

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Covina-Valley Unified School District  
Covina, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Covina-Valley Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 76, schedule of changes in the District's total OPEB liability and related ratios on page 77, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 78, schedule of the District's proportionate share of the net pension liability on page 79, and the schedule of District contributions on page 80, 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 accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, and the other supplementary information as listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavinek, Tunc, Day & Co. LLP

Rancho Cucamonga, California  
December 6, 2018



# **COVINA-VALLEY**

## **UNIFIED SCHOOL DISTRICT**

**District Superintendent**

Richard M. Sheehan, Ed.D.

**Board of Education**

David G. Bonilla

Sonia Frasquillo

Charles M. Kemp

Sue L. Maulucci

Darrell A. Myrick

This section of Covina-Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **The Financial Statements**

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

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

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

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

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

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

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

The Primary unit of the government is the Covina-Valley Unified School District.



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its services in this category:

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

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

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

**Proprietary Funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$(105,553,403) for the fiscal year ended June 30, 2018. Of this amount, \$(119,913,096) was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities	
	2018	(as restated) 2017
<b>Assets</b>		
Current and other assets	\$ 109,254,943	\$ 125,660,383
Capital assets	171,359,186	168,584,591
<b>Total Assets</b>	<b>280,614,129</b>	<b>294,244,974</b>
<b>Deferred Outflows of Resources</b>	<b>49,539,972</b>	<b>31,595,899</b>
<b>Liabilities</b>		
Current liabilities	24,236,191	27,089,647
Long-term obligations	250,892,368	258,019,019
Aggregate net pension liability*	143,403,887	121,253,264
<b>Total Liabilities</b>	<b>418,532,446</b>	<b>406,361,930</b>
<b>Deferred Inflows of Resources</b>	<b>17,175,058</b>	<b>17,107,243</b>
<b>Net Position</b>		
Net investment in capital assets	(26,126,941)	(20,860,766)
Restricted	40,486,634	40,287,457
Unrestricted (Deficit)	(119,913,096)	(117,054,991)
<b>Total Net Position</b>	<b>\$ (105,553,403)</b>	<b>\$ (97,628,300)</b>

\* Directly paid by CalPERS and CalSTRS and not reflected in the governmental fund financial statements.

The \$(119,913,096) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

		Governmental Activities	
		2018	2017
<b>Revenues</b>			
Program revenues:			
Charges for services		\$ 5,964,595	\$ 5,822,592
Operating grants and contributions		32,126,812	33,318,658
General revenues:			
Federal and State aid not restricted		91,773,716	91,834,498
Property taxes		39,144,916	35,853,393
Other general revenues		7,202,086	5,148,894
<b>Total Revenues</b>		<b>176,212,125</b>	<b>171,978,035</b>
<b>Expenses</b>			
Instruction-related		127,026,635	120,025,161
Pupil services		17,120,683	16,216,802
Administration		8,915,469	7,938,502
Plant services		17,184,746	10,606,222
All other services		13,889,695	13,035,463
<b>Total Expenses</b>		<b>\$ 184,137,228</b>	<b>\$ 167,822,150</b>
Transfers		\$ -	\$ 645,527
<b>Change in Net Position</b>		<b>\$ (7,925,103)</b>	<b>\$ 4,801,412</b>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$184,137,228. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$39,144,916 because the cost was paid by those who benefited from the programs \$(5,964,595) or by other governments and organizations who subsidized certain programs with grants and contributions \$(32,126,812). We paid for the remaining "public benefit" portion of our governmental activities with \$98,975,802 in State funds and with other revenues, like interest, and general entitlements.

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

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction-related	\$ 127,026,635	\$ 120,025,161	\$ 101,171,410	\$ 93,920,611
Pupil services	17,120,683	16,216,802	7,982,637	7,043,279
Administration	8,915,469	7,938,502	7,638,338	6,887,445
Plant services	17,184,746	10,606,222	16,059,282	10,100,396
All other services	13,889,695	13,035,463	13,194,154	10,729,169
<b>Total</b>	<b>\$ 184,137,228</b>	<b>\$ 167,822,150</b>	<b>\$ 146,045,821</b>	<b>\$ 128,680,900</b>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$84,114,457, which is a net decrease of \$13,468,796 from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	\$ 27,370,281	\$ 145,928,160	\$ 145,181,315	\$ 28,117,126
Building Fund	32,477,299	401,942	15,976,587	16,902,654
Debt Service Fund	19,531,770	304,422	739,450	19,096,742
Adult Education Fund	1,480,177	5,027,133	4,277,867	2,229,443
Child Development Fund	278,160	3,288,921	2,910,281	656,800
Cafeteria Fund	6,367,156	6,185,715	6,255,076	6,297,795
Capital Facilities Fund	834,633	359,827	50,985	1,143,475
Special Reserve Fund for Capital Outlay Projects	588,239	957,649	-	1,545,888
Bond Interest and Redemption Fund	8,655,538	12,824,706	13,355,710	8,124,534
<b>Total</b>	<b>\$ 97,583,253</b>	<b>\$ 175,278,475</b>	<b>\$ 188,747,271</b>	<b>\$ 84,114,457</b>

The primary reasons for these increases and decreases are:

- As the District's principal operating funding, the General Fund, is comprised of unrestricted as well as restricted dollars. The General Fund 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 General Fund is inclusive of all the financial activity for the East San Gabriel Valley SELPA. The District serves as the Administrative Unit for the SELPA and records all financial activity under a sub fund within the District's General Fund.

In total, the General Fund balance increased by \$0.7 million.

- The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the Nutrition Services program. The Cafeteria Fund decreased by \$0.1 million.
- The Building Fund is primarily utilized to account bond proceeds and record expenditures in accordance with bond language. The fund balance in the Building Fund decreased by \$15.6 million.
- The Bond Interest and Redemption Fund are used for the repayment of bonds issued by the District. The Bond Interest and Redemption fund decreased by \$0.5 million primarily due to a decrease in tax collection.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 76.)

The anticipated ending balance for the General Fund was projected at \$28.4 million, based on final budgetary revisions through June 30, 2018. Based on year-end totals, the ending fund balance was \$28.1 million, reflecting a decrease over earlier projections.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$171,359,186 in a broad range of capital assets (net of depreciation), including land, construction in progress, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$2,774,595, or 1.65 percent, from last year (Table 5).

**Table 5**

	Governmental Activities	
	2018	2017
Land and construction in progress	\$ 10,464,488	\$ 28,491,095
Buildings and improvements	159,922,076	138,927,987
Equipment	972,622	1,165,509
<b>Total</b>	<b>\$ 171,359,186</b>	<b>\$ 168,584,591</b>

This year's additions included mainly site and building improvements. No new debt was issued for these additions.

Several capital projects are planned for the 2018-2019 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Long-Term Obligations

At the end of this year, the District had \$250,892,368 in long-term obligations outstanding versus \$258,019,019 last year, a decrease of 2.76 percent. Those long-term obligations consisted of:

**Table 6**

	Governmental Activities	
	2018	(as restated) 2017
General Obligation Bonds - net (financed with property taxes)	\$ 230,579,041	\$ 236,372,397
Qualified Zone Academy Bonds	2,186,898	2,563,827
Early retirement incentives	270,000	352,500
Capitalized lease - energy conservation improvement	2,450,620	3,183,769
Aggregate net OPEB liability	11,111,937	11,309,796
Compensated absences	1,709,865	1,566,395
Claims liability	2,584,007	2,670,335
<b>Total</b>	<b>\$ 250,892,368</b>	<b>\$ 258,019,019</b>

The District's General Obligation Bond rating continues to be "Aa3." The State limits the amount of general obligation debt that districts can issue to 5.00 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding net obligation debt is below statutorily-imposed limit.

Other obligations include payable compensated absences, aggregate net OPEB liability, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Adopted Budget for the 2018-2019 fiscal year, the Governing Board and management used the following criteria:

The key assumptions in our revenue forecast are:

- LCFF Revenue is budgeted at \$10,300 per ADA, comprised of 3.00 percent COLA, 69.6 percent Unduplicated and 100 percent LCFF Funding Gap. Enrollment projections indicate a decline in student population that directly affects the LCFF Revenue Funding. Projected Second Period Apportionment (P2 ADA) is projected at 11,384, including 46.84 LACOE operated programs ADA. The District is projected to be funded on ADA of 11,445.
- LCFF income is budgeted at \$117.7 million, an increase of \$4.5 million, or 3.9 percent from the prior year. This included property tax revenues budgeted at \$23.0 million and EPA revenues budgeted at \$14.9 million.



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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- Federal Income is budgeted at \$6.6 million, a slight increase.
- Other state income is budgeted at \$21.0 million, an increase of \$2.4 million. The increase is mainly attributed to the increase in one-time funds for outstanding mandated claims.

