

**MORONGO UNIFIED SCHOOL DISTRICT
SAN BERNARDINO COUNTY
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2019**



MORONGO UNIFIED SCHOOL DISTRICT
For the Fiscal Year Ended June 30, 2019
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MORONGO UNIFIED SCHOOL DISTRICT

For the Fiscal Year Ended June 30, 2019

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Education
Morongo Unified School District
Twenty-nine Palms, 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 Morongo Unified School District, as of and for the fiscal 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.

Auditors' 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, 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 Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morongo Unified School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

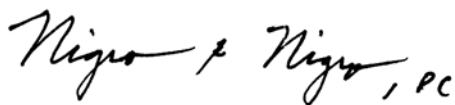
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability-MPP Program, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The supplementary information on pages 65 to 68 and the schedule of expenditures of federal awards on page 69 are the responsibility of management and were 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 64 has not been subjected to the auditing procedures applied in the audit of the basic 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 2, 2019, on our consideration of the 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 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 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 the District's internal control over financial reporting and compliance.



Murrieta, California
December 2, 2019

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
 For the Fiscal Year Ended June 30, 2019

This discussion and analysis of Morongo Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$0.5 million.
- Governmental revenues were \$113.8 million. Expenses were \$113.2 million.
- The District acquired over \$2.2 million in new capital assets during the year. Depreciation expense was \$3.3 million.
- The District decreased its outstanding long-term debt by about \$1.25 million. This was primarily due to payments on bonds and early retirement incentives.
- Grades K-12 average daily attendance decreased by 12, or 0.1%.
- Governmental funds increased by \$4.6 million, or 12.9%.
- Reserves for the General Fund increased by \$319,223, or 11.2%.

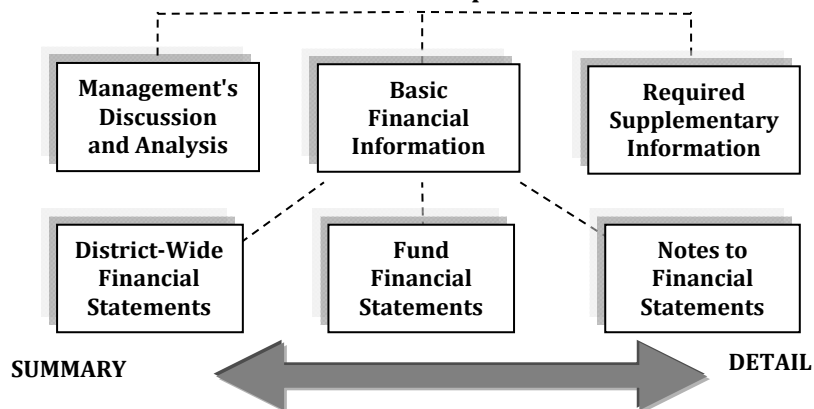
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Morongo Unified School District's Annual Financial Report



MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the District that operate like a business, such as self-insurance funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, & Changes in Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

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

The two district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The District has three kinds of funds:

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

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

- 2) **Proprietary funds** – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the District's internal service fund is included within the governmental activities reported in the district-wide statements but provide more detail and additional information, such as cash flows. The District uses the internal service fund to report activities that relate to the District's self-insured activities.
- 3) **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2019, than it was the year before – increasing to \$0.5 million (See Table A-1).

Table A-1: Statement of Net Position

	Governmental Activities		Variance
	2019	2018	Increase (Decrease)
Assets			
Current assets	\$ 49,454,612	\$ 44,614,122	\$ 4,840,490
Capital assets	81,766,411	82,888,071	(1,121,660)
Total assets	131,221,023	127,502,193	3,718,830
Deferred outflows of resources	25,803,255	32,091,526	(6,288,271)
Liabilities			
Current liabilities	10,352,789	10,054,137	298,652
Long-term liabilities	51,263,935	52,443,152	(1,179,217)
Net pension liability	87,646,851	93,711,217	(6,064,366)
Total liabilities	149,263,575	156,208,506	(6,944,931)
Deferred inflows of resources	7,272,935	3,435,755	3,837,180
Net position			
Net investment in capital assets	36,478,275	35,159,605	1,318,670
Restricted	17,619,856	16,640,099	979,757
Unrestricted	(53,610,363)	(51,850,246)	(1,760,117)
Total net position	\$ 487,768	\$ (50,542)	\$ 538,310

Changes in net position, governmental activities. The District's total revenues increased 8.5% to \$113.8 million (See Table A-2). The increase is due primarily to increased LCFF funding.

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

The total cost of all programs and services increased 8.3% to \$113.2 million. The District's expenses are predominantly related to educating and caring for students, 81.2%. The purely administrative activities of the District accounted for just 5.8% of total costs. A significant contributor to the increase in costs was increased salaries, benefits, and pension costs.

Table A-2: Statement of Activities

	Governmental Activities		Variance
	2019	2018	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for services	\$ 503,298	\$ 1,176,273	\$ (672,975)
Operating grants and contributions	20,913,500	18,252,989	2,660,511
Capital grants and contributions	2,833	1,779	1,054
General Revenues:			
Property taxes	10,999,889	10,995,160	4,729
Federal and state aid not restricted	79,881,400	73,094,864	6,786,536
Other general revenues	1,467,449	1,349,813	117,636
Total Revenues	113,768,369	104,870,878	8,897,491
Expenses			
Instruction-related	75,650,967	70,181,050	5,469,917
Pupil services	16,308,305	14,795,021	1,513,284
Administration	6,584,323	5,906,926	677,397
Plant services	11,859,253	12,264,730	(405,477)
All other activities	2,827,211	1,451,210	1,376,001
Total Expenses	113,230,059	104,598,937	8,631,122
Increase (decrease) in net position	538,310	271,941	266,369
Net Position	\$ 487,768	\$ (50,542)	\$ 538,310

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$40.7 million, which is above last year's ending fund balance of \$36.1 million. The primary cause of the increased fund balance is increased state LCFF funding.

Table A-3: The District's Fund Balances

Fund	Fund Balances				
	July 1, 2018	Revenues	Expenditures	Other Financing Uses and Sources	June 30, 2019
General Fund	\$ 23,317,799	\$ 106,940,062	\$ 106,049,349	\$ -	\$ 24,208,512
Cafeteria Fund	357,571	6,153,073	5,625,362	-	885,282
Deferred Maintenance Fund	823	2,775,217	305,856	-	2,470,184
Building Fund	9	-	-	-	9
Capital Facilities Fund	9,639,691	1,234,424	326,285	-	10,547,830
County School Facilities Fund	144,295	2,832	-	-	147,127
Bond Interest and Redemption Fund	2,619,840	2,089,066	2,249,867	-	2,459,039
Total	\$ 36,080,028	\$ 119,194,674	\$ 114,556,719	\$ -	\$ 40,717,983

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$8.9 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$6.9 million due to negotiations and step/column.
- Other non-personnel expenses – increased \$4.6 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$1.9 million, the actual results for the year show that revenues exceeded expenditures by roughly \$0.9 million. Actual revenues were \$3.6 million less than anticipated, but expenditures were \$6.3 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2019, that will be carried over into the 2019-20 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018-19 the District had invested approximately \$2.2 million in new capital assets, related to construction in progress, site improvements, and equipment purchases. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year was about \$3.3 million.

Table A-4: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
Land	\$ 2,009,471	\$ 2,009,471	\$ -
Improvement of sites	9,351,163	8,775,204	575,959
Buildings	67,977,996	70,125,563	(2,147,567)
Equipment	1,634,487	1,549,259	85,228
Construction in progress	793,294	428,574	364,720
Total	\$ 81,766,411	\$ 82,888,071	\$ (1,121,660)

MORONGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$53.1 million in long-term debt other than pensions – a decrease of 2.3% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

Table A-5: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2019	2018	
General obligation bonds	\$ 47,915,981	\$ 48,401,206	\$ (485,225)
Capital leases	369,880	590,581	(220,701)
Compensated absences	558,393	516,767	41,626
Early retirement incentives	1,951,883	2,602,510	(650,627)
Other postemployment benefits	2,265,142	2,202,283	62,859
Total	\$ 53,061,279	\$ 54,313,347	\$ (1,252,068)

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature passed the final budget package on June 13, 2019. The Governor signed the *2019-20 Budget Act* and 15 other budget-related bills on June 27, 2019.

