CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - RETIREMENT PLANS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

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

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

	Discount Rate 1% Decrease 6.15%	Discount Rate Current Rate 7.15%	Discount Rate 1% Increase 8.15%
District's proportionate share of the net pension liability	\$ 9,440,487	\$ 6,484,064	\$ 4,031,288

Pension Plan Fiduciary Net Position

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

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. Both the District and participating employees were required to contribute 6.2% of an employee's gross earnings, up to the annual limit.

NOTE 10 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2019, is shown below:

	Balances July 1, 2018	Additions	Deductions	Balances June 30, 2019	Due within One Year
Long-Term Debt:					
General Obligation Bonds	\$ 27,205,000		\$ 2,145,000	\$ 25,060,000	\$ 2,230,000
Bond Premiums	3,461,728		333,068	3,128,660	333,068
Capital Leases	966,085		396,710	569,375	322,890
Other Long-Term Liabilities:					
Compensated Absences	132,969	\$ 141,056	132,969	141,056	141,056
Net OPEB Liability	4,163,006	696,453	187,307	4,672,152	
Net Pension Liabilities	22,097,131	1,086,317		23,183,448	
Totals	\$ 58,025,919	\$ 1,923,826	\$ 3,195,054	\$ 56,754,691	\$ 3,027,014

The general obligation bonds are obligations of the Bond Interest and Redemption Fund. All other long-term liabilities are primarily obligations of the General Fund.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$1,524,188 to CalSTRS and \$219,853 to CalPERS. These contributions are recorded in the General Fund as revenues and expenditures. The District is not legally responsible for these contributions.

NOTE 12 - FUND BALANCES

The District's fund balances at June 30, 2019 consisted of the following:

	General Fund	Bond Interest & Redemption Fund	Granada Lease Fund	Non-Major Governmental Funds	Totals
Nonspendable:					
Revolving Cash	\$ 2,000				\$ 2,000
Prepaid Expenditures	106				106
Total Nonspendable	<u>2,106</u>				<u>2,106</u>
Restricted:					
Categorical Programs	619,744				619,744
Capital Projects				\$ 398,074	398,074
Debt Service		\$ 2,158,181			2,158,181
Total Restricted	<u>619,744</u>	<u>2,158,181</u>		<u>398,074</u>	<u>3,175,999</u>
Assigned:					
Special Education Contingency	500,000				500,000
Technology Replacement	400,000				400,000
Deferred Maintenance	68,856				68,856
Leased Facilities			\$ 1,592,771		1,592,771
Capital Projects				848,153	848,153
Other Assignments	746,080				746,080
Total Assigned	<u>1,714,936</u>		<u>1,592,771</u>	<u>848,153</u>	<u>4,155,860</u>
Unassigned:					
Reserve for Economic Uncertainties	971,566				971,566
Remaining Unassigned Balance	5,578,084				5,578,084
Total Unassigned	<u>6,549,650</u>				<u>6,549,650</u>
Totals	<u>\$ 8,886,436</u>	<u>\$ 2,158,181</u>	<u>\$ 1,592,771</u>	<u>1,246,227</u>	<u>\$ 13,883,615</u>

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018-19, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

REED UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements with Marin School Insurance Authority (MSIA) for workers' compensation and property and liability insurance, and Marin Pupils Transportation Agency (MPTA) for pupil transportation services for special education children. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage or services for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage or service requested and shares surpluses and deficits proportionately to their participation in the JPAs. The JPAs are audited on an annual basis. Audited financial statements can be obtained by contacting each JPA's management.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

NOTE 16 - ECONOMIC DEPENDENCY

During the year, the District received \$2,333,108 of parcel tax revenue that is subject to voter approval, and \$2,000,000 from the Foundation for Reed Schools, a non-profit charitable organization, that is subject to voluntary public contributions to the organization.

NOTE 17 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 16, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements, except as noted below.

