

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2018

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018
(Continued)

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MOUNT DIABLO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
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INDEPENDENT AUDITOR'S REPORT

Board of Education
Mount Diablo Unified School District
Concord, 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 Mount Diablo Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Mount Diablo Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Mount Diablo Unified School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 18, the General Fund Budgetary Comparison Schedule, Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of the District's Contributions on pages 55 to 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mount Diablo Unified School District's basic financial statements. The accompanying schedule of expenditure 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*, and the other supplementary information 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 schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, 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 schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of Mount Diablo Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mount Diablo Unified School District's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Sacramento, California
December 14, 2018

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

This discussion and analysis of Mount Diablo Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by \$(54.9) million, or 29.3%.
- Governmental expenses were about \$470.4 million. Revenues were about \$415.5 million.
- The District acquired \$15.5 million of new capital assets during the year. These expenditures were incurred primarily from Measure C building projects.
- The District increased its outstanding long-term debt by \$64.6 million. This was primarily due to increased pension liability and Other Post-Employment Benefits (OPEB) liability, which increased by \$73.3 million and \$9.3 million, respectively. Increase in pension liability of \$73.3 million because the net pension liability for STRS and CalPERS increased in total; and the District's proportionate share is calculated based on the employer contributions reported by PERS and STRS went up, which in turn increased the District's liability.
- Grades K-12 average daily attendance (ADA) decreased by 413, or 1.37%.

OVERVIEW OF THE FINANCIAL STATEMENTS

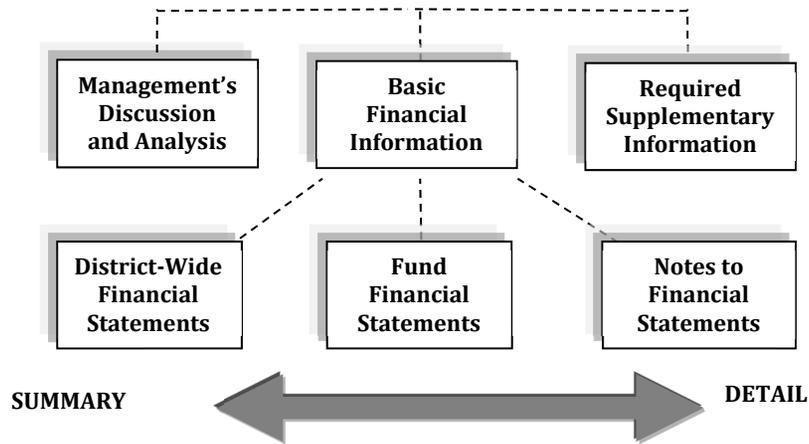
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

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

The financial statements also in the statements and the various parts of this another.



include *notes* that explain some of the information provide more detailed data. Figure A-1 shows how annual report are arranged and related to one

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was lower on June 30, 2018, than it was the year before – decreasing 29.3% to \$(242.1) million (See Table A-1).

Table A-1: Statement of Net Position

| | Governmental Activities | | Variance |
|---------------------------------------|--------------------------------|-------------------------|--------------------------------|
| | 2018 | 2017 | Increase (Decrease) |
| Assets | | | |
| Current assets | \$ 190,556,885.00 | \$ 229,399,568.00 | \$ (38,842,683.00) |
| Capital Assets | 540,154,648 | 546,514,243 | (6,359,595) |
| Total Assets | 730,711,533 | 775,913,811 | (45,202,278) |
| Deferred outflows of resources | 136,241,998 | 76,070,022 | 60,171,976 |
| Liabilities | | | |
| Current liabilities | 30,504,600 | 29,257,308 | 1,247,292 |
| Long-term liabilities | 681,421,339 | 690,118,614 | (8,697,275) |
| Net pension liability | 371,615,000 | 298,285,565 | 73,329,435 |
| Total Liabilities | 1,083,540,939 | 1,017,661,487 | 65,879,452 |
| Deferred inflows of resources | 25,501,470 | 21,554,084 | 3,947,386 |
| Net position | | | |
| Net investment in capital assets | 126,855,892 | 112,525,077 | 14,330,815 |
| Restricted | 64,159,066 | 63,182,130 | 976,936 |
| Unrestricted | (433,103,836) | (362,938,945) | (70,164,891) |
| Total net position | \$ (242,088,878) | \$ (187,231,738) | \$ (54,857,140) |

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net position, governmental activities. The District's total revenues increased 2.9% to \$415.6 million (See Table A-2). The increase is due primarily to increases in state aid and categorical funding.

The total cost of all programs and services increased 7.0% to \$470.4 million. The District's expenses are predominantly related to educating and caring for students, 77.7%. The purely administrative activities of the District accounted for just 3.3% of total costs. A significant contributor to the increase in costs was negotiated salary and benefit increases.

Table A-2: Statement of Activities

| | Governmental Activities | | Variance |
|--------------------------------------|--------------------------------|------------------------|--------------------------------|
| | 2018 | 2017 | Increase (Decrease) |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for services | \$ 4,316,072 | \$ 4,169,222 | \$ 146,850 |
| Operating grants and contributions | 81,979,515 | 81,639,997 | 339,518 |
| Capital grants and contribution | 26,628 | 17,637 | 8,991 |
| General Revenues: | | | - |
| Property taxes | 173,128,046 | 162,283,509 | 10,844,537 |
| Federal and state aid not restricted | 136,516,961 | 143,794,490 | (7,277,529) |
| Other general revenues | 19,582,130 | 11,814,820 | 7,767,310 |
| Total Revenues | 415,549,352 | 403,719,675 | 11,829,677 |
| Expenses | | | |
| Instruction-related | 313,499,327 | 291,421,161 | 22,078,166 |
| Pupil services | 51,772,926 | 46,912,638 | 4,860,288 |
| Administration | 15,667,172 | 16,119,598 | (452,426) |
| Plant services | 65,075,389 | 59,020,480 | 6,054,909 |
| All other activities | 24,391,678 | 26,097,733 | (1,706,055) |
| Total Expenses | 470,406,492 | 439,571,610 | 30,834,882 |
| Increase (decrease) in net position | \$ (54,857,140) | \$ (35,851,935) | \$ (19,005,205) |

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$166.4 million, which is below last year's ending fund balance of \$208.3 million. The primary cause of the increased fund balance is due primarily to increases in state aid and categorical funding.

Table A-3: The District's Fund Balances

| Fund | Fund Balances | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------------|-----------------------|
| | July 1, 2017 | Revenues | Expenditures | Other Sources and (Uses) | June 30, 2018 |
| General Fund | \$ 88,789,294 | \$ 345,736,242 | \$ 377,619,356 | \$ 624,794 | \$ 57,530,974 |
| Adult Education Fund | 1,787,709 | 6,630,940 | 6,081,207 | (191,153) | 2,146,289 |
| Cafeteria Fund | 4,615,884 | 12,462,824 | 11,938,531 | (433,641) | 4,706,536 |
| Deferred Maintenance Fund | - | 9 | 9 | | - |
| Building Fund | 72,656,958 | 1,022,983 | 9,968,142 | | 63,711,799 |
| Capital Facilities Fund | 8,592,585 | 1,459,049 | 213,175 | | 9,838,459 |
| County School Facilities Fund | 1,876,995 | 26,628 | 137,984 | | 1,765,639 |
| Capital Outlay Fund for Blended Component Units | 348,375 | 9,891,749 | 10,195,663 | | 44,461 |
| Bond Interest and Redemption Fund | 29,602,903 | 35,270,379 | 38,263,802 | | 26,609,480 |
| | <u>\$ 208,270,703</u> | <u>\$ 412,500,803</u> | <u>\$ 454,417,869</u> | <u>\$ -</u> | <u>\$ 166,353,637</u> |

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

- Revenues – increased by \$19.87 million primarily to state and local budget actions.
- Salaries and benefits costs – decreased \$0.3 million due to vacancies, as positions are filled, salaries and benefits are adjusted accordingly.
- Other non-personnel expenditures – increased \$14.6 million to re-budget carryover funds and revise operational cost estimates.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by about \$43.4 million, the actual results for the year show that expenditures exceeded revenues by roughly \$31.9 million. Actual revenues were \$3.6 million less than anticipated, and expenditures were \$15.1 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2018, that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested \$15.5 million in new capital assets, related to ongoing expenditures related to the District's ongoing modernization program. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year was nearly \$21.9 million.

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

| | Governmental Activities | | Variance |
|--------------------------|--------------------------------|-----------------------|--------------------------------|
| | 2018 | 2017 | Increase (Decrease) |
| Land | \$ 14,436,462 | \$ 14,436,462 | \$ - |
| Improvement | 89,211,390 | 95,585,833 | (6,374,443) |
| Building | 421,798,463 | 426,923,274 | (5,124,811) |
| Equipment | 5,294,595 | 5,679,922 | (385,327) |
| Construction in progress | 9,413,738 | 3,888,752 | 5,524,986 |
| Total | \$ 540,154,648 | \$ 546,514,243 | \$ (6,359,595) |

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$1.05 billion in long-term debt – an increase of 6.54% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements).

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

| | <u>Governmental Activities</u> | | Variance |
|-------------------------------|--------------------------------|-----------------------|--------------------------------|
| | <u>2018</u> | <u>2017</u> | Increase (Decrease) |
| General Obligation bonds | \$ 507,007,913 | \$ 524,415,868 | \$ (17,407,955) |
| Construction loan | 4,148,544 | 4,206,971 | (58,427) |
| Capital leases | 1,065,931 | 1,598,985 | (533,054) |
| Compensated absences | 3,633,048 | 3,597,139 | 35,909 |
| Net Pension Liability | 371,615,000 | 298,285,565 | 73,329,435 |
| Other postemployment benefits | 165,565,903 | 156,299,651 | 9,266,252 |
| Total | <u>\$ 1,053,036,339</u> | <u>\$ 988,404,179</u> | <u>\$ 64,632,160</u> |

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Governor signed the 2018-19 *Budget Act* and other budget-related bills on June 27, 2018.

Proposition 98

Overview

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package.

Proposition 98 Establishes Minimum Spending Level

Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Overview (continued)

If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a “settle-up” obligation. In some years, the state also creates or pays “maintenance factor.” Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

Higher Proposition 98 Spending in 2016-17 and 2017-18.

From the June 2017 budget plan to the June 2018 budget plan, spending increased \$252 million in 2016-17 and \$1.1 billion in 2017-18. These upward revisions are attributable mainly to higher General Fund revenue. As part of the 2017-18 increase, the state is making an additional maintenance factor payment of \$789 million (on top of a previous \$536 million payment). After making the \$1.3 billion total payment, the state will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the state is spending at the calculated minimum guarantee.

2018-19 Spending Up Notably Over Revised 2017-18 Level

For 2018-19, total Proposition 98 spending across all segments is \$78.4 billion, an increase of \$2.8 billion (3.7 percent) from the revised 2017-18 level. Test 2 is the operative test in 2018-19, with the increase in the guarantee attributable to a 3.67 percent increase in per capita personal income. Though the administration projects a 0.29 percent decline in student attendance for 2018-19, the budget makes no downward adjustment to the minimum guarantee. This is because the budget assumes that attendance *increases* the previous year (in 2017-18), thereby triggering a hold harmless provision in the State Constitution that negates any attendance declines over the subsequent two years. The budget sets total Proposition 98 spending in 2018-19 equal to the administration's May Revision estimate of the minimum guarantee.

About 40 Percent of Increase Covered With Higher Property Tax Revenue

Of total Proposition 98 spending in 2018-19, \$54.9 billion is state General Fund and \$23.5 billion is local property tax revenue. From 2017-18 to 2018-19, General Fund spending increases \$1.5 billion (accounting for about 60 percent of the \$2.8 billion increase in spending) and property tax revenue increases \$1.3 billion (accounting for the remaining 40 percent). The primary factor accounting for the growth in property tax revenue is an assumed 6.4 percent growth in assessed property values.

Spending Package Includes Settle-Up Funding

In addition to the increases associated with 2016-17 through 2018-19, the budget plan provides a \$100 million payment related to meeting the 2009-10 minimum guarantee. Of this amount, \$89 million is for K-12 discretionary grants and \$11 million is for community college deferred maintenance. This payment reduces the state's outstanding settle-up obligation from \$440 million to \$340 million. The budget scores all of the settle-up payment as a Proposition 2 debt payment.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education

\$67.9 Billion Proposition 98 Spending on K-12 Education in 2018-19

The enacted 2018-19 level is \$2.4 billion (3.6 percent) more than the revised 2017-18 level and \$3.2 billion (4.9 percent) more than the *2017-18 Budget Act* level. The budget increases spending per student by \$579 (5.2 percent) over the *2017-18 Budget Act* level, bringing Proposition 98 spending per student up to \$11,645.

Package Includes Mix of Ongoing and One-Time Spending.

The budget includes \$5.8 billion in Proposition 98 augmentations for K-12 education across the three-year budget period. Of the \$5.8 billion, \$4 billion (70 percent) is ongoing and \$1.8 billion (30 percent) is one time. From an accounting perspective, the increase is scored across multiple fiscal years and includes settle-up and some unspent funds from prior years that have been repurposed. In addition to the Proposition 98 increase, the budget includes \$594 million in Proposition 51 bond authority for school facility projects and \$100 million in non-Proposition 98 funding for kindergarten school facilities.

Core Program

Fully Implements the Local Control Funding Formula (LCFF) for Schools, Then Further Increases Rates.