Major Features of the 2019-20 Spending Plan

Makes \$5.9 Billion in Additional Unfunded Liability Payments

Teachers, administrators, and other certificated employees of school districts earn pension benefits from the California State Teachers' Retirement System (CalSTRS). Other school district employees, such as clerical staff, also earn pension benefits administered by California Public Employees' Retirement System (CalPERS). The state and school districts each have full responsibility for their respective CalPERS' unfunded liabilities associated with their own employees. In the case of CalSTRS, the state and school districts share responsibility for the system's total unfunded liability (about one-third is the responsibility of the state and two-thirds of the districts).

The spending plan allocates \$5.9 billion General Fund to pay down unfunded pension liabilities on behalf of both the state and school districts (some of which is counted toward the state's Proposition 2 debt payment requirements). In particular, the spending plan dedicates:

- ***\$3.6 Billion to Address State's Unfunded Liabilities.*** The spending plan uses \$2.5 billion in General Fund monies to pay down the state's CalPERS unfunded liability. The spending plan also devotes \$1.1 billion General Fund to reduce the state's share of the CalSTRS unfunded liability, as part of the state's Proposition 2 debt payment requirements.
- ***\$2.3 Billion to Address School Districts' Unfunded Liabilities.*** The spending plan also devotes \$1.6 billion General Fund to reduce the school districts' share of the CalSTRS unfunded liability and \$660 million General Fund to address the school districts' CalPERS unfunded liability.

MORONGO UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

K-14 Education

Provides a Few Notable Ongoing Proposition 98 Augmentations

Under the spending plan, Proposition 98 funding for 2019-20 increases \$2.9 billion (3.7 percent) from the revised 2018-19 level. The spending plan devotes the largest share of this increase—\$2 billion—to school districts to cover changes in student attendance and provide a 3.26 percent cost-of-living adjustment (COLA) for the Local Control Funding Formula (general purpose per-student funding). The budget also provides two augmentations related to special education: (1) \$493 million for school districts based on the number of three- and four-year old children identified with disabilities affecting their education and (2) \$153 million for special education agencies with average or below average per-pupil funding rates.

Pays a Portion of Districts' Pension Costs for the Next Two Years

The spending plan also provides additional monies to school districts outside of the Proposition 98 funding requirement by paying a portion of districts' pension costs for the next two years. School districts' pension contribution rates for both CalPERS and CalSTRS have been rising and are set to continue increasing for at least the next few years. For CalSTRS, the budget provides \$606 million for the state to pay a portion of districts' costs (reducing district contribution rates by about 1 percent of payroll in 2019-20 and 2020-21). Similarly, the budget provides \$244 million for the state to cover a portion of districts' CalPERS costs (reducing district rates by about 1 percent of payroll in 2019-20 and 2020-21). Although district pension rates will continue to rise, the increases will be slower than previously projected.

All of these factors were considered in preparing the Morongo Unified School District budget for the 2019-20 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sharon Flores, Assistant Superintendent-Business Services, Morongo Unified School District, 5715 Utah Trail, P.O. Box 1209, Twentynine Palms, California 92277 or by email at sharon_flores@morongo.k12.ca.us.

MORONGO UNIFIED SCHOOL DISTRICT*Statement of Net Position**June 30, 2019*

	Total Governmental Activities
ASSETS	
Cash	\$ 41,873,934
Accounts receivable	5,890,196
Inventories	182,766
Prepaid expenses	1,507,716
Capital assets:	
Non-depreciable assets	2,802,765
Depreciable assets	143,717,526
Less accumulated depreciation	<u>(64,753,880)</u>
Total assets	<u>131,221,023</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	23,350,781
Deferred outflows related to OPEB	35,412
Deferred amounts on refunding	<u>2,417,062</u>
Total deferred outflows of resources	<u>25,803,255</u>
 LIABILITIES	
Accounts payable	8,293,117
Unearned revenue	262,328
Long-term liabilities:	
Due or payable within one year	1,797,344
Due or payable after one year	51,263,935
Net pension liability	<u>87,646,851</u>
Total liabilities	<u>149,263,575</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>7,272,935</u>
 NET POSITION	
Net investment in capital assets	36,478,275
Restricted for:	
Capital projects	10,694,957
Debt service	2,459,039
Educational and categorical programs	4,465,860
Unrestricted	<u>(53,610,363)</u>
Total net position	<u>\$ 487,768</u>

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
Instructional Services:					
Instruction	\$ 62,950,048	\$ 45	\$ 10,242,211	\$ 2,833	\$ (52,704,959)
Instruction-Related Services:					
Supervision of instruction	2,610,660	-	1,015,101	-	(1,595,559)
Instructional library, media and technology	903,643	-	127,133	-	(776,510)
School site administration	9,186,616	-	802,270	-	(8,384,346)
Pupil Support Services:					
Home-to-school transportation	4,966,591	-	-	-	(4,966,591)
Food services	5,654,299	106,889	5,988,954	-	441,544
All other pupil services	5,687,415	-	1,576,278	-	(4,111,137)
General Administration Services:					
Data processing services	1,756,770	10,178	5,806	-	(1,740,786)
Other general administration	4,827,553	266	801,540	-	(4,025,747)
Plant Services	11,859,253	48,647	115,752	-	(11,694,854)
Ancillary Services	570,639	-	(3,483)	-	(574,122)
Community Services	187,052	-	44,250	-	(142,802)
Interest on Long-Term Debt	2,053,573	-	-	-	(2,053,573)
Other Outgo	15,947	337,273	197,688	-	519,014
Total Governmental Activities	\$ 113,230,059	\$ 503,298	\$ 20,913,500	\$ 2,833	(91,810,428)
General Revenues:					
Property taxes					10,999,889
Federal and state aid not restricted to specific purpose					79,881,400
Interest and investment earnings					433,766
Miscellaneous					1,033,683
Total general revenues					92,348,738
Change in net position					538,310
Net position - July 1, 2018					(50,542)
Net position - June 30, 2019					\$ 487,768

MORONGO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2019

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 27,583,269	\$ 10,266,884	\$ 3,227,625	\$ 41,077,778
Accounts receivable	4,855,234	88,469	941,904	5,885,607
Due from other funds	775,880	277,630	-	1,053,510
Inventories	35,139	-	147,627	182,766
Prepaid expenditures	1,507,716	-	-	1,507,716
Total Assets	\$ 34,757,238	\$ 10,632,983	\$ 4,317,156	\$ 49,707,377
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 7,585,359	\$ 85,153	\$ 3,044	\$ 7,673,556
Due to other funds	277,630	-	775,880	1,053,510
Unearned revenues	215,553	-	46,775	262,328
Total Liabilities	8,078,542	85,153	825,699	8,989,394
Fund Balances				
Nonspendable	1,577,855	-	147,677	1,725,532
Restricted	3,728,255	10,547,830	3,343,780	17,619,865
Assigned	18,191,105	-	-	18,191,105
Unassigned	3,181,481	-	-	3,181,481
Total Fund Balances	26,678,696	10,547,830	3,491,457	40,717,983
Total Liabilities and Fund Balances	\$ 34,757,238	\$ 10,632,983	\$ 4,317,156	\$ 49,707,377

MORONGO UNIFIED SCHOOL DISTRICT

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2019

Total fund balances - governmental funds \$ 40,717,983

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 at historical cost:	146,520,291	
Accumulated depreciation:	<u>(64,753,880)</u>	81,766,411

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (618,532)