Expenditures are based on the following forecasts:

- Health and Welfare costs are expected to increase by \$0.6 million from the prior year.
- The contribution for statutory benefits is equal to 19.35 percent for certificated personnel (includes 16.28 percent for CalSTRS Employer rate) and 27.332 percent for classified personnel (includes 18.062 percent for CalPERS Employer rate).
- Salary were projected to be \$87.2 million which included an anticipated reduction of \$1.4 million due to the District's realignment of staffing ratios.
- Substitute teacher costs are budgeted at \$1.6 million.
- Liability and property damage insurance is budgeted at \$0.6 million.
- Utilities and other operating costs are budgeted at \$3.3 million.
- The following represent projected certificated personnel staffing ratios:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through three	24:1	3,124
Grades four through fifth	33:1	2,404
Grades sixth through eighth	34:1	1,691
Grades ninth through twelfth	34:1	4,457

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Robert McEntire, the Assistant Superintendent Business Services/CBO at Covina-Valley Unified School District, 519 East Badillo Street, Covina, California, 91723 or e-mail at [rmcentire@c-vusd.org](mailto:rmcentire@c-vusd.org)

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 102,554,019
Receivables	4,607,392
Prepaid expenses	1,934,115
Stores inventories	159,417
Capital Assets:	
Land and construction in process	10,464,488
Other capital assets	285,593,929
Less: Accumulated depreciation	<u>(124,699,231)</u>
Total Capital Assets	<u>171,359,186</u>
<b>Total Assets</b>	<u><b>280,614,129</b></u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>49,539,972</u>
 <b>LIABILITIES</b>	
Accounts payable	21,142,957
Accrued interest payable	3,087,005
Unearned revenue	6,229
Long-Term Obligations:	
Current portion of long-term obligations other than pensions	7,640,496
Noncurrent portion of long-term obligations other than pensions	<u>243,251,872</u>
Total Long-Term Obligations	<u>250,892,368</u>
Aggregate net pension liability	<u>143,403,887</u>
<b>Total Liabilities</b>	<u><b>418,532,446</b></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to OPEB	304,492
Deferred inflows of resources related to pensions	<u>16,870,566</u>
<b>Total Deferred Inflows of Resources</b>	<u><b>17,175,058</b></u>
 <b>NET POSITION</b>	
Net investment in capital assets	(26,126,941)
Restricted for:	
Debt service	24,134,271
Capital projects	1,143,475
Educational programs	4,886,081
Other activities	10,322,807
Unrestricted	<u>(119,913,096)</u>
<b>Total Net Position</b>	<u><b>\$ (105,553,403)</b></u>

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 110,889,740	\$ 2,917,412	\$ 18,952,162	\$ (89,020,166)
Instruction-related activities:				
Supervision of instruction	5,267,097	305,171	1,590,808	(3,371,118)
Instructional library, media, and technology	458,123	-	-	(458,123)
School site administration	10,411,675	216,609	1,873,063	(8,322,003)
Pupil services:				
Home-to-school transportation	2,697,838	-	-	(2,697,838)
Food services	6,106,935	630,267	5,107,349	(369,319)
All other pupil services	8,315,910	1,031,379	2,369,051	(4,915,480)
Administration:				
Data processing	2,520,372	980	11,651	(2,507,741)
All other administration	6,395,097	87,841	1,176,659	(5,130,597)
Plant services	17,184,746	79,395	1,046,069	(16,059,282)
Interest on long-term obligations	8,873,402	-	-	(8,873,402)
Other outgo	5,016,293	695,541	-	(4,320,752)
<b>Total Governmental Activities</b>	<b>\$ 184,137,228</b>	<b>\$ 5,964,595</b>	<b>\$ 32,126,812</b>	<b>(146,045,821)</b>
General revenues and subventions:				
				25,453,540
Property taxes, levied for general purposes				12,717,748
Property taxes, levied for debt service				973,628
Taxes levied for other specific purposes				91,773,716
Federal and State aid not restricted to specific purposes				1,357,220
Interest and investment earnings				5,844,866
Miscellaneous				
<b>Subtotal, General Revenues and Transfers</b>				<b>138,120,718</b>
<b>Change in Net Position</b>				<b>(7,925,103)</b>
Net Position - Beginning, as Restated				(97,628,300)
Net Position - Ending				<b>\$ (105,553,403)</b>

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2018

	<b>General Fund</b>	<b>Building Fund</b>	<b>Debt Service Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 38,802,862	\$ 18,181,121	\$ 19,096,742
Receivables	2,790,457	111,991	-
Prepaid expenditures	1,934,115	-	-
Stores inventories	51,671	-	-
<b>Total Assets</b>	<b>\$ 43,579,105</b>	<b>\$ 18,293,112</b>	<b>\$ 19,096,742</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 15,455,750	\$ 1,390,458	\$ -
Unearned revenue	6,229	-	-
<b>Total Liabilities</b>	<b>15,461,979</b>	<b>1,390,458</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	2,020,786	-	-
Restricted	4,886,081	16,902,654	19,096,742
Assigned	1,284,915	-	-
Unassigned	19,925,344	-	-
<b>Total Fund Balances</b>	<b>28,117,126</b>	<b>16,902,654</b>	<b>19,096,742</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 43,579,105</b>	<b>\$ 18,293,112</b>	<b>\$ 19,096,742</b>

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

Non-Major Governmental Funds		Total Governmental Funds	
\$	18,910,508	\$	94,991,233
	1,568,612		4,471,060
	-		1,934,115
	107,746		159,417
\$	20,586,866	\$	101,555,825
\$	588,931	\$	17,435,139
	-		6,229
	588,931		17,441,368
	107,746		2,128,532
	18,183,523		59,069,000
	1,706,666		2,991,581
	-		19,925,344
	19,997,935		84,114,457
\$	20,586,866	\$	101,555,825

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

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**Total Fund Balance - Governmental Funds** **\$ 84,114,457**

**Amounts Reported for Governmental Activities in the Statement of  
Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 296,058,417	
Accumulated depreciation is	<u>(124,699,231)</u>	
Net Capital Assets		171,359,186

Deferred inflows of resources related to OPEB represent an acquisition  
of net position that applies to a future period and is not reported in the  
District's funds. Deferred inflows of resources related to OPEB at  
year-end consist of:

Changes of assumptions	(304,492)
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Deferred outflows of resources related to pensions represent a  
consumption of net position in a future period and is not reported in the  
District's funds. Deferred outflows of resources related to pensions at  
year-end consist of:

Pension contributions subsequent to measurement date	12,288,185	
Net change in proportionate share of net pension liability	9,196,004	
Differences between projected and actual earnings on pension plan investments	1,204,279	
Differences between expected and actual experience in the measurement of the total pension liability	1,648,774	
Changes of assumptions	<u>25,202,730</u>	
Total Deferred Outflows of Resources Related to Pensions		49,539,972

Deferred inflows of resources related to pensions represent an acquisition  
of net position that applies to a future period and is not reported in the  
District's funds. Deferred inflows of resources related to pensions at  
year-end consist of:

Net change in proportionate share of net pension liability	(11,674,597)	
Differences between projected and actual earnings on pension plan investments	(2,892,087)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,894,006)	
Changes of assumptions	<u>(409,876)</u>	
Total Deferred Inflows of Resources Related to Pensions		(16,870,566)

In governmental funds, unmatured interest on long-term obligations is  
recognized in the period when it is due. On the government-wide  
financial statements, unmatured interest on long-term obligations is  
recognized when it is incurred. (3,087,005)

## COVINA-VALLEY UNIFIED SCHOOL DISTRICT

### RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, (Continued) JUNE 30, 2018

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An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.

\$ 1,407,293

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

(143,403,887)

Long-term obligations at year-end consist of:

General obligation bonds	\$ (197,489,202)
Unamortized premium	(12,262,061)
Qualified zone academy bonds	(2,186,898)
Capital lease - energy conservation improvement	(2,450,620)
Compensated absences	(1,709,865)
Aggregate net OPEB liability	(11,111,937)
Early retirement incentives	(270,000)

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

(20,827,778)

Total Long-Term Obligations

(248,308,361)

**Total Net Position - Governmental Activities**

**\$ (105,553,403)**

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Debt Service Fund
<b>REVENUES</b>			
Local Control Funding Formula	\$ 113,165,993	\$ -	\$ -
Federal sources	6,821,240	-	-
Other State sources	18,569,773	-	-
Other local sources	7,271,154	401,942	304,422
<b>Total Revenues</b>	<b>145,828,160</b>	<b>401,942</b>	<b>304,422</b>
<b>EXPENDITURES</b>			
Current			
Instruction	93,637,423	-	-
Instruction-related activities:			
Supervision of instruction	4,919,895	-	-
Instructional library, media, and technology	405,043	-	-
School site administration	8,468,077	-	-
Pupil services:			
Home-to-school transportation	2,264,598	-	-
Food services	-	-	-
All other pupil services	6,321,271	-	-
Administration:			
Data processing	2,391,371	-	-
All other administration	5,358,777	-	-
Plant services	14,490,505	-	-
Other outgo	5,016,293	-	-
Facility acquisition and construction	13,350	15,574,020	-
Debt service			
Principal	733,149	376,929	-
Interest and other	107,098	25,638	739,450
<b>Total Expenditures</b>	<b>144,126,850</b>	<b>15,976,587</b>	<b>739,450</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>1,701,310</b>	<b>(15,574,645)</b>	<b>(435,028)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	100,000	-	-
Transfers out	(1,054,465)	-	-
<b>Net Financing Sources</b>	<b>(954,465)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>746,845</b>	<b>(15,574,645)</b>	<b>(435,028)</b>
<b>Fund Balance - Beginning</b>	<b>27,370,281</b>	<b>32,477,299</b>	<b>19,531,770</b>
<b>Fund Balance - Ending</b>	<b>\$ 28,117,126</b>	<b>\$ 16,902,654</b>	<b>\$ 19,096,742</b>