Parcel Tax - Measure E

On the November 5, 2019, general election, the registered voters of the District approved Measure E, which renewed the existing \$589 annual parcel tax for 12 years.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

REED UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 334,794	\$ 335,208	\$ 334,840	\$ (368)
Local Sources	16,027,333	16,023,776	16,332,394	308,618
Total LCFF Sources	16,362,127	16,358,984	16,667,234	308,250
Federal Revenue	280,784	281,832	274,829	(7,003)
Other State Revenue	1,188,346	3,506,392	2,736,140	(770,252)
Other Local Revenue	5,113,267	5,191,098	5,484,547	293,449
Total Revenues	22,944,524	25,338,306	25,162,750	(175,556)
<u>Expenditures</u>				
Current:				
Certificated Salaries	10,386,593	9,965,481	9,766,669	198,812
Classified Salaries	3,202,285	3,122,600	3,114,687	7,913
Employee Benefits	5,589,696	7,402,691	6,617,412	785,279
Books and Supplies	1,164,401	1,492,587	1,142,954	349,633
Services and Other				
Operating Expenditures	2,356,050	3,340,521	2,265,679	1,074,842
Capital Outlay			21,362	(21,362)
Debt Service:				
Principal Retirement	134,169	297,862	396,710	(98,848)
Interest and Fiscal Charges			6,710	(6,710)
Other Expenditures	469,375	469,375	634,428	(165,053)
Total Expenditures	23,302,569	26,091,117	23,966,611	2,124,506
Excess of Revenues Over (Under) Expenditures	(358,045)	(752,811)	1,196,139	1,948,950
<u>Other Financing Sources</u>				
Operating Transfers In	409,400	409,400	409,400	
Net Change in Fund Balances	51,355	(343,411)	1,605,539	\$ 1,948,950
Fund Balances - July 1, 2018	7,280,897	7,280,897	7,280,897	
Fund Balances - June 30, 2019	\$ 7,332,252	\$ 6,937,486	\$ 8,886,436	

REED UNION SCHOOL DISTRICT

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS *

JUNE 30, 2019

	2019	2018
Total OPEB Liability		
Service Cost	\$ 282,501	\$ 291,654
Interest on Total OPEB Liability	190,148	172,753
Differences Between Expected and Actual Experience	(7,831)	(36,798)
Changes in Assumptions or Other Inputs	262,460	(184,109)
Benefit Payments (including implicit subsidy)	(187,307)	(153,295)
Net Changes in Total OPEB Liability	539,971	90,205
Total OPEB Liability - Beginning	4,665,779	4,575,574
Total OPEB Liability - Ending	<u>\$ 5,205,750</u>	<u>\$ 4,665,779</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 187,307	\$ 153,295
Net Investment Income	31,073	37,016
Benefit Payments (including implicit subsidy)	(187,307)	(153,295)
Administrative Expenses	(248)	(177)
Net Changes in Plan Fiduciary Net Position	30,825	36,839
Plan Fiduciary Net Position - Beginning	502,773	465,934
Plan Fiduciary Net Position - Ending	<u>\$ 533,598</u>	<u>\$ 502,773</u>
District's Net OPEB Liability - Ending	\$ 4,672,152	\$ 4,163,006
Plan Fiduciary Net Position as Percentage of Total OPEB Liability	10.25%	10.78%
Covered-employee Payroll	\$ 13,403,509	\$ 13,022,824
District's Net OPEB Liability as Percentage of Covered-employee Payroll	34.86%	31.97%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

REED UNION SCHOOL DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The District OPEB plan does not currently have any actuarially determined, contracted, or statutorily required contribution requirements.

REED UNION SCHOOL DISTRICT
SCHEDULE OF INVESTMENT RETURNS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Year Ended June 30</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u>
2019	6.50%
2018	7.30%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS *

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0182%	\$ 16,699,384	\$ 9,561,178	\$ 26,260,562	\$ 9,672,079	172.66%	70.99%
2018	0.0178%	16,500,157	9,761,354	26,261,511	9,456,073	174.49%	69.46%
2017	0.0180%	14,566,819	8,292,630	22,859,449	8,975,769	162.29%	70.04%
2016	0.0207%	13,954,329	7,380,301	21,334,630	9,620,428	145.05%	74.02%
2015	0.0186%	10,892,475	6,577,347	17,469,822	8,302,170	131.20%	76.52%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS *