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: 2,417,062

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 of resources and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	23,350,781	
Deferred inflows of resources relating to pensions	<u>(7,272,935)</u>	16,077,846

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

Deferred outflows of resources relating to OPEB	35,412	
Deferred inflows of resources relating to OPEB	<u>-</u>	35,412

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

General obligation bonds payable	47,915,981	
Capital leases payable	369,880	
Compensated absences payable	558,393	
Early retirement incentives payable	1,951,883	
Other postemployment benefits payable	<u>2,265,142</u>	(53,061,279)

The net pension liability is not due and payable in the current reporting period, and therefore is not reported as a liability in the fund financial statements. (87,646,851)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. The net position for internal service funds is: 799,716

Total net position - governmental activities \$ 487,768

MORONGO UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Fiscal Year Ended June 30, 2019

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 82,939,246	\$ -	\$ -	\$ 82,939,246
Federal sources	7,970,596	-	5,640,259	13,610,855
Other state sources	17,285,013	-	394,719	17,679,732
Other local sources	1,520,424	1,234,424	2,209,993	4,964,841
Total Revenues	109,715,279	1,234,424	8,244,971	119,194,674
EXPENDITURES				
Current:				
Instructional services:				
Instruction	63,806,286	-	-	63,806,286
Instruction-related services:				
Supervision of instruction	2,706,189	-	-	2,706,189
Instructional library, media and technology	838,183	-	-	838,183
School site administration	8,121,635	-	-	8,121,635
Pupil support services:				
Home-to-school transportation	4,956,240	-	-	4,956,240
Food services	97,256	-	5,481,436	5,578,692
All other pupil services	5,945,123	-	-	5,945,123
Ancillary services	578,356	-	-	578,356
Community services	184,766	-	-	184,766
General administration services:				
Data processing services	1,432,296	-	-	1,432,296
Other general administration	4,776,613	1,776	-	4,778,389
Plant services	11,432,082	39,544	10,806	11,482,432
Transfers of indirect costs	(133,120)	-	133,120	-
Capital outlay	1,373,738	284,965	-	1,658,703
Intergovernmental transfers	15,947	-	-	15,947
Debt service:				
Principal	220,701	-	781,884	1,002,585
Interest	2,914	-	1,467,983	1,470,897
Total Expenditures	106,355,205	326,285	7,875,229	114,556,719
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,360,074	908,139	369,742	4,637,955
Fund Balances, July 1, 2018	23,318,622	9,639,691	3,121,715	36,080,028
Fund Balances, June 30, 2019	\$ 26,678,696	\$ 10,547,830	\$ 3,491,457	\$ 40,717,983

MORONGO UNIFIED 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

Total net change in fund balances - governmental funds \$ 4,637,955

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

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, the cost of capital assets is allocated over its estimated useful life as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	2,206,118	
Depreciation expense:	<u>(3,327,778)</u>	
Net:		(1,121,660)

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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,002,585

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest paid exceeded accreted interest earned by: (370,526)

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of the premium for the period is: 73,867

Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In governmental funds these charges are recognized as an expenditure. However, in the statement of activities, these amounts are amortized over the life of the refunded debt. The difference between current year charges and the current year amortization is: (120,352)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: (165,667)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis costs and actual employer contributions was: (3,976,145)

In governmental funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned was: (41,626)

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. This year, the decrease in early retirement incentives was: 650,627

In governmental funds, OPEB expenses are recognized when employer 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: (27,447)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was (3,301)

Change in net position of governmental activities \$ 538,310

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Net Position – Proprietary Fund
June 30, 2019

	Governmental Activities
	Internal
	Service Fund
ASSETS	
Current Assets	
Cash	\$ 796,156
Accounts receivable	<u>4,589</u>
Total assets	800,745
LIABILITIES	
Current Liabilities	
Accounts payable	<u>1,029</u>
NET POSITION	
Restricted	<u><u>\$ 799,716</u></u>

MORONGO UNIFIED SCHOOL DISTRICT*Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2019*

	Governmental Activities Internal Service Fund
OPERATING EXPENSES	
Payments for claims and other operating expenses	\$ 19,029
OPERATING INCOME (LOSS)	(19,029)
NON-OPERATING REVENUES	
Interest income	15,728
Change in net position	(3,301)
Net position, July 1, 2018	803,017
Net position, June 30, 2019	\$ 799,716

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2019

	Governmental Activities
	Internal Service Fund
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Payments to vendors and suppliers	\$ (18,000)
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Investment income	14,354
Net increase (decrease) in cash and cash equivalents	(3,646)
Cash and cash equivalents, July 1, 2018	799,802
Cash and cash equivalents, June 30, 2019	<u>\$ 796,156</u>

MORONGO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2019

	Student Body Funds
ASSETS	
Cash	\$ 239,720
Inventories	29,299
Total Assets	<u>\$ 269,019</u>
 LIABILITIES	
Due to student groups	<u>\$ 269,019</u>
Total Liabilities	<u>\$ 269,019</u>

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Morongo Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, and thus are included in the financial statements using the blended presentation method as if they were part of the District's operations because the Board of Trustees of the component units is essentially the same as the Board of Trustees of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The District has identified no organizations that are required to be reported as component units.

B. Basis of Presentation, Basis of Accounting

1. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Governmental Funds

The District reports the following major governmental funds:

General Fund: This is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund. The District also maintains a Deferred Maintenance Fund which does not currently meet the definition of a special revenue fund as it is not primarily composed of restricted or committed revenue sources. Because this fund does not meet the definition of a special revenue fund under GASB 54, the activity in the fund is being reported within the General Fund.

Capital Facilities Fund: This fund is used to primarily account separately for moneys received from fees levied on development projects as a condition of approval (*Education Code* sections 17620-17626 and *Government Code* Section 65995 et seq.).

Non-Major Governmental Funds

The District reports the following non-major governmental funds:

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

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* sections 38090 and 38093).

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

1. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

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

County School Facilities Fund: This fund is used primarily to account for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070.10 et seq.).

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

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code* sections 15125-15262).

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Funds: These funds are used to account for services rendered on a cost-reimbursement basis within the District. The District operates workers' compensation and property and liability insurance programs that are accounted for in the Internal Service Fund. In addition, the District's health and welfare benefit programs are accounted for in the Internal Service Fund.

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

Fiduciary Funds

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

Agency Funds: The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

2. Measurement Focus, Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resource or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the District's proprietary funds and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The agency fund has no measurement focus and utilizes the accrual basis of accounting for reporting its assets and liabilities.

3. Revenues - Exchange and Non-Exchange Transactions

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation, Basis of Accounting (continued)

3. Revenues - Exchange and Non-Exchange Transactions (continued)

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

C. Budgetary Data

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

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

D. 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 as of June 30.

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

1. Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings	20-50 years
Improvements/Infrastructure	5-50 years
Equipment	2-15 years

4. Unearned Revenue

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

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

5. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position 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 will not be recognized as an inflow of resources (revenue) until that time.

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

7. Postemployment Benefits Other Than Pensions (OPEB)

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

8. Pensions

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

9. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District’s highest decision-making level of authority rests with the District’s Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District’s intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

9. Fund Balances (continued)

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

10. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

F. Minimum Fund Balance Policy

Fund balance measures the net financial resources available to finance expenditures of future periods. The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Education.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Education. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Education. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.

The Board of Education delegates authority to assign fund balance for a specific purpose to the Associate Superintendent, Business Services of the District with notification at the next scheduled Board Meeting to the Board of Education.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Minimum Fund Balance Policy (continued)

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.

The District currently adheres to the state mandated minimal level of fund balance as outlined in Title V of the California Code of Regulations Section 15443, Reserve.

G. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

I. New GASB Pronouncements

During the 2018-19 fiscal year, the following GASB Pronouncements became effective:

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

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

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. New GASB Pronouncements (continued)

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

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

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

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

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

J. Future Accounting Pronouncements

Other GASB pronouncements, which will be effective in future periods, are as follows:

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

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

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

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

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

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

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

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

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

4. In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

This Statement also addresses arrangements – often characterized as leases – that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Future Accounting Pronouncements (continued)

5. (continued)

Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

NOTE 2 – CASH

Cash at June 30, 2019, is reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in county treasury	\$ 40,420,498	\$ 796,156	\$ 41,216,654	\$ -
Total Pooled Funds	40,420,498	796,156	41,216,654	-
Deposits:				
Cash on hand and in banks	622,230	-	622,230	239,720
Cash in revolving fund	35,050	-	35,050	-
Total Deposits	657,280	-	657,280	239,720
Total Cash and Investments	\$ 41,077,778	\$ 796,156	\$ 41,873,934	\$ 239,720

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 2 – CASH (continued)

Pooled Funds (continued)

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2019, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk – Deposits

Custodial credit risk 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. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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, \$515,099 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Fair Value Measurements

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

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

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

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

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Self- Insurance Fund</u>
Federal Government:					
Categorical aid programs	\$ 2,347,946	\$ -	\$ 879,544	\$ 3,227,490	\$ -
State Government:					
Child Nutrition	-	-	55,072	55,072	-
Lottery	323,797	-	-	323,797	-
Mandated costs	742,178	-	-	742,178	-
Categorical aid programs	476,197	-	-	476,197	-
Local:					
Interest	137,030	57,820	831	195,681	4,589
Other local sources	<u>828,086</u>	<u>30,649</u>	<u>6,457</u>	<u>865,192</u>	<u>-</u>
Total	<u>\$ 4,855,234</u>	<u>\$ 88,469</u>	<u>\$ 941,904</u>	<u>\$ 5,885,607</u>	<u>\$ 4,589</u>

NOTE 4 – INTERFUND TRANSACTIONS

Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2019, consisted of the following:

General Fund due to Capital Facilities Fund for expenditure reimbursement	\$ 277,630
Cafeteria Fund due to General Fund for payroll and operating expenses	<u>775,880</u>
Total	<u>\$ 1,053,510</u>

MORONGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 5 – FUND BALANCES

At June 30, 2019, fund balances of the District's governmental funds were classified as follows:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable:				
Revolving cash	\$ 35,000	\$ -	\$ 50	\$ 35,050
Stores inventories	35,139	-	147,627	182,766
Prepaid expenditures	1,507,716	-	-	1,507,716
Total Nonspendable	1,577,855	-	147,677	1,725,532
Restricted:				
Categorical programs	3,728,255	-	-	3,728,255
Food service program	-	-	737,605	737,605
Capital projects	-	10,547,830	147,136	10,694,966
Debt service	-	-	2,459,039	2,459,039
Total Restricted	3,728,255	10,547,830	3,343,780	17,619,865
Assigned:				
Carryover	2,659,480	-	-	2,659,480
MBG1-X-IM	2,065,915	-	-	2,065,915
Textbook adoption	1,500,000	-	-	1,500,000
Roof repair	500,000	-	-	500,000
Fire alarm	206,483	-	-	206,483
IT infrastructure	500,000	-	-	500,000
Strategic plan- Safety	500,000	-	-	500,000
Strategic plan- Technology	500,000	-	-	500,000
Strategic plan- Deferred Maintenance	500,000	-	-	500,000
Reserve spending 2020-2021	1,861,527	-	-	1,861,527
Reserve spending 2021-2022	2,598,050	-	-	2,598,050
Reserve spending 2022-2023	1,937,580	-	-	1,937,580
Deferred maintenance program	2,470,184	-	-	2,470,184
Lottery	391,886	-	-	391,886
Total Assigned	18,191,105	-	-	18,191,105
Unassigned:				
Unassigned	3,181,481	-	-	3,181,481
Total Unassigned	3,181,481	-	-	3,181,481
Total	\$ 26,678,696	\$ 10,547,830	\$ 3,491,457	\$ 40,717,983

MORONGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2019

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

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

	Balance, July 1, 2018	Additions	Deletions	Balance, June 30, 2019
Capital assets not being depreciated:				
Land	\$ 2,009,471	\$ -	\$ -	\$ 2,009,471
Construction in progress	428,574	389,016	24,296	793,294
Total capital assets not being depreciated	<u>2,438,045</u>	<u>389,016</u>	<u>24,296</u>	<u>2,802,765</u>
Capital assets being depreciated:				
Improvement of sites	19,682,549	1,029,113	-	20,711,662
Buildings	110,588,955	249,296	-	110,838,251
Equipment	11,604,624	562,989	-	12,167,613
Total capital assets being depreciated	<u>141,876,128</u>	<u>1,841,398</u>	<u>-</u>	<u>143,717,526</u>
Accumulated depreciation for:				
Improvement of sites	(10,907,345)	(453,154)	-	(11,360,499)
Buildings	(40,463,392)	(2,396,863)	-	(42,860,255)
Equipment	(10,055,365)	(477,761)	-	(10,533,126)
Total accumulated depreciation	<u>(61,426,102)</u>	<u>(3,327,778)</u>	<u>-</u>	<u>(64,753,880)</u>
Total capital assets being depreciated, net	<u>80,450,026</u>	<u>(1,486,380)</u>	<u>-</u>	<u>78,963,646</u>
Governmental activities capital assets, net	<u>\$ 82,888,071</u>	<u>\$ (1,097,364)</u>	<u>\$ 24,296</u>	<u>\$ 81,766,411</u>

Depreciation expense is allocated to the following functions in the statement of activities:

Instruction	\$ 2,619,160
Instruction Supervision and Administration	10,933
Instruction Library, Media and Technology	33,131
School Site Administration	71,316
Home-to-School Transportation	1,789
Food Services	68,400
All Other Pupil Services	675
Ancillary Services	7,701
All Other General Administration	82,584
Centralized Data Processing	282,897
Plant Services	<u>149,192</u>
Total	<u>\$ 3,327,778</u>

MORONGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
 June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS

Changes in long-term debt for the year ended June 30, 2019, were as follows:

	Balance, July 1, 2018	Additions	Deductions	Balance, June 30, 2019	Amount Due Within One Year
General Obligation Bonds:					
Principal	\$ 44,409,954	\$ -	\$ 781,884	\$ 43,628,070	\$ 663,046
Accreted Interest Component	2,627,192	513,642	143,116	2,997,718	171,954
Unamortized Issuance Premium	1,364,060	-	73,867	1,290,193	73,867
Subtotal Bonds	48,401,206	513,642	998,867	47,915,981	908,867
Capital Leases	590,581	-	220,701	369,880	237,850
Compensated Absences	516,767	41,626	-	558,393	-
Early Retirement Incentive	2,602,510	-	650,627	1,951,883	650,627
Other Postemployment Benefits	2,202,283	269,722	206,863	2,265,142	-
Totals	\$ 54,313,347	\$ 824,990	\$ 2,077,058	\$ 53,061,279	\$ 1,797,344

Payments for general obligation bonds are made by the Bond Interest and Redemption Fund. Payments for supplemental early retirement program are made in the General Fund. Payments for compensated absences and OPEB benefits are typically liquidated in the fund for which the employee worked. Payments for capital leases are made by the General Fund.

A. General Obligation Bonds

Election of 2005 (Measure O)

Bonds were authorized at an election of the registered voters of the District held on November 8, 2005, which authorized the issuance of \$48,150,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities.

Prior-Year Defeasance of Debt

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2019, \$3,978,737 of the defeased debt remains outstanding.

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. At June 30, 2019, deferred amounts on refunding were \$2,417,062.