In the January budget, the Governor proposed fully implementing LCFF and reaching the target funding rates. The final budget reaches and then goes beyond full implementation. Specifically, the budget closes the gap to the target rates and funds the statutory 2.71 percent cost-of-living adjustment (COLA) to those rates. In addition, the budget provides nearly an extra 1 percentage point increase in the LCFF rates—effectively funding a 3.7 percent COLA in 2018-19. The administration estimates that the combined ongoing cost of both full implementation and the augmented COLA is \$3.7 billion. This augmentation brings total LCFF spending for school districts and charter schools to \$61.1 billion, a 6.4 percent increase over the revised 2017-18 level. School districts and charter schools may use LCFF monies for any educational purpose.

Funds One-Time Discretionary Grants. The largest one-time spending initiative for K-12 education is \$1.1 billion that local education agencies (LEAs) may use for any educational purpose. Funding is distributed based on student attendance (an estimated \$183 per average daily attendance). If an LEA owes any funding to the federal government according to a 2014 settlement over Medi-Cal billing practices, the State Controller is to deduct this obligation from the LEA's discretionary grant. The budget assumes that these Medi-Cal obligations total \$145 million statewide (though the administration believes actual payments likely will come in lower). The remainder of each LEA's discretionary grant will be scored against any outstanding mandate claims. As less than one-third of LEAs have any such claims, we estimate that only \$202 million of the funding provided will count toward the K-12 mandates backlog. We estimate that the total remaining mandate backlog at the end of 2018-19 will be \$668 million.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

K-12 Education (continued)

Provides COLA for COE Funding Formula.

The budget provides \$6.4 million to cover a 2.71 percent COLA for the 24 (out of 58) COEs that have LCFF allocations equal to their LCFF targets. Those COEs funded above their LCFF targets do not receive this COLA. In total, the 2018-19 budget provides COEs with \$1 billion in LCFF funding. Of this amount, \$466 million is intended for district support (excluding the new district support add-ons described below), \$258 million is for alternative education, and \$315 million is for existing add-ons (effectively four LCFF hold harmless provisions).

Provides One-Time Funding to Districts Serving Certain Low-Performing Students.

The budget includes \$300 million one time for districts to help certain low-performing students. Specifically, the funds are allocated to districts based on the count of students who (1) did not meet achievement standards based on the latest results of statewide assessments of reading and math and (2) are not foster youth, low-income students, English learners, or students with disabilities. Prior to receiving these funds, districts must develop a plan for how these funds will be used to improve the performance of qualifying students. By November 1, 2021, districts are required to report to CDE how funds were spent and the extent to which they impacted student outcomes. By February 1, 2022, CDE is to submit an aggregated report to the Legislature on the outcomes of the initiative.

Supports Low-Performing Schools Identified Under Federal Accountability System.

The federal Every Student Succeeds Act (ESSA) requires states beginning in 2018-19 to set aside 7 percent of Title I funds to assist low-performing schools in improving student performance. California has decided to identify low-performing schools using the performance measures included in the California School Dashboard. In 2018-19, the 7 percent requirement equates to \$135 million. Of this amount, the budget allocates \$125 million to low-performing schools and \$10 million to COEs.

Begins Funding High School CTE Also Through California Community Colleges' (CCC) Strong Workforce Program. In addition to funding the CTE Incentive Grant program, the budget provides \$150 million ongoing to support high school CTE through the CCC Strong Workforce Program. These funds are to be allocated to eight regional consortia based on a formula that considers both regional employment conditions as well as grades 7-12 average daily attendance. Each consortium is to distribute funds to schools within its region on a competitive basis. As with the CTE Incentive Grant program, recipients must provide two local dollars for every one Strong Workforce dollar. The budget also provides \$14 million ongoing to support administrative costs associated with the Strong Workforce program. Of this amount, a total of \$12 million is for 72 high school Workforce Pathway coordinators—one for each community college district. Each coordinator would work with high schools in the area to coordinate their CTE programs with the region's Strong Workforce plan. The remaining \$2 million would support the community colleges' costs in managing these high school coordinators.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Teacher Workforce

Provides One-Time Grants for Teacher Residency Slots

The budget includes \$75 million to start new or expand existing teacher residency programs. Of the \$75 million, \$50 million is earmarked for special education teachers, with the remaining \$25 million for bilingual education teachers and science, technology, engineering, and math (STEM) teachers. CTC is to award competitive grants to schools over several years. Schools can qualify for up to \$20,000 per teacher candidate, with a dollar-for-dollar local match required. The funds can be used in a variety of ways, including providing stipends for teacher candidates and teacher mentors.

Provides One-Time Local Solutions Grants

This \$50 million initiative is intended to fund new or existing local efforts to recruit and retain special education teachers. As with the teacher residency grants, CTC is to award competitive grants to schools. Successful schools can receive up to \$20,000 per teacher, with a dollar-for-dollar local match required. Chapter 32 gives districts broad discretion in how schools may use the grant funds.

Funds Two One-Time Initiatives for Classified Employees

The budget includes a total of \$95 million for these initiatives. Of this amount, \$50 million is for a new Classified School Employee Summer Assistance Program. This program allows classified employees to deposit a portion of their income earned during the 2019-20 school year into a fund that would be supplemented by state dollars and paid out in one or two installments during the summer months. The state matching dollars would be spread proportionally among participating employees. The remaining \$45 million is for employee training. CDE is to distribute this funding among LEAs based on the number of classified school employees they employ. LEAs may use the funds for a wide range of possible training activities but must give highest priority to training activities relating to the implementation of school safety plans.

Information Technology

Continues to Rely on Mix of Fund Sources to Support K-12 High Speed Network (HSN)

The budget authorizes HSN to spend \$21 million, an increase of \$1.1 million over the prior year. Of that amount, \$11.2 million comes from federal E-Rate and state Teleconnect subsidies (down \$700,000 over the prior year) and \$9.8 million comes from the Proposition 98 Broadband Infrastructure Improvement Grant Program (up \$1.8 million over the prior year). The administration's expectation is that HSN operate without a deficit in 2018-19 and not fund additional network upgrade projects beyond those DOF informally approved in May.

Other Changes

Provides One-Time Federal Funds for Academic Enrichment

The budget includes \$165 million one-time federal ESSA Title IV funding for academic enrichment. Specifically, LEAs may use the funding to improve (1) educational opportunities outside of core instructional areas, (2) school conditions for student learning, and (3) use of technology in schools. Of the \$165 million, \$121 million is to be distributed to LEAs based on their share of existing Title I funding, with the remainder distributed competitively. CDE will prioritize the competitive awards to LEAs that plan to use funds for visual and performing arts education or expanding access to physical and mental health care.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

Other Changes (continued)

Makes Various Other Adjustments. The budget also funds the following:

- **After School Coding Grant.** The budget includes \$15 million one-time to create the After School Kids Code Grant Pilot Program. The funding will be distributed competitively to LEAs participating in the After School Education and Safety Program. Grant recipients are to include computer coding in their after school curriculum.
- **Community Engagement Professional Learning Network.** The budget includes \$13 million one time for the Collaborative and a lead COE to jointly administer professional learning networks focused on community engagement. Funding would be used to operate the professional learning networks over the next six years.
- **Fresh School Meals.** The budget includes \$1 million one-time to the California-Grown Fresh School Meals Grant Program. The program will provide grants to at least eight LEAs. Chapter 32 requires CDE to give grant priority to LEAs with high shares of low-income students and English learners.

School Facilities

Provides Second Installment of Proposition 51 (2016) Bond Funding for School Facilities

Proposition 51 authorizes the state to sell \$7 billion in general obligation bonds for school facilities. The state plans to issue \$594 million of these bonds in 2018-19. This is about the same amount of Proposition 51 school bonds issued in 2017-18 (\$592 million). As of May 31, 2018, the Office of Public School Construction had received school facility requests totaling \$3.8 billion in state bond funding. The state generally funds school facility requests on a first-come, first-serve basis.

Kindergarten Facilities

The budget includes \$100 million one-time non-Proposition 98 General Fund to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs. About one-third of school districts currently offer part-day programs. Funds can be used to construct additional classrooms or renovate existing space. Funding is to be distributed by the State Allocation Board, with local matching requirements similar to those of the School Facilities Program (SFP). Under SFP, the state typically covers 50 percent of new construction costs and 60 percent of renovation costs, with districts required to cover remaining costs. For both types of projects, the state can contribute up to 100 percent of project costs if a district faces exceptional challenges in raising its local share. Priority for grants will be given to districts with high proportions of low-income students and districts that face challenges in raising their local shares.

Funds Shortfall in Charter School Facility Grant Program

This program helps certain charter schools occupying privately leased facilities cover their rent and other facilities costs. The budget includes \$21 million one-time Proposition 98 funding to fully cover an estimated shortfall in 2017-18. (Beginning in 2017-18, the state increased the maximum per-student facility grant amount from \$750 to \$1,117. The per-student grant had not been increased since the program was created in 2001.) In addition, retroactively beginning in 2017-18, Chapter 32 limits the lease costs applicants can claim to their 2016-17 lease costs plus the statewide K-12 COLA rate. Absent the backfill and lease cap, the administration estimated the California School Finance Authority (which administers the program) would pro-rate 2017-18 awards downward by about 20 percent.

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Proposition 98 (continued)

School Facilities (continued)

Increases Ongoing Funding for Charter School Facility Grant Program

In addition to funding the 2017-18 shortfall, the budget includes a \$25 million ongoing augmentation for the program in 2018-19. Chapter 32 also makes the following three programmatic changes effective with the 2018-19 grant year: (1) it eliminates an automatic backfill for prorated awards, (2) requires new applicants to receive an independent appraisal affirming their lease is either at or below market rates, and (3) requires the California School Finance Authority to first cover applicants' lease costs before funding their other facilities costs in years when awards are prorated.

Adult Education

\$527 Million Proposition 98 Spending on Adult Education.

The budget package increases funding for the Adult Education Block Grant (AEBG) from \$500 million to \$527 million. Most of the increase (\$22 million) is attributable to the program receiving a 4.3 percent COLA. The higher rate is in recognition that the program did not receive a COLA the past few years. Specifically, the 4.3 percent equates to a 2.7 percent COLA associated with 2018-19 and a 1.6 percent COLA associated with 2017-18.

All of these factors were considered in preparing the Mount Diablo Unified School District budget for the 2018-19 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at Mount Diablo Unified School District, 1936 Carlotta Drive, Concord, California, 94519.

BASIC FINANCIAL STATEMENTS

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and investments (Note 2) | \$ 172,546,773 |
| Receivables | 17,585,216 |
| Stores inventory | 424,896 |
| Non-depreciable capital assets (Note 4) | 23,850,200 |
| Depreciable capital assets, net of accumulated depreciation (Note 4) | <u>516,304,448</u> |
| Total assets | <u>730,711,533</u> |
| DEFERRED OUTFLOWS | |
| Deferred outflows of resources - pensions (Notes 9 and 10) | 128,554,942 |
| Deferred loss from refunding of debt | <u>7,687,056</u> |
| Total deferred outflows | <u>136,241,998</u> |
| LIABILITIES | |
| Accounts payable | 28,874,142 |
| Unearned revenue | 1,630,458 |
| Long-term liabilities (Note 5): | |
| Due within one year | 23,303,304 |
| Due after one year | <u>1,029,733,035</u> |
| Total liabilities | <u>1,083,540,939</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources - pensions (Notes 9 and 10) | 23,867,000 |
| Deferred inflows of resources - OPEB (Note 8) | <u>1,634,470</u> |
| Total deferred inflows | <u>25,501,470</u> |
| NET POSITION | |
| Net investment in capital assets | 126,855,892 |
| Restricted: | |
| Legally restricted programs | 25,901,027 |
| Capital projects | 11,648,559 |
| Debt service | 26,609,480 |
| Unrestricted | <u>(433,103,836)</u> |
| Total net position | <u>\$ (242,088,878)</u> |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| | Program Revenues | | | | Net (Expense) Revenues and Changes in Net Position |
|---|-------------------------------------|---|---|------------------|---|
| <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | | <u>Governmental Activities</u> |
| Governmental activities: | | | | | |
| Instruction | \$ 262,095,148 | \$ 1,153,987 | \$ 47,360,402 | \$ 26,628 | \$ (213,554,131) |
| Instruction-related services: | | | | | |
| Supervision of instruction | 17,259,388 | 77,353 | 5,036,328 | - | (12,145,707) |
| Instructional library, media and technology | 4,529,757 | 2,699 | 579,183 | - | (3,947,875) |
| School site administration | 29,615,034 | 9,539 | 2,684,756 | - | (26,920,739) |
| Pupil services: | | | | | |
| Home-to-school transportation | 11,816,079 | 317 | 316,442 | - | (11,499,320) |
| Food services | 12,516,946 | 2,644,469 | 9,348,438 | - | (524,039) |
| All other pupil services | 27,439,901 | 150,915 | 7,917,753 | - | (19,371,233) |
| General administration: | | | | | |
| Data processing | 3,546,557 | - | - | - | (3,546,557) |
| All other general administration | 12,120,615 | 139,483 | 1,858,952 | - | (10,122,180) |
| Plant services | 65,075,389 | 76,833 | 5,538,993 | - | (59,459,563) |
| Ancillary activities | 2,026,061 | 11,365 | 733,702 | - | (1,280,994) |
| Community services | 3,837 | 11 | 2,793 | - | (1,033) |
| Interest on long-term liabilities | 19,862,005 | - | - | - | (19,862,005) |
| Other outgo | 2,499,775 | 49,101 | 601,773 | - | (1,848,901) |
| | <u>\$ 470,406,492</u> | <u>\$ 4,316,072</u> | <u>\$ 81,979,515</u> | <u>\$ 26,628</u> | <u>(384,084,277)</u> |
| | | | | | |
| General revenues: | | | | | |
| Taxes and subventions: | | | | | |
| Taxes levied for general purposes | | | | | 138,800,536 |
| Taxes levied for debt service | | | | | 33,247,487 |
| Taxes levied for other specific purposes | | | | | 1,080,023 |
| Federal and state aid not restricted to specific purposes | | | | | 136,516,961 |
| Interagency revenues | | | | | 9,923,878 |
| Interest and investment earnings | | | | | 1,547,029 |
| Miscellaneous | | | | | 8,111,223 |
| | | | | | Total general revenues |
| | | | | | 329,227,137 |
| | | | | | Change in net position |
| | | | | | (54,857,140) |
| | | | | | Net position, July 1, 2017 |
| | | | | | (187,231,738) |
| | | | | | Net position, June 30, 2018 |
| | | | | | \$ (242,088,878) |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