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



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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 113,165,993
6,077,750	12,898,990
5,014,363	23,584,136
16,497,373	24,474,891
<u>27,589,486</u>	<u>174,124,010</u>
3,387,208	97,024,631
181,787	5,101,682
-	405,043
1,399,943	9,868,020
-	2,264,598
5,926,750	5,926,750
1,192,774	7,514,045
-	2,391,371
750,595	6,109,372
510,508	15,001,013
-	5,016,293
44,644	15,632,014
7,085,000	8,195,078
6,270,710	7,142,896
<u>26,749,919</u>	<u>187,592,806</u>
<u>839,567</u>	<u>(13,468,796)</u>
1,054,465	1,154,465
<u>(100,000)</u>	<u>(1,154,465)</u>
954,465	-
1,794,032	(13,468,796)
18,203,903	97,583,253
<u>\$ 19,997,935</u>	<u>\$ 84,114,457</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ (13,468,796)**

**Amounts Reported for Governmental Activities in the Statement of  
Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlays	\$ 14,490,551	
Depreciation expense	<u>(11,715,956)</u>	
Net Expense Adjustment		2,774,595

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) and special termination benefits (early retirement incentives) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, early retirement incentives paid were \$82,500. Vacation earned was more than the amounts used by \$143,470. (60,970)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and aggregate net OPEB liability during the year. (106,633)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability during the year. (3,969,873)

Governmental funds report the effect of premiums when the debt is issued, whereas the amounts are deferred and amortized in the Statement of Activities. 988,202

Repayment of debt obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	7,085,000
Qualified zone academy bonds	376,929
Capital lease obligations	733,149

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES, (Continued)  
FOR THE YEAR ENDED JUNE 30, 2018**

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Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased by \$438,862, and second, \$2,279,846 of accumulated interest was accreted on the District's 'capital appreciation' general obligation bonds.

\$ (2,718,708)

An internal service fund is used by the District's management to charge the costs of the workers' compensation program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

442,002

**Change in Net Position of Governmental Activities**

**\$ (7,925,103)**

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

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	<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 7,562,786
Receivables	136,332
<b>Total Current Assets</b>	<u>7,699,118</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	<u>3,707,818</u>
<b>Noncurrent Liabilities</b>	
Claims liability	<u>2,584,007</u>
<b>Total Liabilities</b>	<u>6,291,825</u>
<b>NET POSITION</b>	
Restricted	<u>\$ 1,407,293</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

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	<u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	<u>\$ 17,193,465</u>
<b>OPERATING EXPENSES</b>	
Other operating cost	<u>16,809,664</u>
<b>Operating Income</b>	<u>383,801</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>58,201</u>
<b>Change in Net Position</b>	442,002
<b>Total Net Position - Beginning</b>	<u>965,291</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 1,407,293</u></u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

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	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from interfund services provided	\$ 17,183,852
Other operating cash receipts	82,700
Cash payments to suppliers and for claims	(16,941,111)
Net Cash Flows from Operating Activities	<u>325,441</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>58,201</u>
 Change in Cash and Cash Equivalents	 383,642
Cash and Cash Equivalents - Beginning	<u>7,179,144</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 7,562,786</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 383,801
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	73,087
Accounts payable	(45,119)
Claims liability	(86,328)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 325,441</u></u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

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	<b>Agency Fund</b>	<b>Special Education Pass-Through Fund</b>
<b>ASSETS</b>		
Deposits and investments	\$ 619,150	\$ 4,035,837
Receivables	3,643	4,729,741
Stores inventories	36,937	-
<b>Total Assets</b>	<b>\$ 659,730</b>	<b>\$ 8,765,578</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 669,532	\$ -
Due to student groups	609,988	-
Due to employees	(619,790)	-
Due to member districts	-	8,765,578
<b>Total Liabilities</b>	<b>\$ 659,730</b>	<b>\$ 8,765,578</b>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

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

#### **Component Units**

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

The District has financial and operational relationships with the Covina-Valley Unified School District Facilities Finance Corporation (Corporation), as represented by the Qualified Zone Academy Bonds, which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District.

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data for the District. The financial statements present the Corporation's financial activity within the Building Fund. Qualified Zone Academy Bonds issued are included as long-term obligation in the government-wide financial statements.

#### **Basis of Presentation - Fund Accounting**

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



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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

### Major Governmental Funds

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

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

**Debt Service Fund** The Debt Services Fund is used for the accumulation of resources for, and retirement of, principal and interest on general long-term obligations.

### Non-Major Governmental Funds

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

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

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

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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

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

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

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

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

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

**Internal Service Fund** Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance fund that is accounted for as an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for student body activities (ASB), and for payroll and related expenses paid in advance.

The District is an Administrative Unit of East San Gabriel Valley Special Education Local Plan Areas (SELPA). The Special Education Pass-Through Fund, an agency fund, is used by the District to account for Special Education revenue passed through to the other member districts of the East San Gabriel Valley SELPA.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### **Basis of Accounting - Measurement Focus**

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

### Cash and Cash Equivalents

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### Prepaid Expenditures (Expenses)

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

### Stores Inventories

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

### Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements/infrastructure, 20 years; equipment, 5 to 15 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the Statement of Net Position.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Compensated Absences

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

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Debt Issuance Costs and Premiums

In the government-wide and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund Statement of Net Position. Debt premiums are amortized over the life of the bonds using the straight-line method.

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Deferred Outflows/Inflows of Resources

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

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

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the total OPEB liability of the District Plan and information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP 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.

### Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

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

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$40,486,634 of restricted net position.

### Operating Revenues and Expenses

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



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Interfund Activity

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

### Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Los Angeles bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### New Accounting Pronouncements

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

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.

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 102,554,019
Fiduciary funds	<u>4,654,987</u>
Total Deposits and Investments	<u>\$ 107,209,006</u>

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	\$ 757,589
Cash in revolving	35,000
Cash with fiscal agent	50,000
Investments	<u>106,366,417</u>
Total Deposits and Investments	<u>\$ 107,209,006</u>

#### Policies and Practices

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### General Authorizations

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

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

### Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the *California Government Code*. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by primarily investing in the Los Angeles County Treasury Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Specific Identification

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

Investment Type	Reported Amount	Weighted Average Days to Maturity
U.S. Treasury Notes	\$ 19,096,742	390
Los Angeles County Treasury Investment Pool	87,269,675	609
Total	<u>\$ 106,366,417</u>	

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment in the Los Angeles County Treasury Investment Pool is not required to be rated, nor has it been rated as of June 30, 2018. The investments in U.S. Treasury Notes have been rated Aaa by Moody's Investor Services as of June 30, 2018.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$266,283 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District. In addition, a balance of \$213,626 was exposed to custodial risk because it was uninsured and uncollateralized.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements Using	
		Level 1 Inputs	Uncategorized
U.S. Treasury Notes	\$ 19,096,742	\$ 19,096,742	\$ -
Los Angeles County Treasury Investment Pool	87,269,675	-	87,269,675
Total	<u>\$ 106,366,417</u>	<u>\$ 19,096,742</u>	<u>\$ 87,269,675</u>



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government						
Categorical aid	\$ 1,532,134	\$ -	\$ 1,078,489	\$ -	\$ 2,610,623	\$ 3,484,748
State Government						
Categorical aid	359,742	-	378,407	-	738,149	1,244,760
Lottery	510,082	-	-	-	510,082	-
Local Government						
Interest	154,485	111,991	28,074	19,614	314,164	233
Other Local Sources	234,014	-	83,642	116,718	434,374	3,643
Total	<u>\$ 2,790,457</u>	<u>\$ 111,991</u>	<u>\$ 1,568,612</u>	<u>\$ 136,332</u>	<u>\$ 4,607,392</u>	<u>\$ 4,733,384</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,886,240	\$ -	\$ -	\$ 2,886,240
Construction in progress	25,604,855	14,432,623	32,459,230	7,578,248
Total Capital Assets Not Being Depreciated	28,491,095	14,432,623	32,459,230	10,464,488
Capital Assets Being Depreciated:				
Land improvements	81,655,936	7,135,803	-	88,791,739
Buildings and improvements	158,246,281	25,323,427	-	183,569,708
Furniture and equipment	13,174,554	57,928	-	13,232,482
Total Capital Assets Being Depreciated	253,076,771	32,517,158	-	285,593,929
Total Capital Assets	281,567,866	46,949,781	32,459,230	296,058,417
Less Accumulated Depreciation:				
Land improvements	38,630,898	4,338,073	-	42,968,971
Buildings and improvements	62,343,332	7,127,068	-	69,470,400
Furniture and equipment	12,009,045	250,815	-	12,259,860
Total Accumulated Depreciation	112,983,275	11,715,956	-	124,699,231
Governmental Activities Capital Assets, Net	\$ 168,584,591	\$ 35,233,825	\$32,459,230	\$ 171,359,186

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

<b>Governmental Activities</b>	
Instruction	\$ 10,544,360
Home-to-school transportation	351,479
All other pupil services	468,638
Plant services	351,479
Total Depreciation Expenses All Activities	<u>\$ 11,715,956</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 6 - INTERFUND TRANSACTIONS

#### Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 100,000	\$ 100,000
Non-Major Governmental Funds	1,054,465	-	1,054,465
Total	<u>\$ 1,054,465</u>	<u>\$ 100,000</u>	<u>\$ 1,154,465</u>

The General Fund transferred \$107,208 to the Cafeteria Non-Major Governmental Fund for bad debt expense.