A summary of all bonds issued and outstanding at June 30, 2019 follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2018	Issuances	Redemptions	Balance, June 30, 2019
Election of 2005 (Measure O)								
Series C	3/29/2012	8/1/2042	4.34% - 12.00%	\$ 17,147,652	\$ 12,999,954	\$ -	\$ 131,884	\$ 12,868,070
Refunding Bonds								
2012 Ref.	11/29/2012	8/1/2030	2.0% - 5.0%	7,935,000	6,900,000	-	335,000	6,565,000
2018 Ref.	4/4/2018	8/1/2039	2.0% - 5.0%	24,510,000	24,510,000	-	315,000	24,195,000
					\$ 44,409,954	\$ -	\$ 781,884	\$ 43,628,070
Accreted Interest:								
CABs					\$ 652,192	\$ 130,340	\$ 143,116	\$ 639,416
Convertible CABs					1,975,000	383,302	-	2,358,302
					\$ 2,627,192	\$ 513,642	\$ 143,116	\$ 2,997,718

MORONGO UNIFIED SCHOOL DISTRICT*Notes to Financial Statements**June 30, 2019***NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)****A. General Obligation Bonds (continued)**

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

Fiscal Year	Principal	Interest	Total
2019-2020	\$ 663,046	\$ 1,651,078	\$ 2,314,124
2020-2021	717,257	1,672,667	2,389,924
2021-2022	791,780	1,693,169	2,484,949
2022-2023	871,860	1,704,363	2,576,223
2023-2024	1,280,000	1,385,624	2,665,624
2024-2029	6,970,000	7,975,694	14,945,694
2029-2034	7,810,000	7,367,116	15,177,116
2034-2039	11,555,000	5,589,853	17,144,853
2039-2043	12,969,127	1,817,324	14,786,451
Total	<u>\$ 43,628,070</u>	<u>\$ 30,856,888</u>	<u>\$ 74,484,958</u>

B. Capital Leases

The District leases equipment valued at \$1,197,503 under agreements that provide for title to pass upon expiration of the lease period and where the lease term is most of the equipment's useful life. Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest	Total
2019-20	\$ 237,850	\$ 19,708	\$ 257,558
2020-21	130,910	3,144	134,054
2021-22	1,120	27	1,147
Total	<u>\$ 369,880</u>	<u>\$ 22,879</u>	<u>\$ 392,759</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the project.

C. Early Retirement

The District has established a supplemental early retirement incentive program (SERP) whereby certain qualified employees may retire early and receive a portion of their salary paid out as an annuity. The total future payments owing at June 30, 2019, for these obligations are shown below.

Fiscal Year	Payment
2019-2020	\$ 650,627
2020-2021	650,628
2021-2022	650,628
Total	<u>\$ 1,951,883</u>

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

D. Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

Pension Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 1,842,704	\$ 35,412	\$ -	\$ 234,310
MPP Program	422,438	-	-	(100,392)
Total	<u>\$ 2,265,142</u>	<u>\$ 35,412</u>	<u>\$ -</u>	<u>\$ 133,918</u>

The details of each plan are as follows:

District Plan

Plan description

The District's single-employer defined benefit OPEB plan provides OPEB for eligible certificated, classified, and management employees of the District. The authority to establish and amend the benefit terms and financing requirements are governed by collective bargaining agreements with plan members. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided

The postretirement health plan provides medical only coverage for retirees and their dependents until age 65. Retirees must have 10 years of service with the District and must retire from the applicable retirement system. The District requires that the retiree pay 100% of the premium; however, since retiree premium rates do not support retiree claims and related expenses, there is an "implicit rate subsidy" which is considered to be a District contribution equal to 20.1% of the premium.

Employees covered by benefit terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	42
Active employees	768
Total	<u>810</u>

Total OPEB Liability

The District's total OPEB liability of \$1,842,704 for the Plan was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2018.

Actuarial assumptions and other inputs

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

Valuation Date	June 30, 2018
Salary increases	2.75% per year
Inflation rate	2.75% per year
Healthcare cost trend rates	4.00% per year
Retirees' share of benefit-related costs	Retirees pay 100% of premium

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

D. Other Postemployment Benefits (OPEB) Liability

Discount Rate

The discount rate of 3.50 percent is based on the Bond Buyer 20 Bond Index.

Mortality Rates

The mortality assumptions are based on the 2009 CalSTRS Mortality table created by CalSTRS, the 2009 CalPERS Mortality table for Retired Miscellaneous Employees and the 2009 CalPERS Mortality table for Active Miscellaneous Employees. CalSTRS and CalPERS periodically study mortality for participating agencies and establish mortality tables that are modified versions of commonly used tables. These tables incorporate mortality projection as deemed appropriate based on analysis.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2018	<u>\$ 1,679,453</u>
Changes for the year:	
Service cost	171,314
Interest	59,916
Changes of assumptions	38,492
Benefit payments	<u>(106,471)</u>
Net changes	163,251
Balance at June 30, 2019	<u><u>\$ 1,842,704</u></u>

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

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

Discount Rate	OPEB Liability
1% decrease (2.50%)	\$ 1,970,995
Current discount rate (3.50%)	\$ 1,842,704
1% increase (4.50%)	\$ 1,726,366

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

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

Healthcare Cost Trend Rate	OPEB Liability
1% decrease (3.00%)	\$ 1,719,405
Current rate (4.00%)	\$ 1,842,704
1% increase (5.00%)	\$ 1,967,150

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

D. Other Postemployment Benefits (OPEB) Liability (continued)

District Plan (continued)

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 \$234,310. In addition, at June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 35,412	\$ -
Total	<u>\$ 35,412</u>	<u>\$ -</u>

The deferred outflows of resources related to changes of assumptions in the measurement of the total OPEB liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 12.5 years.

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

Year Ended June 30:	<u>Deferred Outflows of Resources</u>
2020	\$ 3,080
2021	3,080
2022	3,080
2023	3,080
2024	3,080
Thereafter	<u>20,012</u>
	<u>\$ 35,412</u>

Medicare Premium Payment (MPP) Program

Plan Description

The MPP Program is a cost-sharing multiple-employer other postemployment benefit (OPEB) plan established pursuant to Chapter 1032, Statutes of 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefit Fund (THBF).

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

D. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Plan Description (continued)

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

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the DB Program who were retired or began receiving a disability allowance prior to July 1, 2012, and were not eligible for premium-free Medicare Part A. The MPP Program is closed to new entrants as members who retire on or after July 1, 2012, are not eligible for coverage under the MPP Program.

As of June 30, 2018, 5,984 retirees participated in the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be predetermined.

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

Total OPEB Liability

At June 30, 2019, the District reported a liability of \$422,438 for its proportionate share of the net OPEB liability for the MPP Program. The total OPEB liability for the MPP Program as of June 30, 2018, was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net OPEB liability for the two most recent measurement periods were:

	Percentage Share of MPP Program		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>	
Proportion of the Net OPEB Liability	0.110364%	0.124274%	-0.013910%

For the year ended June 30, 2019, the District reported OPEB expense of \$(100,392).

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

D. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

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

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

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

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

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 7 – LONG-TERM DEBT OTHER THAN PENSIONS (continued)

D. Other Postemployment Benefits (OPEB) Liability (continued)

Medicare Premium Payment (MPP) Program (continued)

Discount Rate

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

Sensitivity of the District’s Proportionate Share of the Net OPEB liability to Changes in the Discount Rate

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

<u>Discount Rate</u>	<u>MPP OPEB Liability</u>
1% decrease (2.87%)	\$ 467,237
Current discount rate (3.87%)	\$ 422,438
1% increase (4.87%)	\$ 381,987

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

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

<u>Medicare Cost Trend Rates</u>	<u>MPP OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 385,220
Current rate (3.7% Part A and 4.1% Part B)	\$ 422,438
1% increase (4.7% Part A and 5.1% Part B)	\$ 462,464

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS

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

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

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 64,501,730	\$ 16,955,396	\$ 6,721,123	\$ 9,638,432
CalPERS	23,145,121	6,395,385	551,812	4,709,185
Total	<u>\$ 87,646,851</u>	<u>\$ 23,350,781</u>	<u>\$ 7,272,935</u>	<u>\$ 14,347,617</u>

The details of each plan are as follows:

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP. The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS)

Benefits Provided (continued)

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire Date	December 31, 2012	January 1, 2013
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	60	62
Monthly Benefits as a Percentage of Eligible Compensation	2.0%-2.4%	2.0%-2.4%
Required Member Contribution Rate	10.25%	10.205%
Required Employer Contribution Rate	16.28%	16.28%
Required State Contribution Rate	9.828%	9.828%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven year period.