| | General Fund | Building Fund | Bond Interest and Redemption Fund | All Non-Major Funds | Total Governmental Funds |
|--------------------------------------|----------------------|----------------------|--|---------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and investments: | | | | | |
| Cash in County Treasury | \$ 59,695,960 | \$ 66,844,021 | \$ 26,611,980 | \$ 11,933,413 | \$ 165,085,374 |
| Cash on hand and in banks | 273,114 | - | - | 1,489,416 | 1,762,530 |
| Cash awaiting deposit | - | - | - | 17,859 | 17,859 |
| Cash in revolving fund | 304,967 | - | - | - | 304,967 |
| Cash with fiscal agent | 49,837 | - | - | - | 49,837 |
| Local Agency Investment Fund | 1,517,750 | - | - | 3,808,456 | 5,326,206 |
| Receivables | 15,131,525 | - | - | 2,453,691 | 17,585,216 |
| Stores inventory | 407,651 | - | - | 17,245 | 424,896 |
| | <u>407,651</u> | <u>-</u> | <u>-</u> | <u>17,245</u> | <u>424,896</u> |
| Total assets | <u>\$ 77,380,804</u> | <u>\$ 66,844,021</u> | <u>\$ 26,611,980</u> | <u>\$ 19,720,080</u> | <u>\$ 190,556,885</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 18,219,372 | \$ 3,132,222 | \$ 2,500 | \$ 1,218,696 | \$ 22,572,790 |
| Unearned revenue | 1,630,458 | - | - | - | 1,630,458 |
| | <u>1,630,458</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,630,458</u> |
| Total liabilities | <u>19,849,830</u> | <u>3,132,222</u> | <u>2,500</u> | <u>1,218,696</u> | <u>24,203,248</u> |
| Fund balances: | | | | | |
| Nonspendable | 712,618 | - | - | 17,245 | 729,863 |
| Restricted | 19,048,202 | 63,711,799 | 26,609,480 | 18,484,139 | 127,853,620 |
| Assigned | 30,230,263 | - | - | - | 30,230,263 |
| Unassigned | 7,539,891 | - | - | - | 7,539,891 |
| | <u>7,539,891</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,539,891</u> |
| Total fund balances | <u>57,530,974</u> | <u>63,711,799</u> | <u>26,609,480</u> | <u>18,501,384</u> | <u>166,353,637</u> |
| Total liabilities and fund balances | <u>\$ 77,380,804</u> | <u>\$ 66,844,021</u> | <u>\$ 26,611,980</u> | <u>\$ 19,720,080</u> | <u>\$ 190,556,885</u> |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - Governmental Funds \$ 166,353,637

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$862,598,220 and the accumulated depreciation is \$322,443,572 (Note 4). 540,154,648

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2018 consisted of (Note 5):

| | | |
|--|--------------------|-----------------|
| General Obligation Bonds | \$ (450,577,203) | |
| Accreted interest | (27,524,777) | |
| Unamortized premiums | (28,905,933) | |
| Construction loan | (4,148,544) | |
| Capitalized leases | (1,065,931) | |
| Total OPEB liability (Note 8) | (165,565,903) | |
| Net pension liability (Notes 9 and 10) | (371,615,000) | |
| Compensated absences | <u>(3,633,048)</u> | |
| | | (1,053,036,339) |

Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds. (6,301,352)

In governmental funds, deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refundings resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as deferred outflows of resources. 7,687,056

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the Statement of Net Position, deferred outflows and inflows of resources relating to pensions are reported (Notes 9 and 10).

| | | |
|---|---------------------|-------------|
| Deferred outflows of resources relating to pensions | \$ 128,554,942 | |
| Deferred inflows of resources relating to pensions | <u>(23,867,000)</u> | |
| | | 104,687,942 |

In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they apply to future periods. In the statement of net position, deferred inflows of resources relating to OPEB were (Note 8). (1,634,470)

Total net position - governmental activities \$ (242,088,878)

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

| | General Fund | Building Fund | Bond Interest and Redemption Fund | All Non-Major Funds | Total Governmental Funds |
|---|----------------------|----------------------|--|---------------------------|--------------------------------|
| Revenues: | | | | | |
| Local Control Funding Formula (LCFF): | | | | | |
| State apportionment | \$ 135,822,898 | \$ - | \$ - | \$ - | \$ 135,822,898 |
| Local sources | <u>126,942,895</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>126,942,895</u> |
| Total LCFF | <u>262,765,793</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>262,765,793</u> |
| Federal sources | 17,082,524 | - | 1,787,487 | 10,007,082 | 28,877,093 |
| Other state sources | 50,150,954 | - | 246,883 | 4,522,181 | 54,920,018 |
| Other local sources | <u>15,736,971</u> | <u>1,022,983</u> | <u>33,236,009</u> | <u>15,941,936</u> | <u>65,937,899</u> |
| Total revenues | <u>345,736,242</u> | <u>1,022,983</u> | <u>35,270,379</u> | <u>30,471,199</u> | <u>412,500,803</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Certificated salaries | 165,653,635 | - | - | 2,510,141 | 168,163,776 |
| Classified salaries | 56,473,388 | 532,264 | - | 6,405,777 | 63,411,429 |
| Employee benefits | 92,835,553 | 202,045 | - | 3,490,532 | 96,528,130 |
| Books and supplies | 15,750,598 | 808,825 | - | 5,761,021 | 22,320,444 |
| Contract services and operating expenditures | 40,828,927 | 59,453 | - | 1,023,548 | 41,911,928 |
| Other outgo | 2,499,775 | - | - | - | 2,499,775 |
| Capital outlay | 3,004,545 | 8,365,555 | - | 9,317,123 | 20,687,223 |
| Debt service: | | | | | |
| Principal retirement | 533,054 | - | 19,113,231 | 58,427 | 19,704,712 |
| Interest | <u>39,881</u> | <u>-</u> | <u>19,150,571</u> | <u>-</u> | <u>19,190,452</u> |
| Total expenditures | <u>377,619,356</u> | <u>9,968,142</u> | <u>38,263,802</u> | <u>28,566,569</u> | <u>454,417,869</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(31,883,114)</u> | <u>(8,945,159)</u> | <u>(2,993,423)</u> | <u>1,904,630</u> | <u>(41,917,066)</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 624,794 | - | - | - | 624,794 |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> | <u>(624,794)</u> | <u>(624,794)</u> |
| Total other financing sources (uses) | <u>624,794</u> | <u>-</u> | <u>-</u> | <u>(624,794)</u> | <u>-</u> |
| Net change in fund balances | (31,258,320) | (8,945,159) | (2,993,423) | 1,279,836 | (41,917,066) |
| Fund balances, July 1, 2017 | <u>88,789,294</u> | <u>72,656,958</u> | <u>29,602,903</u> | <u>17,221,548</u> | <u>208,270,703</u> |
| Fund balances, June 30, 2018 | <u>\$ 57,530,974</u> | <u>\$ 63,711,799</u> | <u>\$ 26,609,480</u> | <u>\$ 18,501,384</u> | <u>\$ 166,353,637</u> |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| | |
|---|------------------------|
| Net change in fund balances - Total Governmental Funds | \$ (41,917,066) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the Statement of Net Position (Note 4). | 15,538,326 |
| Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4). | (21,897,921) |
| Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the Statement of Net Position (Note 5). | 19,704,712 |
| In governmental funds, debt issued at a premium is recognized as an other financing source. In the government-wide financial statements debt issued at a premium is amortized as interest over the life of the debt (Note 5). | 2,592,176 |
| Accreted interest is an expense that is not recorded in the governmental funds (Note 5). | (4,297,452) |
| Unmatured interest on long-term liabilities is not recorded in the governmental funds until it becomes due, but increases the liabilities in the Statement of Net Position. | 1,899,466 |
| In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred deferred outflows of resources are amortized over the shorter life of the refunded or refunding debt. | (865,743) |
| In governmental funds, pension costs are recognized when employer contributions are made. In the Statement of Activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: | (14,677,007) |
| In the Statement of Activities, expenses related to Other Postemployment Benefits (OPEB) are measured by the amounts earned during the year. In the Governmental funds, expenditures are measured by the amount of financial resources used. | (10,900,722) |
| In the Statement of Activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5). | <u>(35,909)</u> |
| Change in net position of governmental activities | <u>\$ (54,857,140)</u> |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
June 30, 2018

| | Trust Fund | Agency Funds | |
|---------------------------------|--------------------------------------|--|-------------------------|
| | Private- Purpose Trust Fund | Debt Service Fund for Special Assessment Debt | Student Body Fund |
| ASSETS | | | |
| Cash and investments (Note 2): | | | |
| Cash in County Treasury | \$ 56,643 | \$ 7,522,520 | \$ - |
| Cash on hand and in banks | - | - | 1,385,701 |
| Cash with fiscal agent | - | 1,403,614 | - |
| Total assets | 56,643 | \$ 8,926,134 | \$ 1,385,701 |
| LIABILITIES | | | |
| Due to bondholders | \$ - | \$ 8,926,134 | \$ - |
| Due to student groups | - | - | 1,385,701 |
| Total liabilities | - | \$ 8,926,134 | \$ 1,385,701 |
| NET POSITION | | | |
| Restricted for private purposes | \$ 56,643 | | |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
TRUST FUND
For the Year Ended June 30, 2018

| | Private- Purpose Trust Fund |
|-----------------------------|--------------------------------------|
| Additions: | |
| Local sources - interest | \$ <u>837</u> |
| Net position, July 1, 2017 | <u>55,806</u> |
| Net position, June 30, 2018 | <u>\$ 56,643</u> |

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

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District receives funding from local, state and federal governmental sources and must comply with all the requirements of these funding source entities.

Reporting Entity - Mount Diablo Unified School District Education Facilities Financing Corporation: The District and the Mount Diablo Unified School District Education Facilities Financing Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Codification Section (Cod. Sec.) 2100.101, as amended by GASB Cod. Sec. 2100.138, for inclusion of the Corporation as a component unit of the District. Accordingly, the financial activities of the Corporation are included in these financial statements using the blended presentation method, as if they were part of the District's operations. The Corporation is considered a blended component unit as the governing board of the Corporation is essentially the same as the governing board of the District, and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Corporation's financial activity is presented in the governmental fund financial statements as the Capital Projects Fund for Blended Component Units, and in the Fiduciary Funds Statement as the Debt Service Fund for Special Assessment Debt. Special Tax Bonds issued by the Corporation is not included in the long-term liabilities of the Statement of Net Position as they are not obligations of the District. Individually prepared financial statements are not prepared for the Corporation.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position and the Statement of Change in Fiduciary Net Position at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Government Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting: The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

A - Major Funds

General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Building Fund:

The Building Fund is a capital projects fund used to account for resources used for the acquisition or construction of major capital facilities and equipment, and primarily includes proceeds from the sale of bonds.

Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund is a debt service fund used to account for the accumulation of resources for, and the repayment of, general long-term debt principal, interest, and related costs.

B - Other Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Adult Education, Cafeteria, and Deferred Maintenance Funds.

Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds). This classification includes the Capital Facilities, County School Facilities, and Capital Projects for Blended Component Units Fund.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation Private-Purpose Trust Fund is a Trust Fund that used to account separately for gifts or bequests that at benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the District's own programs.

The Student Body Funds are collectively an Agency fund for the balances included in the site Associated Student Body (ASB) Fund, activities. The amounts reported for student body funds represent the combined totals of all schools within the District that maintain a student body fund.

The Debt Service Fund for Special Assessment Debt is an Agency Fund that is used to account for the accumulation of resources for, and the repayment of Special Tax Bonds issued through the Corporation.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual: Governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting: By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

Receivables: Receivables are made up principally of amounts due from the State of California and categorical programs. The District has determined that no allowance for doubtful accounts was necessary as of June 30, 2018.

Stores Inventory: Inventory recorded in the General and Cafeteria Funds are valued at average cost and consists mainly of consumable supplies. Inventories are recorded as expenditures at the time items are transferred from the warehouse to the schools and offices.