The General Fund transferred \$947,257 to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund the RDA facilities portion of taxes received.

The Child Development Non-Major Governmental Fund transferred \$100,000 to the General Fund for excess costs incurred by the Kids Korner program.

### NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Salaries and benefits	\$ 7,462,934	\$ 4,191	\$ 374,852	\$ -	\$ 7,841,977	\$ -
LCFF apportionment	2,367,676	-	-	-	2,367,676	-
Construction	-	1,386,267	-	-	1,386,267	-
Deficit cash balances	-	-	-	-	-	623,433
Other vendor payables	5,625,140	-	214,079	3,707,818	9,547,037	46,099
Total	<u>\$ 15,455,750</u>	<u>\$ 1,390,458</u>	<u>\$ 588,931</u>	<u>\$ 3,707,818</u>	<u>\$ 21,142,957</u>	<u>\$ 669,532</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 8 - UNEARNED REVENUE

Unearned revenue of \$6,229 at June 30, 2018, consists of Federal financial assistance in the General Fund.

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

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

	(as restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 223,122,134	\$ 2,279,846	\$ 7,085,000	\$ 218,316,980	\$ 7,005,000
Premium on issuance	13,250,263	-	988,202	12,262,061	-
Qualified zone academy bonds	2,563,827	-	376,929	2,186,898	395,775
Early retirement incentives	352,500	-	82,500	270,000	82,500
Capital lease - energy conservation improvement	3,183,769	-	733,149	2,450,620	157,221
Aggregate net OPEB liability	11,309,796	738,857	936,716	11,111,937	-
Compensated absences	1,566,395	143,470	-	1,709,865	-
Claims liability	2,670,335	418,296	504,624	2,584,007	-
	<u>\$ 258,019,019</u>	<u>\$ 3,580,469</u>	<u>\$ 10,707,120</u>	<u>\$ 250,892,368</u>	<u>\$ 7,640,496</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on qualified zone academy bonds are paid by the Building Fund. Payments on early retirement incentive are made by the General Fund. Payments on capital leases are paid by the General Fund. Other postemployment benefits will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employee worked. Claims liability will be paid by the Internal Service Fund.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2018
6/19/2003	6/1/2028	2.20%-5.20%	\$ 30,000,000	\$ 25,948,790	\$ 1,325,492	\$ 2,380,000	\$ 24,894,282
10/3/2007	8/1/2032	3.50%-5.25%	18,999,949	19,953,344	954,354	1,405,000	19,502,698
12/6/2011	8/1/2026	3.00%-5.25%	13,495,000	11,020,000	-	700,000	10,320,000
5/9/2013	8/1/2052	2.00%-4.15%	30,000,000	26,235,000	-	-	26,235,000
5/9/2013	8/1/2031	2.00%-5.00%	40,500,000	38,635,000	-	795,000	37,840,000
7/9/2015	8/1/2044	2.00%-5.00%	37,000,000	36,920,000	-	775,000	36,145,000
8/10/2016	8/1/2024	N/A	6,000,000	6,000,000	-	1,030,000	4,970,000
8/31/2016	8/1/2045	3.00%-4.00%	12,000,000	12,000,000	-	-	12,000,000
8/31/2016	8/1/2032	3.00%-5.00%	16,410,000	16,410,000	-	-	16,410,000
6/14/2017	8/1/2046	2.00%-5.00%	30,000,000	30,000,000	-	-	30,000,000
				<u>\$ 223,122,134</u>	<u>\$ 2,279,846</u>	<u>\$ 7,085,000</u>	<u>\$ 218,316,980</u>

### 2001 Election General Obligation Bonds, Series B

On June 19, 2003, the District issued the \$30,000,000 2001 Election General Obligation Bonds, Series B. The Series B bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$29,170,000, and an aggregate principal debt service balance of \$59,170,000. The bonds have a final maturity to occur June 1, 2028, with interest rates of 2.20 to 5.20 percent. Proceeds from the sale of the bonds were used to improve health and safety conditions of neighborhood schools, relieve classroom overcrowding, replace inadequate electrical, heating and ventilation systems, roofs, plumbing, and sewer systems, renovate outdated science laboratories, and renovate and/or add classrooms and other facilities. At June 30, 2018, the principal balance outstanding of the 2001 Election General Obligation Bonds, Series B was \$24,894,282. Unamortized premium received on issuance of the bonds amounted to \$325,170 as of June 30, 2018.

### 2006 Election General Obligation Bonds, 2007 Series B

On October 3, 2007, the District issued the \$18,999,949 2006 Election General Obligation Bonds, 2007 Series B. The 2007 Series B bonds were issued as capital appreciation bonds, with the value of the capital appreciation bonds accreting \$19,460,051, and an aggregate principal debt service balance of \$38,460,000. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields of 3.50 to 5.25 percent. Proceeds from the sale of the bonds were used to repair or replace deteriorating plumbing, restrooms, heating, ventilation, and electrical systems; upgrade classroom technology and computers, construct new library/media centers, and upgrade inadequate classrooms, equipment, school facilities and grounds. At June 30, 2018, the principal balance outstanding of the 2006 Election General Obligation Bonds, 2007 Series B was \$19,502,698. Unamortized premium received on issuance of the bonds amounted to \$254,264 as of June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **2001 Election General Obligation Refunding Bonds, 2011 Series A**

On December 6, 2011, the District issued the \$13,495,000 2001 Election General Obligation Refunding Bonds, 2011 Series A. The bonds have a final maturity to occur on August 1, 2026, with interest rate yields of 3.00 to 5.25 percent. The net proceeds of \$15,050,332 (representing the principal amount of \$13,495,000 plus premium on issuance of \$1,555,332) from the issuance were used to advance refund the District's outstanding 2001 Election General Obligation Bonds, Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2012. At June 30, 2018, the principal balance outstanding on the 2001 Election General Obligation Refunding Bonds, 2011 Series A was \$10,320,000. Unamortized premium received on issuance of the bonds amounted to \$985,041 as of June 30, 2018.

### **2012 General Obligation Bonds, Series A**

On May 9, 2013, the District issued the \$30,000,000 2012 General Obligation Bonds, Series A. The Series A bonds represent the first series of the authorized bonds to be issued under the authorization as approved by voters. The bonds were issued as current interest bonds. The bonds have a final maturity to occur August 1, 2052, with interest rate yields of 2.00 to 4.15 percent. Proceeds from the bonds will be used to finance repair, upgrading, acquisition, construction and equipping school property and facilities approved by the voters and pay costs associated with the issuance of the bonds. At June 30, 2018, the principal balance outstanding was \$26,235,000. Unamortized premium received on issuance of the bonds amounted to \$947,581 as of June 30, 2018.

### **2013 General Obligation Refunding Bonds**

On May 9, 2013, the District issued the \$40,500,000 2013 General Obligation Refunding Bonds. The bonds have a final maturity to occur on August 1, 2031, with interest rate yields of 2.00 to 5.00 percent. The net proceeds of \$46,380,717 (representing the principal amount of \$40,500,000 plus premium on issuance of \$5,880,717) from the issuance were used to advance refund the District's outstanding 2006 General Obligation Bonds, 2006 Series A and to pay the costs of issuance associated with the refunding bonds. At June 30, 2018, the principal balance outstanding was \$37,840,000. Unamortized premium received on issuance of the bonds amounted to \$3,166,540 as of June 30, 2018.

### **2012 General Obligation Bonds, Series B**

On July 9, 2015, the District issued the 2012 General Obligation Bonds, Series B in the amount of \$37,000,000 with interest rate yields of 2.00 to 5.00 percent. The 2012 General Obligation Bonds, Series B have a final maturity to occur on August 1, 2044. The net proceeds of \$39,327,472 (representing the principal amount of \$37,000,000 and premium of \$2,711,727 less cost of issuance of \$384,255) from the issuance will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, and to pay the cost of issuing the bonds. At June 30, 2018, the principal balance outstanding was \$36,145,000. Unamortized premium received on issuance of the bonds amounted to \$2,431,203 as of June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **2012 General Obligation Bonds, Series C-1 (Qualified Zone Academy Bonds)**

On August 10, 2016, the District issued the \$6,000,000 2016 General Obligation Bonds, Series C-1 Tax Credit Bonds. The bonds have a final maturity to occur on August 1, 2024, and offer a tax credit rate of 3.93% and do not bear interest. The net proceeds of \$5,900,434 (representing the principal amount of \$6,000,000 less cost of issuance of \$99,566) from the issuance will be used to finance the repair, upgrading and equipping of certain District property and facilities and pay the cost of issuing the Bonds. At June 30, 2018, the principal balance outstanding was \$4,970,000.