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0243%	\$ 6,484,064	\$ 3,207,591	202.15%	70.85%
2018	0.0234%	5,596,974	2,989,718	187.21%	71.87%
2017	0.0241%	4,754,588	2,888,140	164.62%	73.90%
2016	0.0260%	3,833,658	2,879,373	133.14%	79.43%
2015	0.0259%	2,937,556	2,716,335	108.14%	83.38%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - CALSTRS *

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2019	\$ 1,538,369	\$ 1,538,369	\$ 0	\$ 9,449,441	16.28%
2018	1,417,639	1,417,639	0	9,824,248	14.43%
2017	1,179,458	1,179,458	0	9,375,660	12.58%
2016	990,926	990,926	0	9,235,098	10.73%
2015	792,454	792,454	0	8,924,032	8.88%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS - CALPERS *

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Year Ended June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions In Relation to Contractually Required Contributions</u>	<u>Contribution Deficiency/ (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions As a % of Covered Payroll</u>
2019	\$ 589,433	\$ 589,433	\$ 0	\$ 3,263,387	18.062%
2018	498,095	498,095	0	3,207,102	15.531%
2017	415,197	415,197	0	2,989,610	13.888%
2016	342,158	342,158	0	2,888,140	11.847%
2015	338,281	338,281	0	2,873,851	11.771%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object. The basis of budgeting is the same as Generally Accepted Accounting Principles (GAAP). Excess of expenditures over appropriations at June 30, 2019 are as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Capital Outlay	\$ 21,362
Debt Service - Principal Retirement	98,848
Debt Service - Interest and Fiscal Charges	6,710
Other Expenditures	165,053

The District incurred unanticipated expenditures in excess of appropriations in each of the above expenditure classifications for which the budget was not revised.

B. Schedule of Changes in Net OPEB Liability and Related Ratios

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, the District is required to present a 10-year schedule including certain information for each OPEB plan. The information required to be presented includes certain components that make up the changes in the net OPEB liability, the total OPEB liability, the OPEB plan's fiduciary net position, the net OPEB liability, the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, the covered-employee payroll, and the net OPEB liability as a percentage of the District's covered-employee payroll.

C. Schedule of OPEB Contributions

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, the District is required to present a 10-year schedule including certain information for each OPEB plan. The information required to be presented includes the actuarial determined contribution, the amount of contributions recognized by the OPEB plan in relation to the actuarial determined contribution, the difference between the actuarial determined contribution and the amount recognized by the OPEB plan, the District's covered-employee payroll, and the amount of contributions recognized by the OPEB plan in relation to the actuarial determined contribution as a percentage of the District's covered-employee payroll. The OPEB plan does not have any actuarially determined, contracted, or statutorily required contributions.

REED UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

D. Schedule of Investment Returns

In accordance with Governmental Accounting Standards Board Statement No. 74, the District is required to present a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.

E. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

F. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered payroll.

NOTE 2 - SUMMARY OF CHANGES FOR OPEB

A. Benefit Terms

There were no changes in benefit terms since the July 1, 2017 valuation.

B. Changes in Assumptions or Other Inputs

The discount rate changed from 3.92% at June 30, 2018 to 3.52% at June 30, 2019.

NOTE 3 - SUMMARY OF CHANGES FOR CALSTRS AND CALPERS

A. Benefit Changes

There were no changes to benefit terms since the previous valuation for either the State Teachers' Retirement Plan (CalSTRS) or the Public Employer's Retirement Fund B (CalPERS).

REED UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 3 - SUMMARY OF CHANGES FOR CALSTRS AND CALPERS (CONCLUDED)

B. Changes of Assumptions

During fiscal year 2017-18, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

As a result of the study, CalPERS changed the following assumption used in determining the NPL as follows:

<u>Assumption</u>	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>
Inflation	2.50%	2.75%

There were no changes in assumptions since the previous valuation for CalSTRS.