Capital Assets: Capital assets purchased or acquired, with an original cost of \$25,000 or more for land, site improvements and buildings and \$10,000 or more for equipment, are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods, and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on debt refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. The District has also recognized deferred outflows of resources related to the recognition of the net pension liability which is reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position includes 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(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized deferred inflows of resources related to the recognition of the net pension liability and total OPEB liability which are reported in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Certain investments are reported at fair value. The following is a summary of pension amounts in aggregate:

| | <u>STRP</u> | <u>PERF B</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| Deferred outflows of resources | <u>\$ 96,064,363</u> | <u>\$ 32,490,579</u> | <u>\$128,554,942</u> |
| Deferred inflows of resources | <u>\$ 22,085,000</u> | <u>\$ 1,782,000</u> | <u>\$ 23,867,000</u> |
| Net pension liability | <u>\$272,885,000</u> | <u>\$ 98,730,000</u> | <u>\$371,615,000</u> |
| Pension expense | <u>\$ 44,123,509</u> | <u>\$ 18,003,483</u> | <u>\$ 62,126,992</u> |

Compensated Absences: Compensated absences benefits totaling \$3,633,048 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRP and PERF B member employees, when the employee retires.

Unearned Revenue: Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

Net Position: Net position is displayed in three components:

1 - Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2 - Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restrictions for capital projects and debt service represents the portion of net position restricted for capital projects and the retirement of debt, respectively. The restriction for the private-purpose trust fund represents net position which is to be used to future private-purposes. It is the District's policy to first use restricted net position when allowable expenditures are incurred.

3 - Unrestricted Net Position - All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2018, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel within the District to assign fund balances, however, as of June 30, 2018, no such designation has occurred.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require Districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2018, the District has established a minimum fund balance policy requiring no less than 2% of General Fund expenditures and other financing uses. At June 30, 2018, the District has not established a stabilization arrangement.

Custodial Relationships: The Agency Funds represent the assets and liabilities of various student organizations within the District. As the funds are custodial in nature, no measurement of operating results is involved.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Contra Costa bills and collects taxes for the District. Tax revenues are recognized by the District when received.

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

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

Eliminations and Reclassifications: In the process of aggregating data for the Statement of Net Position and the statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2018 consisted of the following:

| | <u>Governmental Activities</u> | <u>Fiduciary Activities</u> |
|------------------------------|------------------------------------|---------------------------------|
| Pooled Funds: | | |
| Cash in County Treasury | \$ 165,085,374 | \$ 7,579,163 |
| Cash awaiting deposit | 17,859 | - |
| Local Agency Investment Fund | 5,326,206 | - |
| Deposits: | | |
| Cash on hand and in banks | 1,762,530 | 1,385,701 |
| Cash in revolving fund | 304,967 | - |
| Investments: | | |
| Cash with fiscal agent | 49,837 | 1,403,614 |
| Total | \$ 172,546,773 | \$ 10,368,478 |

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Contra Costa County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the 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 basis.

Local Agency Investment Fund: Mount Diablo Unified School District places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The amortized cost of the District's investment in the pool is reported in the accompanying financial statements based upon the District's pro-rata share of the amortized cost as provided by LAIF, as a percentage of the entire LAIF portfolio. The funds maintained in the pooled investments funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds may be withdrawn at any time up to the total amount on deposit with LAIF. Most withdrawals are accessible and transferable to the District's master account on the same day as the request, except for amounts greater than \$10,000,000, which require at least twenty-four hours' advance notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer. As of June 30, 2018, this fund was yielding approximately 1.90% interest annually. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity and yield are not jeopardized.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (Continued)

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2018, the carrying amount of the District's accounts totaled \$3,453,198 and the bank balances were \$3,281,349. The total uninsured bank balances at June 30, 2018 were \$2,489,658.

Cash with Fiscal Agent: Cash with Fiscal Agent represents amounts held by a third party custodian in the District's name. The balances are comprised entirely of cash equivalents and are carried at amortized cost.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had no concentration of credit risk.

NOTE 3 - INTERFUND TRANSACTIONS

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds. There were no Individual fund interfund receivable and payable balances at June 30, 2018.

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Transfers for the June 30, 2018 fiscal year were as follows:

| | |
|---|-------------------|
| Transfer from the Adult Education Fund to the General Fund for indirect cost support. | \$ 191,153 |
| Transfer from the Cafeteria Fund to the General Fund for indirect cost support. | <u>433,641</u> |
| | <u>\$ 624,794</u> |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below:

| | Balance July 1, <u>2017</u> | Additions and <u>Transfers</u> | Deletions and <u>Transfers</u> | Balance June 30, <u>2018</u> |
|--------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|------------------------------------|
| Non-depreciable: | | | | |
| Land | \$ 14,436,462 | \$ - | \$ - | \$ 14,436,462 |
| Construction in progress | 3,888,752 | 14,190,036 | (8,665,050) | 9,413,738 |
| Depreciable: | | | | |
| Land improvements | 117,196,466 | - | - | 117,196,466 |
| Buildings | 689,493,041 | - | 8,665,050 | 698,158,091 |
| Equipment | <u>22,045,173</u> | <u>1,348,290</u> | <u>-</u> | <u>23,393,463</u> |
| Totals, at cost | <u>847,059,894</u> | <u>15,538,326</u> | <u>-</u> | <u>862,598,220</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (21,610,633) | (6,374,443) | - | (27,985,076) |
| Buildings | (262,569,767) | (13,789,861) | - | (276,359,628) |
| Equipment | <u>(16,365,251)</u> | <u>(1,733,617)</u> | <u>-</u> | <u>(18,098,868)</u> |
| Total accumulated depreciation | <u>(300,545,651)</u> | <u>(21,897,921)</u> | <u>-</u> | <u>(322,443,572)</u> |
| Capital assets, net | <u>\$ 546,514,243</u> | <u>\$ (6,359,595)</u> | <u>\$ -</u> | <u>\$ 540,154,648</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|----------------------|
| Instruction | \$ 10,696 |
| Supervision of instruction | 8,558 |
| Pupil services | 525,488 |
| All other general administration | 83,953 |
| Plant services | <u>21,269,226</u> |
| Total depreciation expense | <u>\$ 21,897,921</u> |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5- LONG-TERM LIABILITIES

General Obligation Bonds

| Bond | Issue Date | Interest Rate % | Maturity Date | Amount of Original Issuance | Outstanding July 1, 2017 | Issued Current Year | Redeemed Current Year | Outstanding June 30, 2018 |
|---|------------|-----------------|---------------|-----------------------------|--------------------------|---------------------|-----------------------|---------------------------|
| <u>Measure C 2010</u> | | | | | | | | |
| Series A | 2011 | 3.5 - 5.0% | 2035 | \$ 50,456,475 | \$ 50,428,615 | \$ - | \$ 22,541 | \$ 50,406,074 |
| Series B | 2011 | 3.0 - 5.0% | 2027 | 59,540,000 | 51,455,000 | - | 3,490,000 | 47,965,000 |
| Series C | 2011 | 2.0 - 4.0% | 2025 | 3,865,000 | 3,860,000 | - | - | 3,860,000 |
| Series D | 2011 | 3.0 - 5.0% | 2028 | 7,133,582 | 6,656,819 | - | 220,690 | 6,436,129 |
| Series E | 2012 | 3.0 - 5.0% | 2037 | 149,995,000 | 136,650,000 | - | 420,000 | 136,230,000 |
| Series F | 2016 | 4.15 - 5.3% | 2025 | 38,500,000 | 30,965,000 | - | 7,200,000 | 23,765,000 |
| Series G | 2017 | 1.0 - 5.0% | 2031 | 38,500,000 | 38,500,000 | - | - | 38,500,000 |
| <u>Refunding Bonds - Measure C 2002</u> | | | | | | | | |
| 2002 Series B | 2011 | 3.0 - 5.0% | 2023 | 43,700,000 | 34,170,000 | - | 4,320,000 | 29,850,000 |
| 2002 Series B2 | 2012 | 3.0 - 5.0% | 2029 | 40,540,000 | 39,955,000 | - | - | 39,955,000 |
| 2002 Series C | 2013 | 3.0 - 5.0% | 2031 | 54,015,000 | 51,100,000 | - | 1,190,000 | 49,910,000 |
| 2011 Refunding | 2011 | 3.0 - 5.5% | 2026 | 37,790,000 | 25,950,000 | - | 2,250,000 | 23,700,000 |
| | | | | <u>\$ 524,035,057</u> | <u>\$ 469,690,434</u> | <u>\$ -</u> | <u>\$ 19,113,231</u> | <u>\$ 450,577,203</u> |

Accreted Interest

| Series | Beginning | Accretion | Deductions | Total |
|----------------|----------------------|---------------------|-------------------|----------------------|
| 2010, Series A | \$ 22,831,356 | \$ 4,495,134 | \$ 27,459 | \$ 27,299,031 |
| 2010, Series D | 395,969 | 69,087 | 239,310 | 225,746 |
| | <u>\$ 23,227,325</u> | <u>\$ 4,564,221</u> | <u>\$ 266,769</u> | <u>\$ 27,524,777</u> |

As of June 30, 2018 the outstanding General Obligation Bonds are scheduled to mature as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|-----------------------|-----------------------|-----------------------|
| 2019 | \$ 19,980,203 | \$ 17,631,488 | \$ 37,611,691 |
| 2020 | 20,741,782 | 16,602,795 | 37,344,577 |
| 2021 | 21,128,603 | 15,769,576 | 36,898,179 |
| 2022 | 21,120,954 | 17,983,187 | 39,104,141 |
| 2023 | 22,286,402 | 17,425,570 | 39,711,972 |
| 2024-2028 | 129,513,529 | 86,363,268 | 215,876,797 |
| 2029-2033 | 134,758,043 | 76,334,586 | 211,092,629 |
| 2034-2037 | <u>81,047,687</u> | <u>20,253,972</u> | <u>101,301,659</u> |
| | <u>\$ 450,577,203</u> | <u>\$ 268,364,442</u> | <u>\$ 718,941,645</u> |

Construction Loan: In February 2003, the Redevelopment Agency of the City of Pittsburg (City) made an interest-free loan totaling \$6,178,936 to the District. The purpose of the loan was to finance the construction of an elementary school within the City of Pittsburg. Beginning June 1, 2005, the District pays 24% of all impact fees collected by the District in the City of Pittsburg incurred after January 1, 2005. The District will continue to make payments equal to 24% of impact fees collected in the City every six months on June 1st and January 1st of each year through June 1, 2040, or until the loan is paid off, whichever occurs first. The balance at June 30, 2018, is \$4,148,544.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5- LONG -TERM LIABILITIES (Continued)

Capitalized Leases: The District purchased school buses under long-term lease purchase agreements. The District has included in Equipment, capital assets with a historical cost of \$2,983,632 and accumulated depreciation of \$1,522,241 for assets acquired under capitalized leases. The following is a schedule of future lease payments:

| Year Ending <u>June 30,</u> | <u>Lease Payments</u> |
|---------------------------------------|----------------------------|
| 2019 | \$ 474,352 |
| 2020 | 474,352 |
| 2021 | <u>155,868</u> |
| Total payments | 1,104,572 |
| Less amount representing interest | <u>(38,641)</u> |
| Net present value of minimum payments | <u><u>\$ 1,065,931</u></u> |

A schedule of changes in long-term liabilities for the year ended June 30, 2018 is shown below:

| | Balance June 30, <u>2017</u> | <u>Additions</u> | <u>Deductions</u> | Balance June 30, <u>2018</u> | Amounts Due Within <u>One Year</u> |
|--|------------------------------------|-----------------------------|-----------------------------|------------------------------------|--|
| General Obligation Bonds | \$ 469,690,434 | \$ - | \$ 19,113,231 | \$ 450,577,203 | \$ 19,980,203 |
| Accreted interest | 23,227,325 | 4,564,221 | 266,769 | 27,524,777 | 284,797 |
| Unamortized Premiums | 31,498,109 | - | 2,592,176 | 28,905,933 | 2,592,176 |
| Construction loan | 4,206,971 | - | 58,427 | 4,148,544 | - |
| Capitalized leases | 1,598,985 | - | 533,054 | 1,065,931 | 446,128 |
| Total OPEB liability (Note 8) | 156,299,651 | 17,325,216 | 8,058,964 | 165,565,903 | - |
| Net pension liability (Notes 9 and 10) | 298,285,565 | 73,329,435 | - | 371,615,000 | - |
| Compensated absences | <u>3,597,139</u> | <u>35,909</u> | <u>-</u> | <u>3,633,048</u> | <u>-</u> |
| | <u><u>\$ 988,404,179</u></u> | <u><u>\$ 95,254,781</u></u> | <u><u>\$ 30,622,621</u></u> | <u><u>\$ 1,053,036,339</u></u> | <u><u>\$ 23,303,304</u></u> |

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the construction loan are made from the Capital Facilities Fund. Payments on the capitalized leases are made from the General Fund. Payments toward the net pension liability, total OPEB liability, and compensated absences are made from the fund for which the related employee worked.

Non-Obligatory Debt: Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$12,565,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the financial statements.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - RISK MANAGEMENT

The District is self-insured for property and liability claims up to \$100,000 per liability claim. Liability claims in excess of \$100,000 and up to \$1,000,000 are covered by a commercial insurance policy. The District liability claims in excess of \$1,000,000 are covered by CSAC-EIA. Property claims in excess of \$100,000 are covered by a commercial insurance policy up to \$149,000,000. All activity for the District's self-insurance account is included in the General Fund.