The contribution rates for each program for the year ended June 30, 2019, are presented above and the District's total contributions were \$6,734,861.

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

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

District's proportionate share of net pension liability	\$	64,501,730
State's proportionate share of the net pension liability associated with the District		<u>36,930,257</u>
Total	\$	<u>101,431,987</u>

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	June 30, 2018	June 30, 2017	
Proportion of the Net Pension Liability	0.070182%	0.078081%	-0.007899%

For the year ended June 30, 2019, the District recognized pension expense of \$9,638,432. In addition, the District recognized pension expense and revenue of \$1,259,314 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,734,861	\$ -
Net change in proportionate share of net pension liability	-	3,300,476
Difference between projected and actual earnings on pension plan investments	-	2,483,724
Changes of assumptions	10,020,518	-
Differences between expected and actual experience	200,017	936,923
Total	<u>\$ 16,955,396</u>	<u>\$ 6,721,123</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

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,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,058,139
2021	1,126,830
2022	(568,053)
2023	1,103,671
2024	1,345,662
Thereafter	(1,566,837)
Total	<u>\$ 3,499,412</u>

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.1%
Consumer Price of Inflation	2.75%
Wage Growth	3.5%

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

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 inputs 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.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

For each future valuation, CalSTRS’ consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2019, are summarized in the following table:

<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)%

Discount Rate

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 94,487,487
Current discount rate (7.10%)	64,501,730
1% increase (8.10%)	39,640,628

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS pursuant to Sections 22954 and 22955.1 of the Education Code and Public Resources Code Section 6217.5. In addition, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated supplemental contributions of \$2,246,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State’s on-behalf contributions is \$5,887,766.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

B. California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

	Schools Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire Date	On or before December 31, 2012	On or after January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	55	62
Monthly Benefits as a Percentage of Eligible Compensation	1.1%-2.5%	1.0%-2.5%
Required Employee Contribution Rate	7.00%	6.50%
Required Employer Contribution Rate	18.062%	18.062%

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$2,377,296.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$23,145,121. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportions of the net pension liability for the two most recent measurement periods were:

	Percentage Share of Risk Pool		Change Increase/ (Decrease)
	Fiscal Year Ending June 30, 2019	Fiscal Year Ending June 30, 2018	
Measurement Date	<u>June 30, 2018</u>	<u>June 30, 2017</u>	
Proportion of the Net Pension Liability	0.086806%	0.090067%	-0.003261%

For the year ended June 30, 2019, the District recognized pension expense of \$4,709,185. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,377,296	\$ -
Net change in proportionate share of net pension liability	-	551,812
Difference between projected and actual earnings on pension plan investments	189,842	-
Changes of assumptions	2,310,938	-
Differences between expected and actual experience	1,517,309	-
Total	<u>\$ 6,395,385</u>	<u>\$ 551,812</u>

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

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

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4 years.

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,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,299,708
2021	1,655,863
2022	(197,869)
2023	(291,425)
2024	-
Thereafter	-
Total	<u>\$ 3,466,277</u>

Actuarial Methods and Assumptions

Total pension liability for the Schools Pool 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. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	1997-2015
Actuarial Cost Method	Entry age normal
Discount Rate	7.15%
Consumer Price of Inflation	2.75%
Wage Growth	Varies by entry age and service

Post-retirement mortality rates are based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

Actuarial Methods and Assumptions (continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

The target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	50%	4.80%	5.98%
Fixed Income	28%	1.00%	2.62%
Inflation Assets	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	0.00%	(0.92%)

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 33,698,189
Current discount rate (7.15%)	23,145,121
1% increase (8.15%)	14,389,840

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 8 – PENSION PLANS (continued)

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

On-Behalf Payments

The State of California normally makes no contributions to CalPERS on behalf of the District. However, for the 2018-19 fiscal year, California Senate Bill No. 90 (SB 90) was signed into law on June 27, 2019, and appropriated contributions of \$904,000,000. Under accounting principles generally accepted in the United States of America, these amounts are reported as revenues and expenditures in the fund financial statements. The total amount recognized by the District for its proportionate share of the State's on-behalf contributions is \$784,762.

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 the Social Security as its alternative plan.

D. Payables to the Pension Plans

At June 30, 2019, the District reported payables of \$618,758 and \$16,786 for the outstanding amount of legally required contributions to the CalSTRS and CalPERS pension plans, respectively, for the fiscal year ended June 30, 2019.

NOTE 9 – JOINT VENTURES

The Morongo Unified School District participates in joint ventures under joint powers agreements with the High Desert and Inland Employee and Employer Trust (HDIEET), Southern California Schools Employee Benefit Association (SCSEBA), Schools Excess Liability Fund (SELF), and Southern California Schools Risk Management (SCSRM) public entity risk pools. The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage as well as health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The Board of Education controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the Board of Education. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs.

Financial information for each JPA is separately available.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2019

NOTE 10 – 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 reimbursement will not be material.

B. Construction Commitments

As of June 30, 2019, the District had no commitments with respect to unfinished capital projects.

C. Litigation

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2019.

NOTE 11 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. During fiscal year ending June 30, 2019, the District participated in the Schools Excess Liability Fund public entity risk pool for property and liability insurance coverage.

Workers' Compensation

For fiscal year 2018-19, the District participated in Southern California Risk Management for workers compensation.

Employee Medical Benefits

The District has contracted with High Desert and Inland Empire/Employer Trust and Southern California Schools Employee Benefits Association to provide employee medical, vision, and dental benefits.

Required Supplementary Information

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MORONGO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Pos (Neg)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
LCFF Sources	\$ 83,322,302	\$ 82,367,206	\$ 80,177,860	\$ (2,189,346)
Federal Sources	7,105,798	9,539,856	7,970,596	(1,569,260)
Other State Sources	10,331,026	16,921,506	17,285,013	363,507
Other Local Sources	812,539	1,679,931	1,506,593	(173,338)
Total Revenues	<u>101,571,665</u>	<u>110,508,499</u>	<u>106,940,062</u>	<u>(3,568,437)</u>
Expenditures				
Current:				
Certificated Salaries	42,611,892	42,996,498	42,609,429	387,069
Classified Salaries	15,198,173	15,176,351	14,940,662	235,689
Employee Benefits	21,973,400	28,473,550	27,717,362	756,188
Books and Supplies	5,537,721	7,460,128	5,178,874	2,281,254
Services and Other Operating Expenditures	15,252,129	16,278,347	13,857,109	2,421,238
Indirect Costs	(253,845)	(133,121)	(133,121)	-
Capital Outlay	516,663	1,957,134	1,849,936	107,198
Intergovernmental Transfers	23,238	135,853	15,947	119,906
Debt Service	13,762	13,970	13,151	819
Total Expenditures	<u>100,873,133</u>	<u>112,358,710</u>	<u>106,049,349</u>	<u>6,309,361</u>
Net Change in Fund Balance	698,532	(1,850,211)	890,713	2,740,924
Fund Balances, July 1, 2018	<u>16,794,559</u>	<u>23,317,800</u>	<u>23,317,799</u>	<u>(1)</u>
Fund Balances, June 30, 2019	<u>\$ 17,493,091</u>	<u>\$ 21,467,589</u>	<u>\$ 24,208,512</u>	<u>\$ 2,740,923</u>
Other Fund Balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances:				
			Deferred Maintenance Fund	<u>2,470,184</u>
Total reported General Fund balance on the Statement of Revenues, Expenditures and Changes in Fund Balances:				<u>\$ 26,678,696</u>