SUPPLEMENTARY INFORMATION SECTION

REED UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

ORGANIZATION

The Reed Union School District is located in Tiburon, California. There were no changes in the boundaries of the District during the current year. The District is currently operating two elementary schools and one middle school.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
A.J Brady	President	December 2022
Sherry Wangenheim	Vice President	December 2022
Dana Linker Steele	Clerk	December 2020
Amy Jacobs	Member	December 2020
Afsaneh Zolfaghari	Member	December 2022

ADMINISTRATION

Nancy Lynch, Ed. D.
Superintendent

Carlos Estrella
Business Manager

REED UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>Capital Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>			
Deposits and Investments	\$ 398,186	\$ 848,153	\$ 1,246,339
Total Assets	<u>\$ 398,186</u>	<u>\$ 848,153</u>	<u>\$ 1,246,339</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	<u>\$ 112</u>		<u>\$ 112</u>
Fund Balances:			
Restricted	398,074		398,074
Assigned		\$ 848,153	848,153
Total Fund Balances	<u>398,074</u>	<u>848,153</u>	<u>1,246,227</u>
Total Liabilities and Fund Balances	<u>\$ 398,186</u>	<u>\$ 848,153</u>	<u>\$ 1,246,339</u>

**REED UNION SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Capital Facilities	Capital Projects - Special Reserve	Total Non-Major Governmental Funds
<u>Revenues</u>			
Local Revenue	\$ 128,100	\$ 14,771	\$ 142,871
<u>Expenditures</u>			
Current:			
Other General Administration	7,985		7,985
Plant Services	15,340		15,340
Total Expenditures	23,325	0	23,325
Net Change in Fund Balances	104,775	14,771	119,546
Fund Balances - July 1, 2018	293,299	833,382	1,126,681
Fund Balances - June 30, 2019	\$ 398,074	\$ 848,153	\$ 1,246,227

SEE NOTES TO SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

P-2 Report - As Originally Reported				
	TK / K - 3	4 - 6	7 - 8	Totals
Regular	490.71	476.40	354.04	1,321.15
Extended Year - Special Education	0.68	0.81	0.60	2.09
Special Education - NPS / LCI		1.88		1.88
Extended Year - Special Education NPS / LCI		0.17	0.11	0.28
Totals	491.39	479.26	354.75	1,325.40
Audited P-2 Report				
	TK / K - 3	4 - 6	7 - 8	Totals
Regular	481.55	469.29	350.18	1,301.02
Extended Year - Special Education	0.68	0.81	0.60	2.09
Special Education - NPS / LCI		1.88		1.88
Extended Year - Special Education NPS / LCI		0.17	0.11	0.28
Totals	482.23	472.15	350.89	1,305.27
Annual Report				
	TK / K - 3	4 - 6	7 - 8	Totals
Regular	482.86	470.84	349.74	1,303.44
Extended Year - Special Education	0.68	0.81	0.60	2.09
Special Education - NPS / LCI		1.89		1.89
Extended Year - Special Education NPS / LCI		0.17	0.11	0.28
Totals	483.54	473.71	350.45	1,307.70

SEE NOTES TO SUPPLEMENTARY INFORMATION

REED UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	54,770	180	N/A	In Compliance
Grade 1	50,400	52,070	180	N/A	In Compliance
Grade 2	50,400	52,070	180	N/A	In Compliance
Grade 3	50,400	57,420	180	N/A	In Compliance
Grade 4	54,000	57,420	180	N/A	In Compliance
Grade 5	54,000	57,420	180	N/A	In Compliance
Grade 6	54,000	60,546	180	N/A	In Compliance
Grade 7	54,000	60,546	180	N/A	In Compliance
Grade 8	54,000	60,546	180	N/A	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

**REED UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	General Fund	Deferred Maintenance Fund
June 30, 2019 Annual Financial and Budget Report Fund Balances	\$ 8,817,580	\$ 68,856
Reclassifications Increasing (Decreasing) Fund Balances:		
Reclassification of Fund Balances	<u>68,856</u>	<u>(68,856)</u>
June 30, 2019 Audited Financial Statements Fund Balances	<u><u>\$ 8,886,436</u></u>	<u><u>\$ 0</u></u>

Auditor's Comments

The fund balances of the General Fund and Deferred Maintenance Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2019.