NOTE 7 - FUND BALANCES

Fund balances, by category, at June 30, 2018 consisted of the following:

| | General Fund | Building Fund | Bond Interest and Redemption Fund | All Non-Major Funds | Total |
|---|----------------------|----------------------|--|---------------------------|-----------------------|
| Nonspendable: | | | | | |
| Revolving cash fund | \$ 304,967 | \$ - | \$ - | \$ - | \$ 304,967 |
| Stores inventory | <u>407,651</u> | <u>-</u> | <u>-</u> | <u>17,245</u> | <u>424,896</u> |
| Subtotal nonspendable | <u>712,618</u> | <u>-</u> | <u>-</u> | <u>17,245</u> | <u>729,863</u> |
| Restricted: | | | | | |
| Legally restricted programs | 19,048,202 | - | - | 6,835,580 | 25,883,782 |
| Capital projects | - | 63,711,799 | - | 11,648,559 | 75,360,358 |
| Debt service | <u>-</u> | <u>-</u> | <u>26,609,480</u> | <u>-</u> | <u>26,609,480</u> |
| Subtotal restricted | <u>19,048,202</u> | <u>63,711,799</u> | <u>26,609,480</u> | <u>18,484,139</u> | <u>127,853,620</u> |
| Assigned: | | | | | |
| LCFF targeted supplemental reserve | 25,182,727 | - | - | - | 25,182,727 |
| Retirement and health benefit increases | <u>5,047,536</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,047,536</u> |
| Subtotal assigned | <u>30,230,263</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,230,263</u> |
| Unassigned: | | | | | |
| Designated for economic uncertainty | <u>7,539,891</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,539,891</u> |
| Total fund balances | <u>\$ 57,530,974</u> | <u>\$ 63,711,799</u> | <u>\$ 26,609,480</u> | <u>\$ 18,501,384</u> | <u>\$ 166,353,637</u> |

(Continued)

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

General Information about the Other Postemployment Benefits Plan

Plan Description: The District provides healthcare benefits to eligible employees who retire from the District, as part of a single-employer defined benefit postemployment healthcare plan (the "Plan"). The Plan is administered by the District and allows employees who retire after having achieved retirement eligibility requirements to continue receiving medical coverage. The benefits from the Plan are available to Mount Diablo Educators Association (MDEA) employees, classified employees (Including Local 1 CST, Teamsters 856 and CSEA Employees), management & confidential employees, psychologists, and supervisors. The District's Board of Education has the authority to establish or amend the benefit terms offered by the Plan. The Board of Education also retains the authority to establish the requirements for paying the Plan benefits as they come due. As of June 30, 2018, the District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's total OPEB liability, and the plan does not issue separate financial statements.

Benefits Provided: In accordance with contracts between the District and the respective employee groups, eligible employees are entitled to receive certain medical benefits through the Plan. Benefits provided vary depending on employee group, age at retirement, and number of years of service to the District:

MDEA Employees: The District pays for the cost of retiree plus one eligible dependent (depending on age of dependent at retirement) and all dependents for dental coverage for a period of 10 years or to the retiree's attainment of age 65, if earlier. The District's pre-65 contribution is capped at the current Kaiser HMO rate for retirees in the service area and the actual premium rate for retirees outside the service area. Upon reaching age 65, the District pays the CalPERS minimum required contribution only. An eligible retiree can elect additional dependent coverage but will be required to pay any additional costs above the District contribution. Dental benefits are only provided to eligible employees retiring prior to age 64. Upon the death of the retiree, a surviving spouse can continue medical coverage through the CalPERS Health Program and receive a District contribution through the retiree age 65. For continuation after the retirees age 65, the District's contribution is equal to the CalPERS minimum required contribution. All dental coverage ceases when the retiree attains or would have attained age 65

Classified Employees (including Local 1 CST, Teamsters 856 and CSEA members): The District pays for the cost of retiree only coverage for a period of 10 years or to the retiree's attainment of age 65, if earlier. If retiring on or after July 1, 2007 but prior to July 1, 2015, the District's pre-65 contribution is capped at the 2010 Kaiser HMO rate. If retiring on or after July 1, 2015 but prior to July 1, 2016, the District's pre-65 contribution is capped at 80% of the 2015 Kaiser HMO rate. If retiring on or after July 1, 2016, the District's pre-65 contribution is subject to a maximum of the Kaiser rate. Upon reaching age 65, the District pays the CalPERS minimum required contribution only. An eligible retiree can elect additional dependent coverage but will be required to pay any additional costs above the District contribution. Upon the death of the retiree, a surviving spouse can continue medical coverage through CalPERS Health Program and receive a District contribution equal to the CalPERS minimum required contribution

Management and Confidential Employees: The District pays for the cost of retiree plus one eligible dependent (depending on age of dependent at retirement) and all dependents for dental coverage for a period of 10 years or to the retiree's attainment of age 65, if earlier. The District's pre-65 contribution is capped at the current Kaiser HMO rate for retirees in the service area and the actual premium rate for retirees outside the service area. Upon reaching age 65, the District pays the CalPERS minimum required contribution only. An eligible retiree can elect additional dependent coverage but will be required to pay any additional costs above the District contribution. Dental benefits are only provided to eligible employees retiring prior to age 64.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Upon the death of the retiree, a surviving spouse can continue medical coverage through the CalPERS Health Program and receive a District contribution through the retiree age 65. For continuation after the retiree's age 65, the District's contribution is equal to the CalPERS minimum required contribution. All dental coverage ceases when the retiree attains or would have attained age 65

Psychologists: The District pays for the cost of retiree only coverage for a period of 10 years or to the retiree's attainment of age 65, if earlier. If retiring on or after July 1, 2007 but prior to July 1, 2015, the District's pre-65 contribution is capped at the 2010 Kaiser HMO rate. If retiring on or after July 1, 2015 but prior to July 1, 2016, the District's pre-65 contribution is capped at 80% of the 2015 Kaiser HMO rate. If retiring on or after July 1, 2016, the District's pre-65 contribution is subject to a maximum of the Kaiser rate. Upon reaching age 65, the District pays the CalPERS minimum required contribution only. An eligible retiree can elect additional dependent coverage but will be required to pay any additional costs above the District contribution. Upon the death of the retiree, a surviving spouse can continue medical coverage through CalPERS Health Program and receive a District contribution equal to the CalPERS minimum required contribution

Supervisors: The District pays for the cost of retiree only coverage for a period of 10 years or to the retiree's attainment of age 65, if earlier. If retiring on or after July 1, 2007 but prior to July 1, 2015, the District's pre-65 contribution is capped at the 2010 Kaiser HMO rate. If retiring on or after July 1, 2015 but prior to July 1, 2016, the District's pre-65 contribution is capped at 80% of the 2015 Kaiser HMO rate. If retiring on or after July 1, 2016, the District's pre-65 contribution is subject to a maximum of the Kaiser rate. Upon reaching age 65, the District pays the CalPERS minimum required contribution only. An eligible retiree can elect additional dependent coverage but will be required to pay any additional costs above the District contribution. Upon the death of the retiree, a surviving spouse can continue medical coverage through CalPERS Health Program and receive a District contribution equal to the CalPERS minimum required contribution.

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2018:

| | <u>Number of Participants</u> |
|---|-----------------------------------|
| Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits | 1,275 |
| Inactive employees/dependents entitled to but not yet receiving benefits | - |
| Active employees | <u>3,246</u> |
| | <u><u>4,521</u></u> |

Contributions: California Government Code specifies that the District's contribution requirements for covered employees are established and may be amended by the District's Governing Board. Amounts paid by the District as benefits came due were \$6,097,600 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2017.

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

| | |
|---------------------------------------|---|
| <u>Valuation Date</u> | June 30, 2017 |
| <u>Actuarial Method</u> | Entry Age actuarial cost method has been used, with normal costs calculated as a level percentage of payroll. |
| <u>Discount Rate</u> | 3.50%. |
| <u>Health Care Increases</u> | Medical insurance premiums are assumed to increase by 6.50% in 2018, decreasing to 5.00% in subsequent years. Dental rates are expected to increase by 4.00%. |
| <u>Mortality Rates</u> | Mortality rates are taken from the most recent experience studies for CalPERS (2014) for classified and confidential employees and CalSTRS (2011) for certificated and management employees. |
| <u>Health Plan Coverage Elections</u> | 100% of eligible employees are assumed to elect coverage upon retirement, through the expiration of the benefit period for the respective employee group. 70% of future retirees and surviving spouses are assumed to elect to continue coverage when the District's contribution provided is the CalPERS minimum required contribution. 80% of future retirees (50% for employee groups with a District medical contribution for retiree only) are assumed to elect coverage for their spouse. Male spouses are assumed to be 3 years older than female spouses. Actual spouse coverage is used for current retirees when available. |
| <u>Termination Rates</u> | Termination rates are taken from the most recent experience studies for CalPERS (2014) for classified and confidential employees and CalSTRS (2011) for certificated and management employees. |
| <u>Inflation Rate</u> | 2.75% per year |
| <u>Salary Increases</u> | 3.00% per year |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Discount Rate: Given the District's decision not to fund the program, all future benefit payments were discounted using a high quality municipal bond rate of 3.50%. The municipal bond rate was based on the week closest but not later than the measurement date of the average of the S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index at the measurement date, as published by the Federal Reserve. To be eligible for the indices the bonds must be rated at least Moody's Investors Service's Aa2, AA by Standard & Poor's Corp.'s, or AA by Fitch Ratings.

Changes in Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|--------------------------|---------------------------------|
| Balance at June 30, 2017 | <u>\$ 156,299,651</u> |
| Changes for the year: | |
| Service cost | 11,716,332 |
| Interest | 5,608,884 |
| Changes in assumptions | (1,961,364) |
| Benefit payments | <u>(6,097,600)</u> |
| Net change | <u>9,266,252</u> |
| Balance at June 30, 2018 | <u><u>\$ 165,565,903</u></u> |

The changes in assumptions include a change in the discount rate from 3.40% as of the June 30, 2017 measurement date, to 3.50% in the June 30, 2018 measurement date.

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

| | 1% Decrease <u>(2.50%)</u> | Current Discount Rate <u>(3.50%)</u> | 1% Increase <u>(4.50%)</u> |
|----------------------|----------------------------------|--|----------------------------------|
| Total OPEB liability | <u>\$ 186,890,942</u> | <u>\$ 165,565,903</u> | <u>\$ 147,737,631</u> |

Sensitivity of the Total OPEB Liability To Changes in the Healthcare Cost Trend Rates: The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease <u>(5.50 - 4.00%)</u> | Healthcare Cost Trend Rates Rate <u>(6.50-5.00%)</u> | 1% Increase <u>(7.50-6.00%)</u> |
|----------------------|---|--|---------------------------------------|
| Total OPEB liability | <u>\$ 142,078,808</u> | <u>\$ 165,565,903</u> | <u>\$ 195,689,567</u> |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$16,998,322. At June 30, 2018, the District reported deferred inflows of resources related to the OPEB, resulting from changes of assumptions, totaling \$1,634,470. The amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Years Ended <u>June 30,</u> | |
|--------------------------------|------------|
| 2019 | \$ 326,894 |
| 2020 | \$ 326,894 |
| 2021 | \$ 326,894 |
| 2022 | \$ 326,894 |
| 2023 | \$ 326,894 |

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

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

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

CalSTRS 2% at 60

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

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

CalSTRS 2% at 62

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

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2017-18. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2017-18.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% at 62 members will increase by 1 percent effective July 1, 2018.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Employers – 14.43 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the CalSTRS board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The CalSTRS board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

The CalSTRS employer contribution rate increases effective for fiscal year 2017-18 through fiscal year 2045-46 are summarized in the table below:

| <u>Effective Date</u> | <u>Prior Rate</u> | <u>Increase</u> | <u>Total</u> |
|-----------------------|-------------------|--|--------------|
| July 01, 2017 | 8.25% | 6.18% | 14.43% |
| July 01, 2018 | 8.25% | 8.03% | 16.28% |
| July 01, 2019 | 8.25% | 9.88% | 18.13% |
| July 01, 2020 | 8.25% | 10.85% | 19.10% |
| July 01, 2021 to | | | |
| June 30, 2046 | 8.25% | * | * |
| July 01, 2046 | 8.25% | Increase from prior rate ceases in 2046-47 | |

* The Teachers' Retirement Board (the "Board") cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

The District contributed \$23,296,363 to the plan for the fiscal year ended June 30, 2018.

State - 9.328 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046. The CalSTRS state contribution rates effective for fiscal year 2017-18 and beyond are summarized in the table below.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

As shown in the subsequent table, the state rate will increase to 5.311 percent on July 1, 2018, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

| <u>Effective Date</u> | <u>Base Rate</u> | <u>AB 1469 Increase For 1990 Benefit Structure</u> | <u>SBMA Funding(1)</u> | <u>Total State Appropriation to DB Program</u> |
|-----------------------------------|------------------|--|------------------------|--|
| July 01, 2018 | 2.017% | 5.311%(2) | 2.50% | 9.828% |
| July 01, 2019 to June 30, 2046 | 2.017% | (3) | 2.50% | (3) |
| July 01, 2046 and thereafter | 2.017% | (4) | 2.50% | 4.517%(3) |

(1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.

(2) In May 2018, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.

(3) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent.

(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation.