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
For the Fiscal Year Ended June 30, 2019

	<i>Last Ten Fiscal Years*</i>				
	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
CalSTRS					
District's proportion of the net pension liability	<u>0.0702%</u>	<u>0.0781%</u>	<u>0.0760%</u>	<u>0.0760%</u>	<u>0.0720%</u>
District's proportionate share of the net pension liability	<u>\$ 64,501,730</u>	<u>\$ 72,209,767</u>	<u>\$ 61,469,560</u>	<u>\$ 51,317,105</u>	<u>\$ 42,153,464</u>
State's proportionate share of the net pension liability associated with the District	<u>36,930,257</u>	<u>42,718,688</u>	<u>34,998,676</u>	<u>27,141,019</u>	<u>25,454,337</u>
Totals	<u>\$ 101,431,987</u>	<u>\$ 114,928,455</u>	<u>\$ 96,468,236</u>	<u>\$ 78,458,124</u>	<u>\$ 67,607,801</u>
District's covered-employee payroll	<u>\$ 38,451,185</u>	<u>\$ 40,322,409</u>	<u>\$ 37,465,079</u>	<u>\$ 45,270,304</u>	<u>\$ 38,178,242</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>167.75%</u>	<u>179.08%</u>	<u>164.07%</u>	<u>113.36%</u>	<u>110.41%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS					
District's proportion of the net pension liability	<u>0.0868%</u>	<u>0.0901%</u>	<u>0.0904%</u>	<u>0.0897%</u>	<u>0.0887%</u>
District's proportionate share of the net pension liability	<u>\$ 23,145,121</u>	<u>\$ 21,501,450</u>	<u>\$ 17,854,056</u>	<u>\$ 13,222,512</u>	<u>\$ 10,072,581</u>
District's covered-employee payroll	<u>\$ 12,456,423</u>	<u>\$ 13,004,853</u>	<u>\$ 9,674,441</u>	<u>\$ 9,737,732</u>	<u>\$ 10,810,294</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>185.81%</u>	<u>165.33%</u>	<u>184.55%</u>	<u>135.79%</u>	<u>93.18%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Pension Contributions
For the Fiscal Year Ended June 30, 2019

	<i>Last Ten Fiscal Years*</i>				
	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
CalSTRS					
Contractually required contribution	\$ 6,734,861	\$ 5,548,506	\$ 5,072,559	\$ 4,020,003	\$ 3,149,705
Contributions in relation to the contractually required contribution	<u>6,734,861</u>	<u>5,548,506</u>	<u>5,072,559</u>	<u>4,020,003</u>	<u>3,149,705</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 41,368,922</u>	<u>\$ 38,451,185</u>	<u>\$ 40,322,409</u>	<u>\$ 37,465,079</u>	<u>\$ 45,270,304</u>
Contributions as a percentage of covered-employee payroll	<u>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>6.96%</u>
CalPERS					
Contractually required contribution	\$ 2,377,296	\$ 1,934,607	\$ 1,806,114	\$ 1,146,131	\$ 1,215,077
Contributions in relation to the contractually required contribution	<u>2,377,296</u>	<u>1,934,607</u>	<u>1,806,114</u>	<u>1,146,131</u>	<u>1,215,077</u>
Contribution deficiency (excess):	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 13,161,864</u>	<u>\$ 12,456,423</u>	<u>\$ 13,004,853</u>	<u>\$ 9,674,441</u>	<u>\$ 9,737,732</u>
Contributions as a percentage of covered-employee payroll	<u>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>12.478%</u>

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

MORONGO UNIFIED SCHOOL DISTRICT*Schedule of Changes in the District's Total OPEB Liability and Related Ratios
For the Fiscal Year Ended June 30, 2019*

Last 10 Fiscal Years*

	2018	2017
Total OPEB liability		
Service cost	\$ 171,314	\$ 166,729
Interest	59,916	60,221
Changes of assumptions or other inputs	38,492	-
Benefit payments	<u>(106,471)</u>	<u>(102,376)</u>
Net change in total OPEB liability	163,251	124,574
Total OPEB liability - beginning	<u>1,679,453</u>	<u>1,554,879</u>
Total OPEB liability - ending	<u><u>\$ 1,842,704</u></u>	<u><u>\$ 1,679,453</u></u>
Covered-employee payroll	<u>\$ 55,434,429</u>	<u>\$ 53,950,782</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>3.32%</u>	<u>3.11%</u>

Notes to Schedule:

For the year ended June 30, 2019, the discount rate used to measure the total OPEB liability was changed from 3.80% to 3.50%.

** This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.*

MORONGO UNIFIED SCHOOL DISTRICT*Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
For the Fiscal Year Ended June 30, 2019*

	2018	2017
District's proportion of net OPEB liability	0.1104%	0.1243%
District's proportionate share of net OPEB liability	\$ 422,438	\$ 522,830
Covered-employee payroll	N/A	N/A
District's net OPEB liability as a percentage of covered-employee payroll	N/A	N/A
Plan fiduciary net position as a percentage of the total OPEB liability	0.40%	0.01%

Notes to Schedule:

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

This schedule is required to show information for ten years; however, until a full ten year trend is compiled, information is presented for those years for which information is available.

MORONGO UNIFIED SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Fiscal Year Ended June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

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

Change of assumptions - In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Schedule of District Contributions

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

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

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

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

Change of assumptions – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

MORONGO UNIFIED SCHOOL DISTRICT

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019*

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of the District’s Proportionate Share of the Net OPEB Liability – MPP Program

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

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

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

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Supplementary Information

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MORONGO UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2019

The Morongo Unified School District was established in 1958. The District boundaries encompass an area of approximately 1,358 square miles in the Mojave Desert in San Bernardino County. The District serves the communities of Morongo Valley, the Town of Yucca Valley, Pioneertown, Landers, Joshua Tree, the City of Twentynine Palms, and the Marine Corps Air Ground Task Force Training Center at Twentynine Palms. The District currently operates eleven elementary schools, two middle schools, two comprehensive high schools, one continuation high school, and an independent study program.

BOARD OF EDUCATION

Member	Office	Term Expires
Chris Proudfoot	President	2022
Karalee Hargrove	Clerk	2020
L. Hilary Slotta	Member	2022
John Cole	Member	2020
Kerri Condley	Member	2020

DISTRICT ADMINISTRATORS

Tom Baumgarten,
Superintendent

Sharon Flores,
Assistant Superintendent, Business Services

Amy Woods,
Assistant Superintendent, Instructional Services

Michael Ghelber,
Assistant Superintendent, Human Resources

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2019

	Second Period Report	Annual Report
	Certificate No. (3E32B5FF)	Certificate No. (3F79C409)
Regular ADA:		
Grades TK-3	2,783.99	2,754.28
Grades 4-6	1,947.99	1,931.85
Grades 7-8	1,184.13	1,169.17
Grades 9-12	2,122.60	2,083.24
	<hr/>	<hr/>
Total Regular ADA	8,038.71	7,938.54
	<hr/>	<hr/>
Special Education, Nonpublic, Nonsectarian Schools:		
Grades 4-6	0.22	0.22
Grades 7-8	0.31	0.68
Grades 9-12	1.80	1.91
	<hr/>	<hr/>
Total Regular ADA	2.33	2.81
	<hr/>	<hr/>
Total ADA	<u>8,041.04</u>	<u>7,941.35</u>

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2019

<u>Grade Level</u>	<u>Requirement</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	55,930	180	Complied
Grade 1	50,400	52,355	180	Complied
Grade 2	50,400	52,355	180	Complied
Grade 3	50,400	52,355	180	Complied
Grade 4	54,000	54,130	180	Complied
Grade 5	54,000	54,130	180	Complied
Grade 6	54,000	54,130	180	Complied
Grade 7	54,000	65,400	180	Complied
Grade 8	54,000	65,400	180	Complied
Grade 9	64,800	64,867	180	Complied
Grade 10	64,800	64,867	180	Complied
Grade 11	64,800	64,867	180	Complied
Grade 12	64,800	64,867	180	Complied