REED UNION SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	GENERAL FUND			
	(Budget) 2019-20	2018-19	2017-18	2016-17
Revenues and Other Financial Sources	\$ 24,196,364	\$ 25,572,150	\$ 24,374,170	\$ 22,211,963
Expenditures	24,166,374	23,966,611	23,360,674	21,704,464
Other Uses and Transfers Out	0	0	0	0
Total Outgo	24,166,374	23,966,611	23,360,674	21,704,464
Change in Fund Balance	29,990	1,605,539	1,013,496	507,499
Ending Fund Balance	\$ 8,916,426	\$ 8,886,436	\$ 7,280,897	\$ 6,267,401
Available Reserves	\$ 6,542,954	\$ 6,549,650	\$ 6,534,625	\$ 4,852,046
Reserve for Economic Uncertainties *	\$ 964,870	\$ 971,566	\$ 977,073	\$ 923,055
Available Reserves as a Percentage of Total Outgo	27.1%	27.3%	28.0%	22.4%
Average Daily Attendance at P-2	1,312	1,305	1,391	1,467
Total Long-Term Liabilities	\$ 53,727,677	\$ 56,754,691	\$ 58,025,919	\$ 56,827,223

* Reported balances are a component of available reserves

The fund balance of the General Fund increased \$2,619,035 (41.8%) over the past two years. The fiscal year 2019-20 budget projects an increase of \$29,990 (less than 1%). For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses in each of the past three fiscal years.

Average daily attendance (ADA) decreased 162 ADA (11%) over the past two years. The District's budget projects an increase of 7 ADA during fiscal year 2019-20.

Total long-term liabilities decreased \$72,532 over the past two years.

REED UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Combining Statements

Combining statements are presented for purposes of additional analysis and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

B. Schedule of Average Daily Attendance

Average daily attendance 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 spans and in different programs.

C. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year but did not meet or exceed its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds, as reported in the Annual Financial and Budget Report to the audited financial statements.

E. 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.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Reed Union School District
Tiburon, California

Report on State Compliance

We have audited Reed Union School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting (Audit Guide)*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the District's state programs occurred. An audit includes examining, on a test basis, evidence about Reed Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. Our audit does not provide a legal determination of Reed Union School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Opinion on State Compliance

In our opinion, Reed Union School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Findings 2019-004, 2019-005, and 2019-006**. Further, the results of our auditing procedures disclosed instances of noncompliance with other state laws and regulations, which are described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2019-007**. Our opinion on state compliance on the programs previously identified is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 16, 2019

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**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**

Board of Trustees
Reed Union School District
Tiburon, 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 the Reed Union School 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, and have issued our report thereon dated December 16, 2019 that included an unmodified opinion on the governmental activities, each major fund and the aggregate remaining fund information and an adverse opinion on the discretely presented component unit. The report on the financial statements included an adverse opinion on the discretely presented component unit because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements.

Internal Control over Financial Reporting

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

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

Internal Control over Financial Reporting (Concluded)

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies, as noted in **Findings 2019-001, 2019-002, and 2019-003.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 16, 2019

FINDINGS AND QUESTIONED COSTS SECTION

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified with Adverse Opinion on Discretely Presented Component Unit	
Internal control over financial reporting:		
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

State Awards

Any audit findings required to be reported in accordance with the <i>2018-19 Guide for Annual Audit of K-12 Local Educational Agencies and State Compliance Reporting?</i>	<u> X </u> Yes	<u> </u> No
Any audit findings required to be reported in accordance with other State laws or regulations?	<u> X </u> Yes	<u> </u> No
Type of auditor's report issued on compliance for state programs:	Unmodified	

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019 - 001 / 30000

SIGNIFICANT DEFICIENCY

PAYROLL CLEARING ACCOUNTS

<u>Criteria:</u>	An appropriate system of internal control over financial reporting requires that payroll related clearing accounts used to facilitate the payment of items such as health and welfare benefits, taxes, and insurance, should be reconciled on a periodic basis, to ensure that all related liability and expenditure balances are properly reported.
<u>Condition:</u>	Payroll related clearing accounts were not reconciled on a routine basis and were not reconciled as of June 30, 2019.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The condition occurred throughout fiscal year 2018-19.
<u>Effect:</u>	The District does not have procedures in place to ensure that the payroll related clearing accounts are functioning as intended, and to confirm that the related liabilities and expenditure balances are properly reported.
<u>Cause:</u>	The District does not have appropriate procedures in place to ensure that payroll related clearing accounts are reconciled on a monthly basis.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that payroll related clearing accounts are reconciled on a monthly basis and that the reconciliations are retained for audit purposes. Errors detected during the reconciliation process, should be investigated and resolved in a timely manner to ensure that the related liability and expenditure balances are properly reported.
<u>District Response:</u>	District staff met with MCOE staff to review, clear, and develop a monthly reconciliation process. It is expected to have this new process in place within the current fiscal year.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2019 - 002 / 30000