### **2012 General Obligation Bonds, Series C**

On August 31, 2016, the District issued the 2012 General Obligation Bonds, Series C in the amount of \$12,000,000 with interest rate yields of 3.00 to 4.00 percent. The bonds were issued as current interest bonds and have a final maturity to occur on August 1, 2045. The net proceeds of \$12,783,927 (representing the principal amount of \$12,000,000 and premium of 952,509, less cost of issuance of \$168,582) from the issuance will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities and pay the cost of issuing the Bonds. At June 30, 2018, the principal balance outstanding was \$12,000,000. Unamortized premium received on issuance of the bonds amounted to \$886,818 as of June 30, 2018.

### **2016 General Obligation Refunding Bonds (2019 Crossover)**

On August 31, 2016, the District issued the 2016 General Obligation Refunding Bonds in the amount of \$16,410,000 with interest rate yields of 3.00 to 5.00 percent. The bonds were issued as current interest bonds and have a final maturity to occur on August 1, 2032. The net proceeds of \$19,714,714 (representing the principal amount of \$16,410,000 and premium of 3,512,981, less cost of issuance of \$208,267) from the issuance will be used to advance refund on the crossover date of August 1, 2019, certain of the District's outstanding 2006 Election General Obligation Bonds, 2007 Series B and pay the cost of issuing the Refunding Bonds. At June 30, 2018, the principal balance outstanding was \$16,410,000. Unamortized premium received on issuance of the bonds amounted to \$3,073,859 as of June 30, 2018.

### **2012 General Obligation Bonds, Series D**

On June 14, 2017, the District issued the 2012 General Obligation Bonds, Series D in the amount of \$30,000,000 with interest rate yields of 2.00 to 5.00 percent. The bonds were issued as current interest bonds and have a final maturity to occur on August 1, 2046. The net proceeds of \$29,870,472 (representing the principal amount of \$30,000,000 and premium of 198,431, less cost of issuance of \$327,959) from the issuance will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities and pay the cost of issuing the Bonds. At June 30, 2018, the principal balance outstanding was \$30,000,000. Unamortized premium received on issuance of the bonds amounted to \$191,585 as of June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Debt Service Requirements to Maturity

The bonds mature through 2053 as follows:

Fiscal Year	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest	Total
2019	\$ 6,860,573	\$ 144,427	\$ 7,344,619	\$ 14,349,619
2020	6,881,253	328,747	7,260,594	14,470,594
2021	7,688,187	531,813	7,136,344	15,356,344
2022	7,221,253	738,747	7,006,932	14,966,932
2023	7,545,529	954,471	6,869,619	15,369,619
2024-2028	45,559,903	9,530,097	31,364,132	86,454,132
2029-2033	44,515,282	7,099,718	24,318,475	75,933,475
2034-2038	18,140,000	-	17,691,450	35,831,450
2039-2043	30,445,000	-	12,403,850	42,848,850
2044-2048	31,470,000	-	5,200,301	36,670,301
2049-2053	11,990,000	-	1,443,825	13,433,825
Total	<u>\$ 218,316,980</u>	<u>\$ 19,328,020</u>	<u>\$ 128,040,141</u>	<u>\$ 365,685,141</u>

### Qualified Zone Academy Bonds (QZAB)

On December 19, 2008, the District entered into a lease-lease back agreement whereby the District is leasing Fairvalley High School from the Covina-Valley Unified School District Facilities Finance Corporation in exchange for repaying the QZABs. The purpose of the agreement was to provide \$5,000,000 for financing the cost of purchasing equipment and certain improvements to the property. The financing for the improvements is proved by the issuance of QZABs, pursuant to Section 1397E of the Internal Revenue Code. The District is required to make annual repayments, which will be invested in a special fund. The repayments, along with the interest earned, is expected to be sufficient to pay the remaining principal on the bonds. At June 30, 2018, the outstanding balance on the QZABs is \$2,186,898.

Year Ending June 30,	Principal	Interest	Total
2019	\$ 395,775	\$ 21,869	\$ 417,644
2020	415,564	17,911	433,475
2021	436,342	13,756	450,098
2022	458,159	9,392	467,551
2023	481,058	4,811	485,869
Total	<u>\$ 2,186,898</u>	<u>\$ 67,739</u>	<u>\$ 2,254,637</u>



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Early Retirement Incentives

During the 2007-2008 school year, the District adopted a supplemental retirement plan whereby certain eligible certificated and classified employees are provided an annuity to supplement the retirement benefits they are entitled to through their respective retirement systems. The criteria for participation were as follows: employees must be employed by the District as of February 12, 2008, eligible to retire under CalSTRS or CalPERS as of June 30, 2008, have resigned from the District after the completion of the 2007-2008 school year on or before June 30, 2008, have retired from CalSTRS or CalPERS no later than July 1, 2008, and have applied for benefits under this plan. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 102 employees, were purchased from Pacific Life Insurance Company.

As of June 30, 2018, the balance of obligations associated with the supplemental retirement plans was \$270,000. The early retirement incentives have future payments as follows:

Year Ending June 30,	Payment
2019	\$ 82,500
2020	63,000
2021	44,500
2022	31,000
2023	24,500
2024-2025	24,500
Total	<u>\$ 270,000</u>

### Capital Leases - Energy Conservation Improvement Equipment Lease-Purchase

The District has entered into agreement to install various HVAC systems, lighting retrofits and controls. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Equipment
Balance, July 1, 2017	\$ 3,673,977
Payments	<u>940,929</u>
Balance, June 30, 2018	<u>\$ 2,733,048</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 386,734
2020	386,734
2021	386,734
2022	386,734
2023	386,734
2024-2028	799,378
Total	2,733,048
Less: Amount Representing Interest	(282,428)
Present Value of Minimum Lease Payments	<u>\$ 2,450,620</u>

### Aggregate Net Other Postemployment Benefits (OPEB) Liability

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

OPEB Plan	Aggregate Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 10,217,585	\$ 304,492	\$ (147,505)
Medicare Premium Payment (MPP) Program	894,352	-	(50,354)
Total	<u>\$ 11,111,937</u>	<u>\$ 304,492</u>	<u>\$ (197,859)</u>

The details of each plan are as follows:

#### District Plan

##### Plan Administration

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

Management of the Plan is vested in the District management.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefits payments	57
Active employees	966
	<u>1,023</u>

### *Benefits Provided*

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Covina Unified Education Association (CUEA), the local California Service Employees Association (CSEA), the Covina-Valley Associated of School Psychologists (CVASP), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, CUEA, CSEA, CVASP, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$549,129 in benefits.

### **Total OPEB Liability of the District**

The District's total OPEB liability of \$10,217,585 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2017.

### *Actuarial Assumptions*

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

Inflation	3.00 percent
Salary increases	3.00 percent
Discount rate	3.62 percent
Healthcare cost trend rates	6.00 percent for 2017; 5.00 percent for 2018 and thereafter

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

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

The actual assumptions used in the July 1, 2017 valuation were based on the results of an actual experience study for the period July 1, 2015 to June 30, 2017.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 10,365,090
Service cost	422,957
Interest	315,900
Changes of assumptions or other inputs	(337,233)
Benefit payments	(549,129)
Net change in total OPEB liability	(147,505)
Balance at June 30, 2018	\$ 10,217,585

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13 percent to 3.62 percent since the previous valuation. There were no changes to benefit terms since the previous valuation.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.62%)	\$ 10,910,674
Current discount rate (3.62%)	10,217,585
1% increase (4.62%)	9,549,109

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (5.00%, decreasing to 4.00%)	\$ 9,592,686
Current healthcare cost trend rate (6.00%, decreasing to 5.00%)	10,217,585
1% increase (7.00%, decreasing to 6.00%)	10,951,497

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported deferred inflows of resources for changes of assumptions of \$304,492. These deferred inflows of resources will be amortized as OPEB expense over a 10.3 year period.

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

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (32,741)
2020	(32,741)
2021	(32,741)
2022	(32,741)
2023	(32,741)
Thereafter	(140,787)
	<u>\$ (304,492)</u>

### Medicare Premium Payment (MPP) Program

#### Plan Description

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### Benefits Provided

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

### **OPEB Liabilities and OPEB Expense Related to the OPEB**

At June 30, 2018, the District reported a liability of \$894,352 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.2126 percent and 0.2019 percent, resulting in a net increase in the proportionate share of 0.0107 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(50,354).

### **Actuarial Methods and Assumptions**

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now 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 the 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.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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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 571 or an average of 0.32 percent of the potentially eligible population (177,763).

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, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

### Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 990,110
Current discount rate (3.58%)	894,352
1% increase (4.58%)	801,207

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 808,184
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	894,352
1% increase (4.7% Part A and 5.1% Part B)	979,660

### Compensated Absences

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$1,709,865.

### Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2018, amounted to \$2,584,007, using a discount factor of 0.95 percent.