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:

| | |
|---|-----------------------|
| District’s proportionate share of the net pension liability | \$ 272,885,000 |
| State’s proportionate share of the net pension liability associated with the District | <u>161,437,000</u> |
| Total | <u>\$ 434,322,000</u> |

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2017, the District’s proportion was 0.295 percent, which was an increase of 0.023 percent from its proportion measured as of June 30, 2016.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$44,123,509 and revenue of \$15,476,417 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:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 1,009,000 | \$ 4,760,000 |
| Changes of assumptions | 50,555,000 | - |
| Net differences between projected and actual earnings on investments | - | 7,268,000 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 21,204,000 | 10,057,000 |
| Contributions made subsequent to measurement date | <u>23,296,363</u> | <u>-</u> |
| Total | <u>\$ 96,064,363</u> | <u>\$ 22,085,000</u> |

\$23,296,363 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended <u>June 30,</u> | |
|--------------------------------|---------------|
| 2019 | \$ 3,530,700 |
| 2020 | \$ 14,145,700 |
| 2021 | \$ 10,233,700 |
| 2022 | \$ 3,117,033 |
| 2023 | \$ 8,567,533 |
| 2024 | \$ 11,088,334 |

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 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 actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|---|
| Valuation Date | June 30, 2016 |
| Experience Study | July 1, 2010 through June 30, 2015 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.10% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | 3.50% |
| Post-retirement Benefit Increases | 2.00% simple for DB Not applicable for DBS/CBB |

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.

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

| <u>Assumption</u> | <u>Measurement Period</u> | |
|---------------------------|-------------------------------|-------------------------------|
| | As of June 30, <u>2017</u> | As of June 30, <u>2016</u> |
| Consumer price inflation | 2.75% | 3.00% |
| Investment rate of return | 7.10% | 7.60% |
| Wage growth | 3.50% | 3.75% |

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 as an input to the process. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

* 20-year geometric average.

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. 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 occur midyear. Based on those assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

| | 1% Decrease (6.10%) | Current Discount Rate (7.10%) | 1% Increase (8.10%) |
|---|---------------------------|-------------------------------------|---------------------------|
| District’s proportionate share of the net pension liability | <u>\$ 400,681,000</u> | <u>\$ 272,885,000</u> | <u>\$ 169,169,000</u> |

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B

General Information about the Public Employer’s Retirement Fund B

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at:

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 were as follows:

Members - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2017-18.

Employers - The employer contribution rate was 15.531 percent of applicable member earnings.

The District contributed \$8,749,579 to the plan for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$98,730,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2017, the District’s proportion was 0.414 percent, which was an increase of 0.018 from its proportion measured as of June 30, 2016.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$18,003,483. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 3,537,000 | \$ - |
| Changes of assumptions | 14,421,000 | 1,162,000 |
| Net differences between projected and actual earnings on investments | 3,416,000 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 2,367,000 | 620,000 |
| Contributions made subsequent to measurement date | <u>8,749,579</u> | <u>-</u> |
| Total | <u>\$ 32,490,579</u> | <u>\$ 1,782,000</u> |

\$8,749,579 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended <u>June 30,</u> | |
|--------------------------------|----------------|
| 2019 | \$ 6,252,917 |
| 2020 | \$ 10,085,917 |
| 2021 | \$ 7,490,416 |
| 2022 | \$ (1,870,250) |

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan 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 actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2016 |
| Experience Study | June 30, 1997 through June 30, 2011 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.15% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | Varies by entry age and service |
| Post-retirement Benefit Increases | 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

During the 2016-17 measurement period, the financial reporting discount rate for PERF B was lowered from 7.65 percent to 7.15 percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

| <u>Asset Class</u> | <u>Long-Term* Assumed Asset Allocation</u> | <u>Expected Real Rate of Return Years (1-10)⁽¹⁾</u> | <u>Expected Real Rate of Return Years (11+)⁽²⁾</u> |
|-----------------------------|--|--|---|
| Global Equity | 47% | 4.90% | 5.38% |
| Fixed Income | 19 | 0.80 | 2.27 |
| Inflation Assets | 6 | 0.60 | 1.39 |
| Private Equity | 12 | 6.60 | 6.63 |
| Real Estate | 11 | 2.80 | 5.21 |
| Infrastructure & Forestland | 3 | 3.90 | 5.36 |
| Liquidity | 2 | (0.40) | (0.90) |

* 10-year geometric average

(1) An expected inflation rate of 2.50% used for this period.

(2) An expected inflation rate of 3.00% used for this period.

Discount Rate: The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

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.

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 cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

| | 1% Decrease <u>(6.15%)</u> | Current Discount Rate <u>(7.15%)</u> | 1% Increase <u>(8.15%)</u> |
|---|----------------------------------|--|----------------------------------|
| District’s proportionate share of the net pension liability | <u>\$ 145,264,000</u> | <u>\$ 98,730,000</u> | <u>\$ 60,127,000</u> |

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 11 - JOINT POWERS AGREEMENTS

The District is a member of CSAC Excess Insurance Authority (CSAC-EIA), the Schools’ Self-Insurance of Contra Costa County (SSICCC), and the School Project for Utility Rate Reduction (SPURR) through joint powers agreements (JPAs). The entities provide the District with property and liability insurance coverage, as well as health and welfare benefits. Each entity is governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there were no significant reductions in insurance coverage from the prior year.

The following is a summary of financial information of CSAC-EIA, SSICCC, SPURR as of June 30, 2017 (the most recent audited information available):

| | <u>CSAC-EIA</u> | <u>SSICCC</u> | <u>SPURR</u> |
|-------------------------|-----------------|---------------|---------------|
| Total assets | \$ 791,363,353 | \$ 9,937,959 | \$ 12,938,796 |
| Total deferred outflows | \$ 1,537,233 | \$ - | \$ - |
| Total liabilities | \$ 650,912,971 | \$ 954,593 | \$ 6,141,634 |
| Total deferred inflows | \$ 1,466,353 | \$ - | \$ - |
| Net position | \$ 140,521,262 | \$ 8,983,366 | \$ 6,797,162 |
| Total revenues | \$ 771,379,563 | \$ 16,890,908 | \$ 41,248,511 |
| Total expenditures | \$ 768,530,918 | \$ 16,157,272 | \$ 39,954,213 |
| Change in net position | \$ 2,848,645 | \$ 733,636 | \$ 1,294,298 |

The relationship between the District and the Joint Powers Authorities is such that they are not component units of the District for financial reporting purposes.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

Also, the District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the District's financial position or results of operations.

As of June 30, 2018, the District had approximately \$8.9 million in outstanding commitments on construction contracts.

NOTE 13 - SUBSEQUENT EVENT

On September 13, 2018 the Mt. Diablo Unified School District Education Facilities Financing Corporation issued 2018 Certificates of Participation (2018 COPs) totaling \$20,000,000. The 2018 COPs were issued to finance improvements to the District's educational facilities, bear interest at 5.00% per annum, mature through September 1, 2026.

REQUIRED SUPPLEMENTARY INFORMATION

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

| | Budget | | Actual | Variance Favorable (Unfavorable) |
|--|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Local Control Funding Formula (LCFF): | | | | |
| State apportionment | \$ 144,887,246 | \$ 135,809,368 | \$ 135,822,898 | \$ 13,530 |
| Local sources | <u>116,657,471</u> | <u>126,942,895</u> | <u>126,942,895</u> | <u>-</u> |
| Total LCFF | <u>261,544,717</u> | <u>262,752,263</u> | <u>262,765,793</u> | <u>13,530</u> |
| Federal sources | 17,181,305 | 19,782,637 | 17,082,524 | (2,700,113) |
| Other state sources | 43,193,037 | 52,754,663 | 50,150,954 | (2,603,709) |
| Other local sources | <u>7,583,097</u> | <u>14,086,260</u> | <u>15,736,971</u> | <u>1,650,711</u> |
| Total revenues | <u>329,502,156</u> | <u>349,375,823</u> | <u>345,736,242</u> | <u>(3,639,581)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated salaries | 166,605,988 | 164,813,899 | 165,653,635 | (839,736) |
| Classified salaries | 54,453,858 | 56,777,622 | 56,473,388 | 304,234 |
| Employee benefits | 92,534,052 | 91,693,004 | 92,835,553 | (1,142,549) |
| Books and supplies | 23,107,307 | 23,393,770 | 15,750,598 | 7,643,172 |
| Contract services and operating expenditures | 39,875,998 | 42,213,806 | 40,828,927 | 1,384,879 |
| Other outgo | 64,269 | 2,499,775 | 2,499,775 | - |
| Capital outlay | 1,280,020 | 10,825,465 | 3,004,545 | 7,820,920 |
| Debt service: | | | | |
| Principal retirement | 536,258 | 533,054 | 533,054 | - |
| Interest | <u>36,678</u> | <u>39,881</u> | <u>39,881</u> | <u>-</u> |
| Total expenditures | <u>378,494,428</u> | <u>392,790,276</u> | <u>377,619,356</u> | <u>15,170,920</u> |
| Deficiency of revenues under expenditures | <u>(48,992,272)</u> | <u>(43,414,453)</u> | <u>(31,883,114)</u> | <u>11,531,339</u> |
| Other financing sources: | | | | |
| Transfers in | <u>644,710</u> | <u>682,400</u> | <u>624,794</u> | <u>(57,606)</u> |
| Change in fund balance | (48,347,562) | (42,732,053) | (31,258,320) | 11,473,733 |
| Fund balance, July 1, 2017 | <u>88,789,294</u> | <u>88,789,294</u> | <u>88,789,294</u> | <u>-</u> |
| Fund balance, June 30, 2018 | <u>\$ 40,441,732</u> | <u>\$ 46,057,241</u> | <u>\$ 57,530,974</u> | <u>\$ 11,473,733</u> |

See accompanying note to required supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Year Ended June 30, 2018

| | Last 10 Fiscal Years | |
|--|-----------------------|-----------------------|
| | <u>2017</u> | <u>2018</u> |
| Total OPEB Liability | | |
| Service Cost | \$ 11,331,075 | \$ 11,716,332 |
| Interest | 5,234,924 | 5,608,884 |
| Changes of assumptions | - | (1,961,364) |
| Benefit Payments | <u>(5,807,238)</u> | <u>(6,097,600)</u> |
| Net change in total OPEB liability | 10,758,761 | 9,266,252 |
| Total OPEB liability - beginning of year | <u>145,540,890</u> | <u>156,299,651</u> |
| Total OPEB liability - end of year | <u>\$ 156,299,651</u> | <u>\$ 165,565,903</u> |
| Covered employee payroll | \$ 202,725,000 | \$ 202,725,000 |
| Total OPEB liability as a percentage of covered-employee payroll | 77.10% | 81.67% |

This is a 10 year schedule, however the information in this schedule is not required to be presented retrospectively. The amounts presented for each fiscal year were determined as of the year end that occurred one year prior. All years prior to 2017 are not available.

See accompanying note to required supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

| State Teachers' Retirement Plan Last 10 Fiscal Years | | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| District's proportion of the net pension liability | 0.276% | 0.291% | 0.272% | 0.295% |
| District's proportionate share of the net pension liability | \$161,286,120 | \$195,912,840 | \$219,996,320 | \$272,885,000 |
| State's proportionate share of the net pension liability associated with the District | <u>97,392,501</u> | <u>103,616,018</u> | <u>125,258,419</u> | <u>161,437,000</u> |
| Total net pension liability | <u>\$258,678,621</u> | <u>\$299,528,858</u> | <u>\$345,254,739</u> | <u>\$434,322,000</u> |
| District's covered payroll | \$123,886,776 | \$131,676,520 | \$137,080,196 | \$156,387,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 130.19% | 148.78% | 160.49% | 174.49% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.52% | 74.02% | 70.04% | 69.46% |

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|---------------|---------------|---------------|---------------|
| District's proportion of the net pension liability | 0.398% | 0.405% | 0.396% | 0.414% |
| District's proportionate share of the net pension liability | \$ 45,171,338 | \$ 59,623,699 | \$ 78,289,245 | \$ 98,730,000 |
| District's covered payroll | \$ 41,430,353 | \$ 45,257,132 | \$ 47,558,749 | \$ 52,731,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 109.03% | 131.74% | 164.62% | 187.23% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.38% | 79.43% | 73.89% | 71.87% |

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

See accompanying note to required supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2018

State Teachers' Retirement Plan
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| Contractually required contribution | \$ 11,692,875 | \$ 14,708,705 | \$ 19,673,538 | \$ 23,296,363 |
| Contributions in relation to the contractually required contribution | <u>(11,692,875)</u> | <u>(14,708,705)</u> | <u>(19,673,538)</u> | <u>(23,296,363)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$131,676,520 | \$137,080,196 | \$156,387,000 | \$161,444,000 |
| Contributions as a percentage of covered payroll | 8.88% | 10.73% | 12.58% | 14.43% |

All years prior to 2015 are not available.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 5,327,217 | \$ 5,634,285 | \$ 7,324,363 | \$ 8,749,579 |
| Contributions in relation to the contractually required contribution | <u>(5,327,217)</u> | <u>(5,634,285)</u> | <u>(7,324,363)</u> | <u>(8,749,579)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 45,257,132 | \$ 47,558,749 | \$ 52,731,000 | \$ 56,336,000 |
| Contributions as a percentage of covered payroll | 11.77% | 11.85% | 13.89% | 15.53% |

All years prior to 2015 are not available.

See accompanying note to required supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability

The Schedule of Changes in Total OPEB Liability is presented to illustrate the elements of the District's total OPEB liability. There is a requirement to show information for 10 years. However, until a full 10 year trend is compiled, governments should present information for those years for which information is available. The District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's total OPEB liability.