SIGNIFICANT DEFICIENCY

CASH DISBURSEMENTS

<u>Criteria:</u>	Reimbursement request forms should be approved by an appropriate level of management, as evidenced by an original hand-written signature.
<u>Condition:</u>	A signature stamp was used to authorize reimbursement request forms.
<u>Questioned Cost:</u>	None.
<u>Context:</u>	The condition was noted at Bel Aire Elementary School throughout fiscal year 2018-19.
<u>Effect:</u>	Unauthorized individuals may use the signature stamp to approve inappropriate expenditures without being detected in a timely manner.
<u>Cause:</u>	The District was unaware of the internal control weaknesses associated with using a signature stamp to authorize expenditures.
<u>Recommendation:</u>	The District should prohibit the use of rubber signature stamps as a means of authorizing District expenditures.
<u>District Response:</u>	District reviewed this finding to identify manager using signature stamp. This has been addressed with site manager and the Business Office is no longer processing any reimbursements without proper original signatures.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

2019 - 003 / 30000

SIGNIFICANT DEFICIENCY

STUDENT BODY - CASH DISBURSEMENTS

<u>Criteria:</u>	The District business office is responsible for the general oversight of the student body activities. In this capacity, the business office should ensure that the appropriate internal controls are in place to: ➤ Safeguard the organization's assets ➤ Promote success of fund-raising ventures ➤ Promote reliable financial information ➤ Reduce the risk of fraud and abuse
<u>Condition:</u>	Checks were issued with only one of the two required authorized signors. One check was issued with no signatures.
<u>Questioned Cost:</u>	None.
<u>Context:</u>	The condition was noted at Del Mar Middle School throughout fiscal year 2018-19.
<u>Effect:</u>	Internal controls for student body disbursements do not adequately safeguard the organization's assets and reduce the risk of fraud and abuse.
<u>Cause:</u>	The District business office has not performed internal audits of the student body accounts to ensure that proper procedures and policies are being followed.
<u>Recommendation:</u>	Training should be provided to all individuals who are assigned responsibility for maintaining or supervising student body accounts at each school site. In addition, the District business office should perform internal audits of the student body accounts to ensure that proper procedures and policies are being followed.
<u>District Response:</u>	District staff brought this to the attention to staff responsible for managing and monitoring the Student Body Account. The Business Office has implemented an audit review process for these type of transactions to address this deficiency.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2019 - 004 / 10000

ATTENDANCE REPORTING

Criteria: In accordance with Education Code Section 46000, attendance in all schools and classes shall be recorded and kept according to regulations prescribed by the State Board of Education.

Condition: Worksheets used to calculate average daily attendance (ADA) reported on the P-2 attendance report for fiscal year 2018-19 contained calculation errors. These errors were not detected during the District's review process.

Questioned Costs: ADA reported on the P-2 attendance report was overstated by the following amounts:

<u>Regular ADA</u>	<u>Line</u>	<u>TK-K-3</u>	<u>Grades 4-6</u>	<u>Grades 7-8</u>	<u>Total</u>
Regular ADA	A-1	9.16	7.11	3.86	20.13

There is no significant fiscal impact of this finding because the District is funded under the Basic Aid provision; however, the District may experience reduced EPA and categorical funding as a result of this finding, which has not been calculated.

Context: The errors were noted during the review of all supporting documents for the P-2 attendance report.

Effect: Errors in attendance reporting to the state occurred and were not detected by the District.

Cause: Information reported on the P-2 attendance report was not independently traced to supporting documentation and manual calculations were not independently verified by a second employee, prior to completing the P-2 attendance report.

Recommendation: The District should establish procedures to ensure that attendance worksheets and the attendance reports are independently reviewed for accuracy and completeness prior to submitting the attendance reports to the state. In addition, the District should submit a revised P-2 attendance report for fiscal year 2018-19 to reflect the audited ADA reported on page 72.