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Debt Service Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 35,000	\$ -	\$ -	\$ -	\$ 35,000
Stores inventories	51,671	-	-	107,746	159,417
Prepaid expenditures	1,934,115	-	-	-	1,934,115
Total Nonspendable	2,020,786	-	-	107,746	2,128,532
<b>Restricted</b>					
Legally restricted programs	4,886,081	-	-	8,915,514	13,801,595
Capital projects	-	16,902,654	-	1,143,475	18,046,129
Debt services	-	-	19,096,742	8,124,534	27,221,276
Total Restricted	4,886,081	16,902,654	19,096,742	18,183,523	59,069,000
<b>Assigned</b>					
Adult education program	-	-	-	27,676	27,676
Cafeteria program	-	-	-	133,102	133,102
MAA	264,642	-	-	-	264,642
Saturday incentive monies	320,273	-	-	-	320,273
S/C - Apex Learning	300,000	-	-	-	300,000
Textbook adoption	400,000	-	-	-	400,000
Capital projects	-	-	-	1,545,888	1,545,888
Total Assigned	1,284,915	-	-	1,706,666	2,991,581
<b>Unassigned</b>					
Reserve for economic uncertainties	4,355,440	-	-	-	4,355,440
Remaining unassigned	15,569,904	-	-	-	15,569,904
Total Unassigned	19,925,344	-	-	-	19,925,344
<b>Total</b>	<b>\$ 28,117,126</b>	<b>\$ 16,902,654</b>	<b>\$ 19,096,742</b>	<b>\$ 19,997,935</b>	<b>\$ 84,114,457</b>

# **COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **NOTE 11 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2018, the District was self-insured for property and liability coverage, and participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) risk management pool for amounts in excess of the District's member retention limit \$25,000 for property and liability claims.

#### **Workers' Compensation**

For the fiscal year of 2017-2018, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. The District's self-insured retention limit for the 2017-2018 fiscal year was \$250,000. Excess liability coverage for workers' compensation claims is provided by Schools Excess Liability Fund (SELF) public entity risk pool, through ASCIP.

#### **Employee Medical Benefits**

The District has contracted with various vendors to provide employee health benefits through the purchase of commercial insurance. Kaiser and Anthem Blue Cross provide medical care, Delta Dental and Delta Care provide dental care, VSP provides vision care and Mutual of Omaha provides life insurance. In addition, the District has contracted with Southern California Schools Employee Benefits Association (SCSEBA), a joint powers authority, to provide employee medical benefits. SCSEBA obtains benefit programs on behalf of the District through the purchase of commercial insurance. Rates are set through an annual calculation process.

#### **Claims Liabilities**

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	\$ 2,013,261
Claims and changes in estimates	1,147,260
Claims payments	<u>(490,186)</u>
Liability Balance, June 30, 2017	2,670,335
Claims and changes in estimates	418,296
Claims payments	<u>(504,624)</u>
Liability Balance, June 30, 2018	<u>\$ 2,584,007</u>
Assets available to pay claims at June 30, 2018	<u>\$ 3,502,639</u>

### NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 108,591,245	\$ 38,924,969	\$ 15,663,665	\$ 10,729,780
CalPERS	34,812,642	10,615,003	1,206,901	5,528,278
Total	<u>\$ 143,403,887</u>	<u>\$ 49,539,972</u>	<u>\$ 16,870,566</u>	<u>\$ 16,258,058</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:  
<http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

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

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

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$9,209,588.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 108,591,245
State's proportionate share of the net pension liability associated with the District	64,241,663
Total	<u>\$ 172,832,908</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1174 percent and 0.1135 percent, resulting in a net increase in the proportionate share of 0.0039 percent.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$10,729,780. In addition, the District recognized pension expense and revenue of \$6,466,540 for support provided by the State. At June 30, 2018, 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	\$ 9,209,588	\$ -
Net change in proportionate share of net pension liability	9,196,004	10,877,572
Differences between projected and actual earnings on pension plan investments	-	2,892,087
Differences between expected and actual experience in the measurement of the total pension liability	401,581	1,894,006
Changes of assumptions	20,117,796	-
Total	<u>\$ 38,924,969</u>	<u>\$ 15,663,665</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (2,404,299)
2020	1,819,346
2021	262,339
2022	(2,569,473)
Total	<u>\$ (2,892,087)</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,906,375
2020	2,906,375
2021	2,906,375
2022	2,906,375
2023	1,470,060
Thereafter	3,848,243
Total	<u>\$ 16,943,803</u>

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 159,446,423
Current discount rate (7.10%)	108,591,245
1% increase (8.10%)	67,318,822



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.

#### **Benefits Provided**

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

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	15.531%	15.531%

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$3,078,597.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$34,812,642. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1458 percent and 0.1491 percent, resulting in a net decrease in the proportionate share of 0.0033 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,528,278. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,078,597	\$ -
Net change in proportionate share of net pension liability	-	797,025
Differences between projected and actual earnings on pension plan investments	1,204,279	-
Differences between expected and actual experience in the measurement of the total pension liability	1,247,193	-
Changes of assumptions	5,084,934	409,876
Total	<u>\$ 10,615,003</u>	<u>\$ 1,206,901</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.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (32,632)
2020	1,389,477
2021	506,897
2022	(659,463)
Total	<u>\$ 1,204,279</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,692,310
2020	1,799,866
2021	1,633,050
Total	<u>\$ 5,125,226</u>

### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries. 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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

### Discount Rate

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 51,220,553
Current discount rate (7.15%)	34,812,642
1% increase (8.15%)	21,200,907

### Tax Deferred Annuity/Social Security

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

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,519,326 (7.26 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

## NOTE 13 - COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Assessment public key infrastructure	\$ 24,910	June 2019
Covina, Northview, and South Hills High Schools' cafés	1,293,850	June 2019
Covina, Northview, and South Hills High Schools' QZAB projects	4,596,790	June 2019
District-wide flooring installation	158,735	June 2019
District-wide cabling and cameras	704,827	June 2019
	<u>\$ 6,779,112</u>	

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

The District is a member of the Southern California Schools Employee Benefits Association (SCSEBA), joint power authority, and the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool and, through participation in ASCIP, the Schools Excess Liability Fund (SELF) public entity risk pool. The District pays an annual premium to SCSEBA and ASCIP for its medical and property/liability and workers' compensation excess liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made a payment of \$10,283,542 and \$985,759 to SCSEBA and ASCIP, respectively, for services received.

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**NOTE 15 - SUBSEQUENT EVENTS**

On September 9, 2018, the District issued the 2012 General Obligation Bonds, Series E in the amount of \$14,000,000 with interest rate yields of 3.125 to 4.00 percent. The 2012 General Obligation Bonds, Series E have a final maturity to occur on August 1, 2046. The net proceeds of \$15,697,183 (representing the principal amount of \$14,000,000 and premium of \$1,888,958 less cost of issuance of \$191,775) from the issuance will be used to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, and to pay the cost of issuing the bonds.

**NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION**

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements	
Net Position - Beginning	\$ (87,135,407)
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75	<u>(10,492,893)</u>
Net Position - Beginning, as Restated	<u>\$ (97,628,300)</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>	<b>(GAAP Basis)</b>	<b>Positive (Negative) Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 112,858,120	\$ 113,247,819	\$ 113,165,993	\$ (81,826)
Federal sources	6,573,899	7,395,674	6,821,240	(574,434)
Other State sources	16,955,641	19,047,748	18,569,773	(477,975)
Other local sources	4,274,396	6,986,961	7,271,154	284,193
<b>Total Revenues</b>	<b>140,662,056</b>	<b>146,678,202</b>	<b>145,828,160</b>	<b>(850,042)</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	61,139,959	64,042,557	63,905,659	136,898
Classified salaries	19,649,272	20,319,985	20,127,875	192,110
Employee benefits	34,720,329	34,446,289	34,190,907	255,382
Books and supplies	7,830,269	5,473,728	5,276,235	197,493
Services and operating expenditures	13,794,870	15,569,187	15,466,623	102,564
Capital outlay	-	-	51,380	(51,380)
Other outgo	4,737,475	4,936,584	5,108,171	(171,587)
<b>Total Expenditures</b>	<b>141,872,174</b>	<b>144,788,330</b>	<b>144,126,850</b>	<b>661,480</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,210,118)</b>	<b>1,889,872</b>	<b>1,701,310</b>	<b>(188,562)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	100,000	100,000	100,000	-
Transfers out	(350,000)	(1,010,000)	(1,054,465)	(44,465)
<b>Net Financing Sources (Uses)</b>	<b>(250,000)</b>	<b>(910,000)</b>	<b>(954,465)</b>	<b>(44,465)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,460,118)</b>	<b>979,872</b>	<b>746,845</b>	<b>(233,027)</b>
<b>Fund Balance - Beginning</b>	<b>27,370,281</b>	<b>27,370,281</b>	<b>27,370,281</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 25,910,163</b>	<b>\$ 28,350,153</b>	<b>\$ 28,117,126</b>	<b>\$ (233,027)</b>

See accompanying note to required supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
<b>Total OPEB Liability</b>	
Service cost	\$ 422,957
Interest	315,900
Changes of assumptions	(337,233)
Benefit payments	(549,129)
<b>Net change in total OPEB liability</b>	(147,505)
<b>Total OPEB liability - beginning</b>	10,365,090
<b>Total OPEB liability - ending</b>	<u>\$ 10,217,585</u>
 <b>Covered payroll</b>	 <u>N/A<sup>1</sup></u>
 <b>District's total OPEB liability as a percentage of covered payroll</b>	 <u>N/A<sup>1</sup></u>

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

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

See accompanying note to required supplementary information.