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2019

General Fund	(Budget) 2020 ²	2019 ³	2018	2017
Revenues and other financing sources	\$ 107,344,394	\$ 106,940,062	\$ 99,060,336	\$ 96,521,910
Expenditures and other financing uses	<u>109,205,920</u>	<u>106,049,349</u>	<u>95,408,563</u>	<u>95,909,465</u>
Change in fund balance (deficit)	<u>(1,861,526)</u>	<u>890,713</u>	<u>3,651,773</u>	<u>612,445</u>
Ending fund balance	<u>\$ 22,346,986</u>	<u>\$ 24,208,512</u>	<u>\$ 23,317,799</u>	<u>\$ 19,666,026</u>
Available reserves ¹	<u>\$ 3,346,316</u>	<u>\$ 3,181,480</u>	<u>\$ 2,862,257</u>	<u>\$ 2,876,950</u>
Available reserves as a percentage of total outgo	<u>3.1%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
Total long-term debt	<u>\$ 139,099,889</u>	<u>\$ 140,708,130</u>	<u>\$ 148,024,564</u>	<u>\$ 133,133,435</u>
Average daily attendance at P-2	<u>7,941</u>	<u>8,041</u>	<u>8,053</u>	<u>7,985</u>

The General Fund balance has increased by \$4.5 million over the past two years. The fiscal year 2019-20 adopted budget projects a decrease of \$1.9 million. For a district of 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 has incurred an operating deficit in none of the past three years, but anticipates incurring an operating deficit during the 2019-20 fiscal year. Long-term debt has increased by \$7.6 million over the past two years.

Average daily attendance has increased by 56 over the past two years. A decrease of 100 ADA is anticipated during fiscal year 2019-20.

¹ Available reserves consist of all unassigned fund balances in the General Fund.

² Revised budget September, 2019.

³ The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

MORONGO UNIFIED SCHOOL DISTRICT

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2019*

*There were no differences between the Annual Financial and Budget Report and the
Audited Financial Statements in any funds.*

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S.Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
School Breakfast Program - Especially Needy	10.553	13526	\$ 1,163,602	
National School Lunch Program	10.555	13523	4,188,296	
USDA Donated Foods	10.555	N/A	<u>288,361</u>	
Total Child Nutrition Cluster				\$ 5,640,259
NSLP Equipment Assistance Grants	10.579	14906		<u>19,370</u>
Total U.S.Department of Agriculture				<u>5,659,629</u>
U.S.Department of Education:				
Federal Impact Aid	84.041	N/A		1,819,619
Passed through California Dept. of Education (CDE):				
Every Student Succeeds Act (ESSA):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329		2,831,279
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330	14831		22,217
Title II, Part A, Teacher Quality Local	84.367	14341		376,315
Title III, Limited English Proficiency	84.365	14346		28,137
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396		174,205
Vocational and Applied Tech Secondary II, Carl Perkins Act	84.048	14893		90,252
Individuals with Disabilities Education Act (IDEA):				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,841,375	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	49,586	
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	37,898	
Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	93,203	
Preschool Staff Development, Part B, Sec 619	84.173A	13431	<u>993</u>	
Total Special Education (IDEA) Cluster				2,023,055
IDEA Early Intervention Grants, Part C	84.181	23761		74,070
Passed through the Department of Rehabilitation:				
Workability II, Transition Partnership	84.126	10006		<u>186,329</u>
Total U.S.Department of Education				<u>7,625,478</u>
U.S.Department of Health & Human Services:				
Passed through California Dept. of Education:				
Medi-Cal Billing Option	93.778	10013		167,510
Medi-Cal Administrative Activities (MAA)	93.778	10060		<u>180,456</u>
Total U.S. Department of Health & Human Services				<u>347,966</u>
Total Expenditures of Federal Awards				<u><u>\$ 13,633,073</u></u>

MORONGO UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2019

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has met its LCFF target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 Part 26 of the Education Code.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The District did not elect to use the ten percent de minimis indirect cost rate.

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances		\$ 13,610,855
Differences between Federal Revenues and Expenditures:		
Medi-Cal Administrative Activities	93.778	<u>22,218</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 13,633,073</u>

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Other Independent Auditors' Reports

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INDEPENDENT AUDITORS' 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 Education
Morongo Unified School District
Twentynine Palms, 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 Morongo Unified School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Morongo Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2019.

Internal Control Over Financial Reporting

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

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

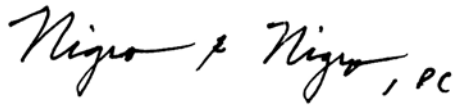
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morongo Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California
December 2, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
Morongo Unified School District
Twentynine Palms, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

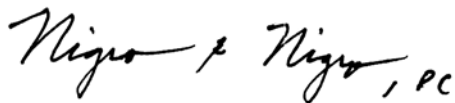
Report on Internal Control Over Compliance

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

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

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

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



Murrieta, California
December 2, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
Morongo Unified School District
Twentynine Palms, California

Report on State Compliance

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

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Morongo Unified School District's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Morongo Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

Table with 2 columns: Description, Procedures Performed. Rows include: Local Education Agencies Other Than Charter Schools: Attendance (Yes), Teacher Certification and Misassignments (Yes), Kindergarten Continuance (Yes), Independent Study (Yes), Continuation Education (Yes), Instructional Time (Yes), Instructional Materials (Yes), Ratio of Administrative Employees to Teachers (Yes).

Description	Procedures Performed
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	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
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

Unmodified Opinion on Compliance with State Programs

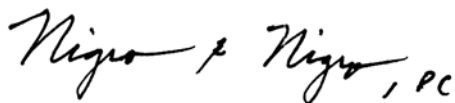
In our opinion, Morongo Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and questioned costs as Finding 2019-001. Our opinion on each state program is not modified with respect to this matter.

District's Response to Finding

Morongo Unified School District's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Morongo Unified School District's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.



Murrieta, California
December 2, 2019

Findings and Questioned Costs

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MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 200.516	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>10.553, 10.555</u> <u>Child Nutrition Cluster</u>	

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

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2018-19.

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2018-19.

MORONGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2019-001: School Safety Plans (40000)

Criteria: In accordance with Education Code Section 32281(a), each school district and county office of education is responsible for the overall development of all comprehensive school safety plans for its schools operating kindergarten or any of grades 1 to 12, inclusive.

Furthermore, Education Code Section 32286(a) requires that each school adopt its comprehensive school safety plan by March 1, 2000, and review and update its plan by March 1, every year thereafter.

Condition: While each school tested did have a comprehensive safety plan in place, and the plans were reviewed and updated, such reviews were not completed by March 1, 2019.

Cause: The District was unaware of the requirement to approve the plans by March 1.

Effect: There is no financial impact from this finding.

Recommendation: We recommend that the District implement procedures to ensure that all school safety plans are approved by March 1 of each year.

Views of Responsible Officials: The District will take necessary steps to ensure that the comprehensive school safety plans are reviewed and updated by March 1 of each year.

MORONGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2019

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2018-001: School Accountability Report Card</i>	<p>In accordance with Education Code §33126, the school is to provide an accountability report card to include safety, cleanliness, and adequacy of school facilities, to include any needed maintenance to ensure good repair. The condition reported should be supported by the school's Facilities Inspection Tool (FIT), School Facilities Condition Evaluation as required by Education Code §17002. In addition, according to Education Code §35256, the governing board must publish the School Accountability Report Card (SARC) for each school by February 1 of each year.</p> <p>It was noted that the overall status on the SARC for Black Rock Continuation High did not match the FIT form.</p>	72000	We recommend that an employee verify the information presented in the SARC. This information is essential to present the condition of the school fairly to the public.	Implemented.