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

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Schedule of District Contributions

The Schedule of District Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E - Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

The discount rate for the total OPEB liability was 3.40 and 3.50 percent in the June 30, 2017 and 2018 actuarial reports, respectively.

The discount rate for Public Employer's Retirement Fund B (PERF B) was 7.50, 7.65, 7.65, and 7.15 percent in the June 30, 2013, 2014, 2015, and 2016 actuarial reports, respectively.

The following are the assumptions for the State Teachers' Retirement Plan (STRP):

| <u>Assumption</u> | <u>Measurement Period</u> | | |
|---------------------------|----------------------------|----------------------------|----------------------------|
| | As of June 30, <u>2017</u> | As of June 30, <u>2016</u> | As of June 30, <u>2016</u> |
| Consumer price inflation | 2.75% | 3.00% | 3.00% |
| Investment rate of return | 7.10% | 7.60% | 7.60% |
| Wage growth | 3.50% | 3.75% | 3.75% |

SUPPLEMENTARY INFORMATION

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2018

| | Adult Education Fund | Cafeteria Fund | Deferred Maintenance Fund | Capital Facilities Fund | County School Facilities Fund | Capital Projects for Blended Component Units Fund | Total |
|--------------------------------------|----------------------------|---------------------|---------------------------------|-------------------------------|--|--|----------------------|
| ASSETS | | | | | | | |
| Cash and investments: | | | | | | | |
| Cash in County Treasury | \$ 573,254 | \$ 1,449,508 | \$ - | \$ 8,588,071 | \$ 561,281 | \$ 761,299 | \$ 11,933,413 |
| Cash on hand and in banks | - | 1,489,416 | - | - | - | - | 1,489,416 |
| Cash awaiting deposit | - | 17,859 | - | - | - | - | 17,859 |
| Local Agency Investment Fund | 636,679 | 726,279 | - | 1,246,719 | 1,198,779 | - | 3,808,456 |
| Receivables | 979,854 | 1,462,090 | - | 5,916 | 5,689 | 142 | 2,453,691 |
| Stores inventory | - | 17,245 | - | - | - | - | 17,245 |
| Total assets | <u>\$ 2,189,787</u> | <u>\$ 5,162,397</u> | <u>\$ -</u> | <u>\$ 9,840,706</u> | <u>\$ 1,765,749</u> | <u>\$ 761,441</u> | <u>\$ 19,720,080</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | <u>\$ 43,498</u> | <u>\$ 455,861</u> | <u>\$ -</u> | <u>\$ 2,247</u> | <u>\$ 110</u> | <u>\$ 716,980</u> | <u>\$ 1,218,696</u> |
| Fund balances: | | | | | | | |
| Nonspendable | - | 17,245 | - | - | - | - | 17,245 |
| Restricted | <u>2,146,289</u> | <u>4,689,291</u> | <u>-</u> | <u>9,838,459</u> | <u>1,765,639</u> | <u>44,461</u> | <u>18,484,139</u> |
| Total fund balances | <u>2,146,289</u> | <u>4,706,536</u> | <u>-</u> | <u>9,838,459</u> | <u>1,765,639</u> | <u>44,461</u> | <u>18,501,384</u> |
| Total liabilities and fund balances | <u>\$ 2,189,787</u> | <u>\$ 5,162,397</u> | <u>\$ -</u> | <u>\$ 9,840,706</u> | <u>\$ 1,765,749</u> | <u>\$ 761,441</u> | <u>\$ 19,720,080</u> |

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2018

| | Adult Education Fund | Cafeteria Fund | Deferred Maintenance Fund | Capital Facilities Fund | County School Facilities Fund | Capital Projects for Blended Component Units Fund | Total |
|--|----------------------------|---------------------|---------------------------------|-------------------------------|--|--|----------------------|
| Revenues: | | | | | | | |
| Federal sources | \$ 919,472 | \$ 9,087,610 | \$ - | \$ - | \$ - | \$ - | \$ 10,007,082 |
| Other state sources | 3,973,929 | 548,252 | - | - | - | - | 4,522,181 |
| Other local sources | <u>1,737,539</u> | <u>2,826,962</u> | <u>9</u> | <u>1,459,049</u> | <u>26,628</u> | <u>9,891,749</u> | <u>15,941,936</u> |
| Total revenues | <u>6,630,940</u> | <u>12,462,824</u> | <u>9</u> | <u>1,459,049</u> | <u>26,628</u> | <u>9,891,749</u> | <u>30,471,199</u> |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| Certificated salaries | 2,510,141 | - | - | - | - | - | 2,510,141 |
| Classified salaries | 1,209,110 | 4,538,211 | - | 436 | 28,930 | 629,090 | 6,405,777 |
| Employee benefits | 1,319,138 | 1,834,532 | - | 46 | 16,063 | 320,753 | 3,490,532 |
| Books and supplies | 336,215 | 5,396,285 | 9 | 27,131 | - | 1,381 | 5,761,021 |
| Contract services and operating expenditures | 678,908 | 169,503 | - | 105,757 | 69,349 | 31 | 1,023,548 |
| Capital outlay | 27,695 | - | - | 21,378 | 23,642 | 9,244,408 | 9,317,123 |
| Debt service: | | | | | | | |
| Principal retirement | <u>-</u> | <u>-</u> | <u>-</u> | <u>58,427</u> | <u>-</u> | <u>-</u> | <u>58,427</u> |
| Total expenditures | <u>6,081,207</u> | <u>11,938,531</u> | <u>9</u> | <u>213,175</u> | <u>137,984</u> | <u>10,195,663</u> | <u>28,566,569</u> |
| Excess (Deficiency) of revenues over (under) expenditures | <u>549,733</u> | <u>524,293</u> | <u>-</u> | <u>1,245,874</u> | <u>(111,356)</u> | <u>(303,914)</u> | <u>1,904,630</u> |
| Other financing uses: | | | | | | | |
| Transfers out | <u>(191,153)</u> | <u>(433,641)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(624,794)</u> |
| Net change in fund balances | 358,580 | 90,652 | - | 1,245,874 | (111,356) | (303,914) | 1,279,836 |
| Fund balances, July 1, 2017 | <u>1,787,709</u> | <u>4,615,884</u> | <u>-</u> | <u>8,592,585</u> | <u>1,876,995</u> | <u>348,375</u> | <u>17,221,548</u> |
| Fund balances, June 30, 2018 | <u>\$ 2,146,289</u> | <u>\$ 4,706,536</u> | <u>\$ -</u> | <u>\$ 9,838,459</u> | <u>\$ 1,765,639</u> | <u>\$ 44,461</u> | <u>\$ 18,501,384</u> |

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2018

Mount Diablo Unified School District was established on July 1, 1949. The District is located in Contra Costa County and serves students in the cities of Concord, Pleasant Hill, Walnut Creek, and portions of the cities of Clayton, Martinez, Pittsburg, and other surrounding communities. The District currently operates 29 elementary schools and nine middle schools, five high schools, two special education schools, one continuation high school, five necessary small high schools, one independent study school, and two adult education centers. There were no changes in the boundaries of the District during the year.

The Board of Education of Mount Diablo Unified School District is composed of five members elected at large within the boundaries of the District. The Board and Administrative Staff manage and control the affairs of the District.

GOVERNING BOARD

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|----------------|----------------|---------------------|
| Debra Mason | President | December 2018 |
| Cheryl Hansen | Vice President | December 2018 |
| Joanne Durkee | Member | December 2020 |
| Brian Lawrence | Member | December 2020 |
| Linda Mayo | Member | December 2018 |

ADMINISTRATION

Dr. Nellie Meyer, Ed.D.
Superintendent

Jose Espinoza
Assistant Superintendent, Elementary Schools

Jonathan Eagan
Assistant Superintendent, Middle Schools

Christopher Holleran
Assistant Superintendent, High Schools

Rose Ramos
Chief Business Official

Jennifer Sachs
Executive Director of Instructional Support

Leyla Benson
Executive Director of Personnel

Wendi Aghily
Executive Director of Special Education

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2018

| | Original Second Period <u>Report</u> | Audited Second Period <u>Report*</u> | Annual <u>Report</u> |
|---|---|---|-------------------------|
| Certificate Number: | <u>F3BD9A85</u> | <u>726DB169</u> | <u>D87F896C</u> |
| Elementary: | | | |
| Transitional Kindergarten through Third | 9,815 | 9,794 | 9,800 |
| Fourth through Sixth | 7,204 | 7,167 | 7,171 |
| Seventh and Eighth | 4,777 | 4,761 | 4,758 |
| Special Education | 112 | 90 | 92 |
| Community Day School | <u>2</u> | <u>2</u> | <u>2</u> |
| Subtotal Elementary | <u>21,910</u> | <u>21,814</u> | <u>21,823</u> |
| Secondary: | | | |
| Ninth through Twelfth | 7,840 | 7,842 | 7,761 |
| Special Education | 112 | 112 | 111 |
| Community Day School | <u>12</u> | <u>12</u> | <u>12</u> |
| Subtotal Secondary | <u>7,964</u> | <u>7,966</u> | <u>7,884</u> |
| District Totals | <u><u>29,874</u></u> | <u><u>29,780</u></u> | <u><u>29,707</u></u> |

* Reflects revisions made by the District based on internal review of records.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2018

| <u>Grade Level</u> | <u>Statutory Minutes Require- ment</u> | <u>2016-17 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Status</u> |
|--------------------|--|---------------------------------------|--|---------------|
| <u>DISTRICT</u> | | | | |
| Kindergarten | 36,000 | 36,000 | 180 | In Compliance |
| Grade 1 | 50,400 | 52,597 | 180 | In Compliance |
| Grade 2 | 50,400 | 52,597 | 180 | In Compliance |
| Grade 3 | 50,400 | 53,019 | 180 | In Compliance |
| Grade 4 | 54,000 | 55,800 | 180 | In Compliance |
| Grade 5 | 54,000 | 55,800 | 180 | In Compliance |
| Grade 6 | 54,000 | 56,700 | 180 | In Compliance |
| Grade 7 | 54,000 | 56,700 | 180 | In Compliance |
| Grade 8 | 54,000 | 56,700 | 180 | In Compliance |
| Grade 9 | 64,800 | 64,895 | 180 | In Compliance |
| Grade 10 | 64,800 | 64,895 | 180 | In Compliance |
| Grade 11 | 64,800 | 64,895 | 180 | In Compliance |
| Grade 12 | 64,800 | 64,895 | 180 | In Compliance |

See accompanying notes to
 supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 For the Year Ended June 30, 2018

| <u>Federal Catalog Number</u> | <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Pass- Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|---|--|---------------------------------|
| <u>U.S. Department of Agriculture - Passed through California</u> | | | |
| <u>Department of Education</u> | | | |
| Child Nutrition Cluster: | | | |
| 10.553 | Child Nutrition: School Breakfast Program Basic | 13525 | \$ 66,116 |
| 10.553 | Child Nutrition: School Breakfast Program | 13526 | 1,605,341 |
| 10.555 | Child Nutrition: National School Lunch Programs | 13523 | 5,365,614 |
| 10.555 | Child Nutrition: USDA Donated Foods | N/A | 765,013 |
| 10.559 | Child Nutrition: Summer Food Service | 13004 | <u>259,147</u> |
| Subtotal Child Nutrition Cluster | | | <u>8,061,231</u> |
| Child Nutrition: CCFP Programs: | | | |
| 10.558 | Child Nutrition: Child and Adult Care Food Program | 13393 | 506,904 |
| 10.579 | Child Nutrition: NSLP Equipment Assistance Grants | 14906 | <u>51,679</u> |
| Subtotal Child Nutrition: CCFP Programs | | | <u>558,583</u> |
| Total U.S. Department of Agriculture | | | <u>8,619,814</u> |
| <u>U.S. Department of Defense - Passed through California</u> | | | |
| <u>Department of Education</u> | | | |
| 12.357 | J.R.O.T.C. | N/A | <u>110,579</u> |
| <u>U.S. Department of Education - Passed through California Department</u> | | | |
| <u>of Education</u> | | | |
| Special Education Cluster: | | | |
| 84.027 | Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Section 611 | 13379 | 6,154,666 |
| 84.027 | Special Ed: IDEA, Local Assistance, Part B Private School ISPs | 10115 | 88,126 |
| 84.027A | Special Ed: IDEA Mental Health Services, Part B, Sec 611 | 14468 | 352,091 |
| 84.027A | Special Ed: IDEA Preschool Local Entitlement | 13682 | 541,088 |
| 84.173 | Special Ed: IDEA, Preschool Grants, Part B | 13430 | 231,024 |
| 84.173 | Special Ed: IDEA, Alternate Dispute Resolution | 13007 | 15,823 |
| 84.173A | Special Ed: IDEA, Preschool Staff Development | 13431 | <u>1,683</u> |
| Subtotal Special Education Cluster | | | <u>7,384,501</u> |
| ESEA: Title III Programs: | | | |
| 84.365 | ESEA: Title III, Immigrant Education Program | 15146 | 101,122 |
| 84.365 | ESEA: Title III, Limited English Proficient (LEP) Student Program | 14346 | <u>867,744</u> |
| Subtotal ESEA: Title III Programs | | | <u>968,866</u> |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2018

| Federal Catalog Number | Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass- Through Entity Identifying Number | Federal Expenditures |
|---|---|---|-------------------------|
| <u>U.S. Department of Agriculture - Passed through California Department of Education</u> | | | |
| | Adult Education Programs: | | |
| 84.002 | Adult Education: Adult Secondary Education (Section 231) | 13978 | \$ 88,349 |
| 84.002A | Adult Education: Adult Basic Education and ESL (Section 231) | 14508 | 341,284 |
| 84.002A | Adult Education: English Literacy and Civics Education - Local Grant | 14109 | <u>83,977</u> |
| | Subtotal Adult Education Programs | | <u>513,610</u> |
| | Career and Technical Education: | | |
| 84.048 | Career and Technical Education Secondary Sec 131 (Carl Perkins Act) | 14894 | 207,338 |
| 84.048 | Career and Technical Education Adult Sec 132 (Carl Perkins Act) | 14893 | <u>49,547</u> |
| | Subtotal Career and Technical Education | | <u>256,885</u> |
| 84.010 | ESEA: Title I, Part A Basic Grants Low Income and Neglected | 14329 | 6,161,390 |
| 84.063 | Federal Pell Grant Program - Student Financial Assistance Cluster | N/A | 325,864 |
| 84.181 | Special Education: Grants for Infants and Families | 23761 | 161,463 |
| 84.215E | Elementary and Secondary School Counseling | N/A | 290,156 |
| 84.330 | Title I, Part G, Advanced Placement Test Fee Reimbursement | 14831 | 6,002 |
| 84.367 | ESEA: Title II, Part A, Improving Teacher Quality | 14341 | <u>926,873</u> |
| | Total U.S. Department of Education | | <u>16,995,610</u> |
| <u>U.S. Department of Health and Human Services - Passed through California Department of Education</u> | | | |
| 93.600 | Early Head Start | 38-928-05 | 153,462 |
| 93.558 | Temporary Assistance to Needy Families - TANF Cluster | N/A | 14,056 |
| 93.778 | Medi-Cal Billing Option - Medicaid Cluster | 10013 | <u>719,466</u> |
| | Total U.S. Department of Health and Human Services | | <u>886,984</u> |
| | Total Federal Programs | | <u>\$ 26,612,987</u> |