## COVINA-VALLEY UNIFIED SCHOOL DISTRICT

### SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

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Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.2126%</u>
District's proportionate share of the net OPEB liability	<u>\$ 894,352</u>
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
<b>CalSTRS</b>		
District's proportion of the net pension liability	0.1174%	0.1135%
District's proportionate share of the net pension liability	\$ 108,591,245	\$ 91,798,380
State's proportionate share of the net pension liability associated with the District	64,241,663	52,259,180
Total	\$ 172,832,908	\$ 144,057,560
District's covered-employee payroll	\$ 61,213,831	\$ 58,100,774
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	177.40%	158.00%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
<b>CalPERS</b>		
District's proportion of the net pension liability	0.1458%	0.1491%
District's proportionate share of the net pension liability	\$ 34,812,642	\$ 29,454,884
District's covered-employee payroll	\$ 17,839,653	\$ 17,750,663
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	195.14%	165.94%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.1341%</u>	<u>0.1182%</u>
\$ 90,277,985	\$ 69,056,755
<u>47,747,102</u>	<u>41,699,450</u>
<u>\$ 138,025,087</u>	<u>\$ 110,756,205</u>
<u>\$ 59,108,536</u>	<u>\$ 55,766,890</u>
<u>152.73%</u>	<u>123.83%</u>
<u>74%</u>	<u>77%</u>
<u>0.1534%</u>	<u>0.1556%</u>
<u>\$ 22,605,993</u>	<u>\$ 17,659,852</u>
<u>\$ 17,503,424</u>	<u>\$ 16,402,026</u>
<u>129.15%</u>	<u>107.67%</u>
<u>79%</u>	<u>83%</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
<b>CalSTRS</b>		
Contractually required contribution	\$ 9,209,588	\$ 7,700,700
Contributions in relation to the contractually required contribution	<u>9,209,588</u>	<u>7,700,700</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 63,822,509</u>	<u>\$ 61,213,831</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 3,078,597	\$ 2,477,571
Contributions in relation to the contractually required contribution	<u>3,078,597</u>	<u>2,477,571</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
CalPERS		
District's covered-employee payroll	<u>\$ 19,822,272</u>	<u>\$ 17,839,653</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

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2016	2015
\$ 6,234,213	\$ 5,248,838
6,234,213	5,248,838
\$ -	\$ -
\$ 58,100,774	\$ 59,108,536
10.73%	8.88%
\$ 2,102,921	\$ 2,060,153
2,102,921	2,060,153
\$ -	\$ -
\$ 17,750,663	\$ 17,503,424
11.847%	11.771%

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTE OF REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

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

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

#### **Schedule of Changes in the District's 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, the Plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

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

*Changes of Assumptions* - The OPEB discount rate assumption was changed from 3.13 percent to 3.62 percent since the previous valuation.

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

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

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

*Changes of Assumptions* - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTE OF REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

***Changes of Assumptions*** - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

### **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.

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***SUPPLEMENTARY INFORMATION***

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# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Federal Pell Grant Program (PELL)	84.063	[1]	\$ 211,795	\$ -
Passed through California Department of Education (CDE)				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	2,233,157	-
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	10,590	-
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	374,532	-
Title III, Immigrant Student Program	84.365	15146	1,579	-
Title III, English Learner Student Program	84.365	14346	149,807	-
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	81,608	-
Carl D. Perkins Career and Technical Education: Adult, Section 132	84.048	14893	65,793	-
Adult Basic Education & ELA (Section 231)	84.002A	14508	164,771	-
Adult Secondary Education (Section 231)	84.002	13978	462,789	-
Adult Education: English Literacy and Civics Education	84.002A	14109, 14750	13,607	-
Special Education (IDEA) Cluster				
IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	16,215,869	13,824,511
IDEA Preschool Grants, Part B, Section 619	84.173	13430	341,257	276,443
IDEA Preschool Local Entitlement, Part B, Section 611	84.027A	13682	1,290,239	995,149
IDEA Mental Health Average Daily Attendance Allocation, Part B, Sec 611	84.027A	15197	1,153,388	1,007,848
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	3,042	1,537
IDEA Supporting Inclusive Practices	84.027A	13693	16,966	-
Subtotal Special Education (IDEA) Cluster			19,020,761	16,105,488
IDEA Early Intervention Grants, Part C	84.181	23761	292,603	113,731
Total U.S. Department of Education			23,083,392	16,219,219

[1] Direct Award

See accompanying note to supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued) FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through California Department of Education (CDE)				
Child Nutrition Cluster				
National School Lunch Program	10.555	13523	\$ 2,971,007	\$ -
Basic Breakfast	10.553	13390	19,428	-
Especially Needy Breakfast Program	10.553	13526	950,536	-
Summer Food Service Program Operations	10.559	13004	383,429	-
Meal Supplement	10.556	13392	33,755	-
Food Distribution	10.555	13523	347,320	-
Subtotal Child Nutrition Cluster			4,705,475	-
Child and Adult Care Food Program	10.558	13393	185,360	-
Total U.S. Department of Agriculture			4,890,835	-
<b>U.S. DEPARTMENT OF LABOR</b>				
Passed Through East San Gabriel Valley Regional Occupational Program				
Youth Career Connect Program	17.274	[2]	100,588	-
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed Through California Department of Health Services				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	419,398	-
Medi-Cal Administrative Activities (MAA)	93.778	10060	13,192	-
Subtotal Medicaid Cluster			432,590	-
Child Development: Federal General and State Preschool	93.575	13609, 15136	254,817	-
Total U.S. Department of Health and Human Services			687,407	-
Total Schedule of Expenditures of Federal Awards			\$ 28,762,222	\$ 16,219,219

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary schools, three middle schools, three high schools, an alternative high school, a children's center program and adult education centers.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Sue L. Maulucci	President	2020
Darrell A. Myrick	Vice President	2020
Sonia Frasquillo	Clerk	2020
Charles M. Kemp	Member	2018
David Bonilla	Member	2018

### ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Richard M. Sheehan, Ed.D.	Superintendent of Schools
Michele Doll, Ed.D.	Assistant Superintendent, Personnel Services
Elizabeth Eminhizer	Assistant Superintendent, Educational Services
Robert McEntire	Assistant Superintendent, Business Services/Chief Business Officer

See accompanying note to supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report*	Annual Report
Regular ADA		
Transitional kindergarten through third	3,123.20	3,118.92
Fourth through sixth	2,363.43	2,356.89
Seventh and eighth	1,733.09	1,732.11
Ninth through twelfth	4,141.75	4,114.09
Total Regular ADA	11,361.47	11,322.01
Extended Year Special Education		
Transitional kindergarten through third	4.78	4.78
Fourth through sixth	4.98	4.98
Seventh and eighth	3.58	3.58
Ninth through twelfth	14.34	14.34
Total Extended Year Special Education	27.68	27.68
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.98	0.98
Fourth through sixth	5.43	5.50
Seventh and eighth	3.31	3.91
Ninth through twelfth	17.63	17.74
Total Special Education, Nonpublic, Nonsectarian Schools	27.35	28.13
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.07	0.07
Fourth through sixth	0.37	0.37
Seventh and eighth	0.13	0.13
Ninth through twelfth	1.42	1.42
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.99	1.99
Community Day School		
Seventh and eighth	2.49	3.02
Ninth through twelfth	5.33	6.01
Total Community Day School	7.82	9.03
Total ADA	11,426.31	11,388.84

\* The District revised the Second Period Report on July 16, 2018.

See accompanying note to supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	41,655	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		52,615	180	-	Complied
Grade 2		52,615	180	-	Complied
Grade 3		52,615	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,670	180	-	Complied
Grade 5		54,670	180	-	Complied
Grade 6		60,087	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		60,087	180	-	Complied
Grade 8		60,087	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		66,752	180	-	Complied
Grade 10		66,752	180	-	Complied
Grade 11		66,752	180	-	Complied
Grade 12		66,752	180	-	Complied

See accompanying note to supplementary information.