District Response: District staff continues to work with the student information system provider to address these deficiencies in the system. The District anticipates amending its P-2 attendance report for 2018-19 as recommended.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2019 - 005 / 40000

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS

<u>Criteria:</u>	Education Code Section 42238.02(b)(2) requires a school district or charter school to annually submit its enrolled free and reduced-price meal eligibility, foster youth, and English learner pupil-level records for enrolled pupils to the Superintendent using the California Longitudinal Pupil Achievement Data System (CALPADS). Education Code Section 42238.02(b)(3)(B) states that the Controller shall include instructions necessary to enforce paragraph (2) in the audit required by Education Code Section 14502.1 and that the instructions shall include, but are not necessarily limited to, procedures for determining if the English learner, foster youth, and free or reduced-price meal eligible pupil counts are consistent with the school district's or charter school's English learner, foster youth, and free or reduced-price meal eligible pupil records.
<u>Condition:</u>	The District reported 19 students on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, indicated as a "No" under the "Direct Certification" column, that were only identified as English learners (EL) under the "ELAS Designation" column, without appropriate supporting documentation.
<u>Context:</u>	The condition was noted in three (3) of five (5) students reported as English Learners (EL) only on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report for all schools as of the Census Day for fiscal year 2018-19. The pupil counts reported as audit adjustments were computed by multiplying the 60% error rate to the total calculated non-direct certified total number of EL students of 31.
<u>Questioned Costs:</u>	A summary of certified enrollment, unduplicated pupil counts, pupil count adjustments, and audited unduplicated pupil counts is presented for the District's schools, as follows:

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (CONCLUDED)

Questioned Costs (Concluded):

	Total Enrollment	Unduplicated Eligible Free/ Reduced Meal Counts	EL Funding Eligible	Total Unduplicated FRPM/EL Eligible Count
<u>Certified Pupil Counts:</u>				
Bel Aire Elementary	459	25	11	32
Del Mar Middle	540	32	9	40
Reed Elementary	363	14	21	30
Totals	1,362	71	41	102
<u>Audit Adjustments:</u>				
Bel Aire Elementary			(4)	(4)
Del Mar Middle			(5)	(5)
Reed Elementary			(10)	(10)
Totals	0	0	(19)	(19)
<u>Adjusted Pupil Counts:</u>				
Bel Aire Elementary	459	25	7	28
Del Mar Middle	540	32	4	35
Reed Elementary	363	14	11	20
Totals	1,362	71	22	83

The District received funding under the Basic Aid provision and did not receive either supplemental or concentration grant funding in fiscal year 2018-19, therefore there is no fiscal impact.

Effect: The District overstated the certified unduplicated local control funding formula pupil counts to the California Department of Education (CDE).

Cause: The District did not review the EL designations of students reported on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report, to ensure accuracy and completeness.

Recommendation: The District should establish procedures to ensure that counts reported on the CALPADS "1.18 - FRPM/English Learner/Foster Youth - Student List" report are supported by appropriate documentation. In addition, the District should record the audit adjustments as presented in the questioned costs section into the principal apportionment software to ensure that the audit determined unduplicated pupil counts are properly reflected.

District Response: The District follows the established procedures to account for all its FRPM, English Learner, and Foster Youth counts. However, a change of staff, primarily responsible for this task, was made. Staff currently responsible for this task were unable to locate source documentation requested. A procedure to ensure these files are readily available has been addressed.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2019 - 006 / 40000