See accompanying notes to
supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

There were no adjustments proposed to any funds of the District

See accompanying notes to
supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2018
(UNAUDITED)

| | (Budgeted) 2019 | 2018 | 2017 | 2016 |
|---|------------------------|------------------------|-----------------------|-----------------------|
| General Fund | | | | |
| Revenues and other financing sources | <u>\$ 358,541,696</u> | <u>\$ 346,361,036</u> | <u>\$ 355,337,999</u> | <u>\$ 344,050,090</u> |
| Expenditures | 376,505,741 | 377,619,356 | 362,277,908 | 319,583,630 |
| Other uses and transfers out | <u>-</u> | <u>-</u> | <u>83,502</u> | <u>175,156</u> |
| Total outgo | <u>376,505,741</u> | <u>377,619,356</u> | <u>362,361,410</u> | <u>319,758,786</u> |
| Change in fund balance | <u>\$ (17,964,045)</u> | <u>\$ (31,258,320)</u> | <u>\$ (7,023,411)</u> | <u>\$ 24,291,304</u> |
| Ending fund balance | <u>\$ 39,566,929</u> | <u>\$ 57,530,974</u> | <u>\$ 88,789,294</u> | <u>\$ 95,812,705</u> |
| Available reserves | <u>\$ 11,264,211</u> | <u>\$ 7,539,891</u> | <u>\$ 15,312,336</u> | <u>\$ 45,525,912</u> |
| Designated for economic uncertainties | <u>\$ 11,264,211</u> | <u>\$ 7,539,891</u> | <u>\$ 7,245,558</u> | <u>\$ 5,108,253</u> |
| Undesignated fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,066,778</u> | <u>\$ 40,417,659</u> |
| Available reserves as percentage of total outgo | <u>3.0%</u> | <u>2.0%</u> | <u>4.2%</u> | <u>13.5%</u> |
| Total long-term liabilities | <u>\$1,029,733,035</u> | <u>\$1,053,036,339</u> | <u>\$ 988,404,179</u> | <u>\$ 910,534,694</u> |
| Average daily attendance at P-2 | <u>29,543</u> | <u>29,780</u> | <u>30,236</u> | <u>30,463</u> |

The fund balance of the General Fund has decreased by \$13,990,427 over the past three years. The fiscal year 2018-2019 budget, as originally adopted, projects a decrease of \$17,964,045. For a district this size, the state recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. The District has met this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates an operating deficit during the 2018-2019 fiscal year.

Total long-term liabilities have increased by \$142,501,645 over the past two years.

Average daily attendance has decreased by 683 over the past two years. An decrease of 237 ADA is anticipated during fiscal year 2018-2019.

See accompanying notes to
supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2018

| <u>Charter Schools Chartered by District</u> | <u>Included in District Financial Statements, or Separate Report</u> |
|--|--|
| 0305 - Eagle Peak Montessori | Separate Report |

See accompanying notes to
supplementary information.

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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 46201 through 46206. Districts must maintain their instructional minutes at the 1986-87 requirements, as required by Education Code Section 46201. The District has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has exceeded their LCFF target funding.

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Santa Clara Unified School District, and is presented on the 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). Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards.

| <u>Description</u> | <u>CFDA Number</u> | <u>Amount</u> |
|---|------------------------|----------------------|
| Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances | | \$ 28,877,093 |
| Add: | | |
| Early Head Start expended excess of revenues | 93.600 | 66,996 |
| Less: | | |
| Qualified School Construction Bonds - Interest Subsidy | * | (1,787,487) |
| Child and Adult Care Food Program funds received in excess of expenditures | 10.558 | (511,008) |
| Medi-Cal Billing Option funds received in excess of expenditures | 93.778 | <u>(32,607)</u> |
| Total Schedule of Expenditure of Federal Awards | | <u>\$ 26,612,987</u> |

* CFDA number not available.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides trend information on fund balances, revenues, expenditures and average daily attendance, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

NOTE 2- EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14503 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2018, the District did not adopt this program.

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Education
Mount Diablo Unified School District
Concord, California

Report on Compliance with State Laws and Regulations

We have audited Mount Diablo Unified School District's compliance with the types of compliance requirements described in the State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2018.

| <u>Description</u> | <u>Procedures Performed</u> |
|--|-----------------------------|
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | Yes |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| 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 | Yes |
| K3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Apprenticeship - Related and Supplemental Instruction | No, see below |
| 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 and Accountability Plan | Yes |
| Independent Study, course-based | No, see below |
| Attendance, for charter schools | No, see below |
| Mode of Instruction, for charter schools | No, see below |
| Nonclassroom-Based Instruction/Independent Study, for charter schools | No, see below |
| Determination of Funding for Nonclassroom-Based Instruction, for charter schools | No, see below |
| Annual Instructional Minutes Classroom-Based, for charter schools | No, see below |
| Charter School Facility Grant Program | No, see below |

(Continued)

The District did not offer an Early Retirement Incentive Program in the current year; therefore, we did not perform steps a through d.

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

The District did not report any instructional hours for Apprenticeship: Related and Supplemental Instruction or Independent Study-Course Based; therefore, we did not perform any procedures related to these programs.

We did not perform any procedures related to Before / After School Education and Safety Program for Before School, because the District does not offer this program.

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

We did not perform any of the procedures related to charter schools because the District does not include any charter schools in this report.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on Mount Diablo Unified School District's compliance with state laws and regulations as listed above 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide 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 Mount Diablo Unified School District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Mount Diablo Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Mount Diablo Unified School District's compliance.

Opinion on Compliance with State Laws and Regulations

In our opinion, Mount Diablo Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Sacramento, California
December 14, 2018

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

Board of Education
Mount Diablo Unified School District
Concord, 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 Mount Diablo Unified School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mount Diablo Unified School District's financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control Over Financial Reporting

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

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

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.

We identified a deficiency involving internal control that was communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2018-001.

(Continued)

Compliance and Other Matters

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

Mount Diablo Unified School District's Response to Finding

Mount Diablo Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Mount Diablo Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Sacramento, California
December 14, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education
Mount Diablo Unified School District
Concord, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with 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 Mount Diablo Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Mount Diablo Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Mount Diablo Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

(Continued)

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

Crowe LLP

Crowe LLP

Sacramento, California
December 14, 2018

FINDINGS AND RECOMMENDATIONS

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|--|--|
| 10.553, 10.555, 10.559 84.027, 84,027A, 84,173, 84.173A | Child Nutrition Cluster Special Education Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 798,390

Auditee qualified as low-risk auditee? _____ Yes X No

STATE AWARDS

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

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 - DEFICIENCY - ASSOCIATED STUDENT BODY (30000)

Criteria

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

At various school sites selected for testing the following issues were noted:

- For deposits made to the Associated Student Body (ASB), detailed schedules were not attached to deposit slips to indicating the number of items were sold and the price per item.
- Receipts are not issued from the ASB secretary to the individual depositing cash from sales or other events.
- Cash and checks held by the ASB from events or other activities are not deposited to the respective bank accounts on a consistent, timely basis.
- No formal record is maintained to track receipt books issued to teachers by the ASB.
- Fundraising activities are not consistently submitted to the governing board for approval.

Effect

There exists a risk that ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been designed and implemented.

Recommendation

School sites should implement the proper control procedures in order to protect ASB funds from misappropriation, as follows:

- At all times, deposits made to the ASB office should be accompanied by a detailed schedule identifying the number of items sold and the price for each item, arriving at a total amount which agrees to the deposited cash or checks.
- A receipt should be issued to the individual depositing cash to the ASB, preferably utilizing a carbon copy or other duplicate record so that both the ASB and individual depositing funds have a record of the amount turned in to the ASB.
- Deposits to the bank account should be completed on a regular and frequent basis so as to prevent significant amounts of cash from being maintained at the site level.
- All revenue producing activities should be approved by the appropriate three parties prior to conducting the event. This approval should be documented in writing and maintained with other records for the event.

Views of Responsible Officials and Planned Corrective Action

Management acknowledged the deficiency of internal controls over Associated Student Body accounting and noted that these recommendations will be implemented going forward. Further, district management have hired an internal auditor to assess the ASB activities and internal controls on an ongoing basis.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>District Explanation If Not Implemented</u> |
|---|------------------------------|--|
| <p>2017-001</p> <p><u>Condition:</u> At various school sites the following issues were noted within the Associated Student Body (ASB):</p> <ul style="list-style-type: none"> • Bookkeepers were noted to also be the authorized signer for bank accounts. • The proper three persons (student representative, an ASB advisor, and a district representative) did not approve expenditures until after the expense was incurred. • Evidence of receipt of goods or services was not consistently noted prior to disbursement. • Cash receipts did not have a revenue potential form prepared. • Deposits did not include sufficient supporting documentation. • Supporting documentation for cash collected at events was not turned in to the ASB office. • Bank deposits were not made in a timely manner. Cash receipts were not turned into the ASB office in a timely manner for after hours events. <p><u>Recommendations:</u></p> <ul style="list-style-type: none"> • ASB bookkeepers should not also be authorized signers for bank accounts. • All disbursements should be approved by the proper three persons prior to the disbursement of funds. • Sites should retain original receipts or invoices for purchases, and reimbursements should be clearly identified so that the disbursement of ASB funds is verifiable. • After verifying the goods are received, indicate "O.K. to pay" or "received" on the invoice documentation. • Revenue potential forms should be prepared and approved by the appropriate parties for all major fund-raising activities, and retained. • Ticket logs, tally sheets, prenumbered cash receipts, or cash register receipts should be used to facilitate reconciliation between money collected and event sales. | <p>Partially Implemented</p> | <p>See finding 2018-001</p> |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>District Explanation If Not Implemented</u> |
|--|-----------------------|--|
| <p>2017-002</p> <p><u>Condition:</u> The District was unable to provide supporting schedules for capital assets acquired prior to the 2013-14 fiscal year, or a reconciliation of what comprises work-in-progress. The lack of accounting records could lead to the material misstatement of the financial statements of the District. Depreciation expense was estimated as a percentage of the related asset rather than being charged to specific assets.</p> <p><u>Recommendation:</u> The District should compile an up-to-date capital asset listing and investigate the utility in implementing a capital asset system to track the District's capital assets. Other options include the hiring of additional accounting department staff and the hiring of an outside consultant to assist in this process.</p> | Implemented | |
| <p>2017-003</p> <p><u>Condition:</u></p> <ul style="list-style-type: none"> • The District did not recognize revenue for the Seamless Summer Food Program. • Cash received in April 2017 for Federal meal reimbursements was recorded as a transfer from a local checking account, to the cash-in-county account as opposed to a reduction in accounts receivable, resulting in understated cash and overstated accounts receivable. • The District did to complete bank reconciliations for April, May, and June. | Implemented. | |

(Continued)

MOUNT DIABLO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>District Explanation If Not Implemented</u> |
|---|-----------------------|--|
| 2017-003 (Continued) | | |
| <u>Recommendation:</u> <ul style="list-style-type: none">• The District should designate an employee designated to accounting for Cafeteria Fund activities to ensure that entries are made correctly, all revenue is recognized, and the bank statement is reconciled monthly. | | |
| 2017-004 After School Education and Safety (ASES) Program | Implemented. | |
| <u>Condition:</u> It was determined that the attendance reported in the first semi-annual attendance report for the ASES program was understated. | | |
| <u>Recommendation:</u> The data submitted in the Semi-Annual report should be reconciled to the attendance summaries to ensure accuracy prior to submission. | | |