## **COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

### **RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.



# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 <sup>1</sup>	2018	(as restated) 2017	2016
<b>GENERAL FUND</b>				
Revenues	\$ 150,678,069	\$ 145,828,160	\$ 146,209,656	\$ 143,447,043
Other sources and transfers in	100,000	100,000	4,073,575	100,000
Total Revenues and Other Sources	150,778,069	145,928,160	150,283,231	143,547,043
Expenditures	151,386,223	144,126,850	144,355,828	135,688,469
Other uses and transfers out	810,000	1,054,465	1,030,667	624,565
Total Expenditures and Other Uses	152,196,223	145,181,315	145,386,495	136,313,034
<b>INCREASE (DECREASE)</b>				
IN FUND BALANCE	\$ (1,418,154)	\$ 746,845	\$ 4,896,736	\$ 7,234,009
ENDING FUND BALANCE	\$ 26,698,972	\$ 28,117,126	\$ 27,370,281	\$ 22,473,545
AVAILABLE RESERVES <sup>2</sup>	\$ 19,842,812	\$ 19,925,344	\$ 19,996,847	\$ 8,465,484
<b>AVAILABLE RESERVES AS A</b>				
PERCENTAGE OF TOTAL OUTGO	13.04%	13.72%	13.75%	6.21%
LONG-TERM OBLIGATIONS <sup>3</sup>	N/A	\$ 250,892,368	\$ 258,019,019	\$ 179,940,065
<b>K-12 AVERAGE DAILY</b>				
ATTENDANCE AT P-2	11,337	11,426	11,603	11,640

The General Fund balance has increased by \$5,643,581 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$1,418,154 (5.04 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$70,952,303 over the past two years.

Average daily attendance has decreased by 214 over the past two years. An additional decline of 89 ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund Projects.

<sup>3</sup> Long-term obligations have been restated for the year ending June 30, 2017 due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>ASSETS</b>			
Deposits and investments	\$ 2,162,952	\$ 367,020	\$ 5,575,256
Receivables	276,322	448,006	835,667
Stores inventories	28,854	-	78,892
<b>Total Assets</b>	<b>\$ 2,468,128</b>	<b>\$ 815,026</b>	<b>\$ 6,489,815</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 238,685	\$ 158,226	\$ 192,020
<b>Fund Balances:</b>			
Nonspendable	28,854	-	78,892
Restricted	2,172,913	656,800	6,085,801
Assigned	27,676	-	133,102
<b>Total Fund Balances</b>	<b>2,229,443</b>	<b>656,800</b>	<b>6,297,795</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,468,128</b>	<b>\$ 815,026</b>	<b>\$ 6,489,815</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 1,138,199	\$ 1,542,547	\$ 8,124,534	\$ 18,910,508
5,276	3,341	-	1,568,612
-	-	-	107,746
<u>\$ 1,143,475</u>	<u>\$ 1,545,888</u>	<u>\$ 8,124,534</u>	<u>\$ 20,586,866</u>
\$ -	\$ -	\$ -	588,931
-	-	-	107,746
1,143,475	-	8,124,534	18,183,523
-	1,545,888	-	1,706,666
<u>1,143,475</u>	<u>1,545,888</u>	<u>8,124,534</u>	<u>19,997,935</u>
<u>\$ 1,143,475</u>	<u>\$ 1,545,888</u>	<u>\$ 8,124,534</u>	<u>\$ 20,586,866</u>

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>REVENUES</b>			
Federal sources	\$ 918,755	\$ 254,817	\$ 4,904,178
Other State sources	2,874,498	1,688,571	351,241
Other local sources	1,233,880	1,345,533	823,088
<b>Total Revenues</b>	<b>5,027,133</b>	<b>3,288,921</b>	<b>6,078,507</b>
<b>EXPENDITURES</b>			
Current			
Instruction	2,030,226	1,356,982	-
Instruction-related activities:			
Supervision of instruction	36,321	145,466	-
School site administration	1,335,332	64,611	-
Pupil services:			
Food services	-	-	5,926,750
All other pupil services	223,463	969,311	-
Administration:			
All other administration	279,623	164,389	304,358
Plant services	372,902	109,522	23,968
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>4,277,867</b>	<b>2,810,281</b>	<b>6,255,076</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>749,266</b>	<b>478,640</b>	<b>(176,569)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	107,208
Transfers out	-	(100,000)	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(100,000)</b>	<b>107,208</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>749,266</b>	<b>378,640</b>	<b>(69,361)</b>
<b>Fund Balance - Beginning</b>	<b>1,480,177</b>	<b>278,160</b>	<b>6,367,156</b>
<b>Fund Balance - Ending</b>	<b>\$ 2,229,443</b>	<b>\$ 656,800</b>	<b>\$ 6,297,795</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 6,077,750
-	-	100,053	5,014,363
359,827	10,392	12,724,653	16,497,373
359,827	10,392	12,824,706	27,589,486
-	-	-	3,387,208
-	-	-	181,787
-	-	-	1,399,943
-	-	-	5,926,750
-	-	-	1,192,774
2,225	-	-	750,595
4,116	-	-	510,508
44,644	-	-	44,644
-	-	7,085,000	7,085,000
-	-	6,270,710	6,270,710
50,985	-	13,355,710	26,749,919
308,842	10,392	(531,004)	839,567
-	947,257	-	1,054,465
-	-	-	(100,000)
-	947,257	-	954,465
308,842	957,649	(531,004)	1,794,032
834,633	588,239	8,655,538	18,203,903
\$ 1,143,475	\$ 1,545,888	\$ 8,124,534	\$ 19,997,935

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option and Medi-Cal Administrative Activities funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances with the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances		\$ 12,898,990
Federal Revenues Associated With the Special Education Pass-Through Agency Fund		16,219,219
Child and Adult Care Food Program	10.558	(13,343)
Medi-Cal Billing Option	93.778	(3,142)
Medi-Cal Administrative Activities (MAA)	93.778	(339,502)
Total Schedule of Expenditures of Federal Awards		<u>\$ 28,762,222</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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

Governing Board  
Covina-Valley Unified School District  
Covina, 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 Covina-Valley Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2018.

***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 6, 2018.

## **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.

A handwritten signature in black ink that reads "Vavinek Tume Day & Co. LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 6, 2018



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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

Governing Board  
Covina-Valley Unified School District  
Covina, California

**Report on Compliance for Each Major Federal Program**

We have audited Covina-Valley Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the 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 the 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 the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the 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, 2018.

## Report on Internal Control Over Compliance

Management of the 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 the 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.



Rancho Cucamonga, California  
December 6, 2018



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Governing Board  
Covina-Valley Unified School District  
Covina, California

### **Report on State Compliance**

We have audited Covina-Valley Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 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 District's State government programs as noted below for the year ended June 30, 2018.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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:

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

We did not perform testing over Independent Study because the ADA for this program was below the materiality threshold as indicated in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

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

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

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

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

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

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

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

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

*Vaivine T. Day & Co. LLP*

Rancho Cucamonga, California  
December 6, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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# COVINA-VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

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### FINANCIAL STATEMENTS

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

### FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A	<u>Special Education (IDEA) Cluster</u>
	Title I, Part A, Basic Grants
84.010	<u>Low-Income and Neglected</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 862,867</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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**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

## **COVINA-VALLEY UNIFIED SCHOOL DISTRICT**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018**

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

#### ***Financial Statement Findings***

None reported.

#### ***Federal Awards Findings***

None reported.

#### ***State Awards Findings***

None reported.



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

**VALUE THE** *difference*

Governing Board  
Covina-Valley Unified School District  
Covina, California

In planning and performing our audit of the financial statements of Covina-Valley Unified School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 6, 2018, on the government-wide financial statements of the District.

## **INTERNAL CONTROLS - RECEIPTS**

### ***Untimely Deposits of Local Revenues***

#### Observation

Thirteen of the forty local receipts tested were not made in a timely manner. The days between receipt and deposit ranged between 12-51 days. The days between initial site-level receipt and remittance to the District office ranged between 12-22 days. The days between District office receipt and deposit to the bank ranged between 12-25 days.

#### Recommendation

Funds received at the sites should be documented by a numbered receipt from the receipt books issued by the District business office. This documentation should occur upon receipt of the funds. For site-level receipts, funds and the related receipt documentation should be sent to the District office within a week to facilitate timely deposit. Business office deposits should be made within a week of receipt of funds. Until remittance to the District office or deposit to the bank, all funds should be maintained in a secure and locked location.

### ***Adult Education Local Receipts***

#### Observation

Forty-six of sixty adult education receipts tested were not made in a timely manner. The days between receipt and deposit ranged between 13-29 days. The days between initial adult education receipt and remittance to the District office ranged between 13-24 days. The days between District office receipt and deposit to the bank ranged between 12-14 days.

Recommendation

Funds received at the adult education sites should be documented by a numbered receipt from the receipt books issued by the District business office. This documentation should occur upon receipt of the funds. For adult education receipts, funds and the related receipts should be sent to the District office within a week to facilitate timely deposit. Business office deposits should be made within a week of receipt of funds. Until remittance to the District office or deposit to the bank, all funds should be maintained in a secure and locked location.

**ASSOCIATED STUDENT BODY (ASB)**

***Sierra Vista Middle School***

Observations

Three of the five deposits tested were not made in a timely manner. The days between receipt and deposit ranged between 12-22 days. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendations

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

***South Hills High School***

Observations

Two of the twenty-five disbursements reviewed had goods purchased delivered to the purchaser's home address.

Recommendations

All goods purchased should be delivered to the District warehouse or school site location. The District should review its policies and procedures for purchasing goods and processing employee reimbursements with ASB personnel.

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

 Valerie T. Day, C.U.P.

Rancho Cucamonga, California  
December 6, 2018