REPORTED IN THE 2017-18 AUDIT AS FINDING 2018 - 002

TRANSPORTATION MAINTENANCE OF EFFORT

<u>Criteria:</u>	In accordance with Education Code Section 42238.03(a)(6)(B), of the funds that a school district receives for home-to-school transportation programs, the school district shall expend no less for those programs than the amount of funds the school district expended for home-to-school transportation in the 2012-13 fiscal year.
<u>Condition:</u>	The District did not spend enough funds on home-to-school transportation, during fiscal year 2018-19, to comply with the transportation maintenance of effort requirement.
<u>Questioned Costs:</u>	\$61,569. (The amount of the expenditure shortfall)
<u>Context:</u>	The District was required to expend \$81,069 on home-to-school transportation during fiscal year 2018-19, however, the District only expended \$19,500.
<u>Effect:</u>	The District did not comply with the maintenance of effort requirements of Education Code Section 42238.03(a)(6)(B).
<u>Cause:</u>	The maintenance of effort expenditure amount currently exceeds the cost to provide the transportation needs of the District.
<u>Recommendation:</u>	The District should make every effort to ensure that all costs associated with meeting the transportation needs of the District are properly charged to the program.
<u>District Response:</u>	The District does not operate a Home-to-School Transportation Program. However, it is a member of a Joint Powers Authority (JPA) to provide student transportation services. The JPA (Tiburon Peninsula Traffic Relief JPA) is composed of Town of Tiburon, City of Belvedere, and Reed Union School District. These agencies subsidize 50% of the program cost. The other 50% of the program is paid by ridership participation fees. The District contribution to this program was \$20,000 in 2018-19. The remaining state funds generated for the purpose of Home-to-School Transportation Program are maintained within the District's fund balance and will be available for future use if the need to offer such a program arises.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2019 - 007 / 40000

COMPETITIVE BIDDING

<u>Criteria:</u>	Public Contract Code Section 20111(b) requires school district governing boards to competitively bid and award any contract involving “public projects”, valued at \$15,000 or more. In accordance with Public Contract Code Section 22002(c), “public project” refers to any construction, reconstruction, alteration, renovation, improvement, or demolition of any publicly owned facilities. In accordance with Public Contract Code Section 20112, for purposes of securing bids, the board shall publish at least once a week for two weeks in some newspaper of general circulation in the district, or if there is no such paper, then in some newspaper in the county a notice calling for bids, stating the work to be done and the time and place where bids will be opened. In accordance with Public Contract Code Section 20113, in an emergency when repairs, alterations, work or improvement is necessary to any facility of public schools to permit the continuance of existing school classes, or to avoid danger to life or property, the board may, by unanimous vote, with the approval of the county superintendent of schools, make a contract without advertising for bids.
<u>Condition:</u>	The District was unable to provide evidence that it complied with the competitive bidding requirements.
<u>Questioned Cost:</u>	\$63,400 for the security fencing project and \$42,724 for the shade structure. (Based on the originally contracted amount)
<u>Context:</u>	No other contracts were noted during fiscal year 2018-19, which were subject to the competitive bidding requirements of the Public Contract Code.
<u>Effect:</u>	The District does not appear to have complied with the competitive bidding requirements included in the Public Contract Code.
<u>Cause:</u>	The District was unable to provide sufficient documentation to show compliance.
<u>Recommendation:</u>	The District should review the Public Contract Code requirements prior to entering into any contracts that exceed or may exceed the bid threshold.

REED UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2019 - 007 / 40000

COMPETITIVE BIDDING (CONCLUDED)

District Response:

Bid documents provided for the security fencing project were not sufficient for this audit finding. However, a bidding processed was followed as required by Ed Code and Board Policy. Shade structure project is still currently awaiting Department of State Architecture approval.

REED UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
2018 - 001 / 30000		
<u>STUDENT BODY - CASH DISBURSEMENTS</u>		
The District should establish appropriate procedures to ensure that student body funds are only used to pay for allowable goods or services that promote the general welfare, morale, and educational experience of the student body, in accordance with the guidelines contained within the Associated Student Body Accounting Manual, Fraud Prevention Guide. In addition, the District should reimburse the affected student body accounts for the cost of the inappropriate expenditures.	Implemented	
<u>STATE AWARDS</u>		
2018 - 002 / 40000		
<u>TRANSPORTATION MAINTENANCE OF EFFORT</u>		
The District should make every effort to ensure that all costs associated with meeting the transportation needs of the District are properly charged to the program.	Not Implemented	Comment Repeated See Finding 2019-006
2018 - 003 / 40000		
<u>EDUCATOR EFFECTIVENESS</u>		
The District should return all unspent program funds to the state, once requested, and work with the County Office to transfer any amounts, representing earned program funds that remain in Resource 6264 to unrestricted Resource 0000.	Implemented	