# MOUNT DIABLO UNIFIED SCHOOL DISTRICT

## AUDIT REPORT

**For the Fiscal Year Ended June 30, 2015**

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## FINANCIAL SECTION



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## SUPPLEMENTARY INFORMATION

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## FINDINGS AND QUESTIONED COSTS

# *Financial Section*

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NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

# INDEPENDENT AUDITORS' 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 Mount Diablo Unified School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

**Auditors' Responsibility**
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mount Diablo Unified School District, as of June 30, 2015, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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**Emphasis of Matter**
As discussed in Note 1.I. to the basic financial statements, the District has changed its method for accounting and reporting for pensions during fiscal year 2014-15 due to the adoption of Governmental Accounting Standards Board Statement No. 68, *"Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27"* and No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68"*. The adoption of these standards required retrospective application resulting in a $244,576,005 reduction of previously reported net position at July 1, 2014. Our opinion is not modified with respect to this matter.

**Other Matters**
*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on page 46, schedule of funding progress on page 47, schedule of proportionate share of the net pension liability on page 48, and schedule of contributions on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information on pages 52 to 54 and 56 to 59, including the schedule of expenditures of federal awards on page 57, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on pages 51 and 55 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, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Nigro & Nigro, PC

Murrieta, California
December 14, 2015

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, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

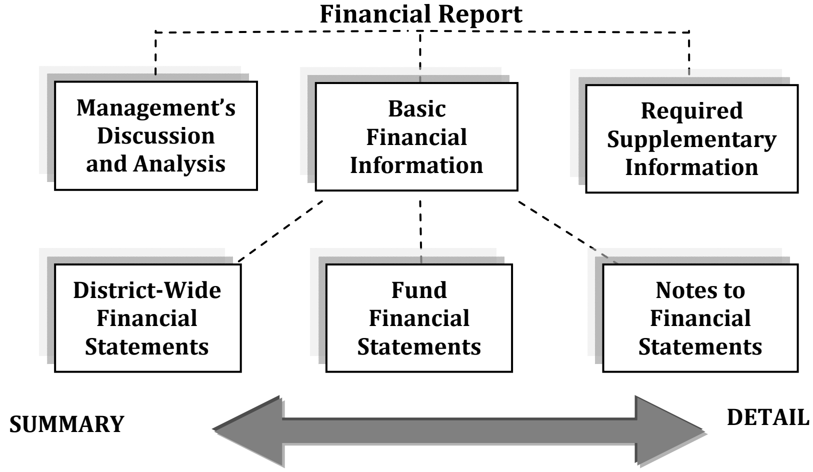
- The District's financial status decreased overall as a result of this year's operations. Net position of governmental activities decreased by $10.3 million, or 19.7%.
- Governmental expenses were about $356.2 million. Revenues were about $345.9 million.
- The District spent over $34.1 million on new capital assets during the year. These expenditures were incurred primarily from the Measure C bonds.
- The District decreased its outstanding long-term debt by $57.3 million. This was primarily due to reductions in the net pension liability.
- Grades K-12 average daily attendance (ADA) decreased by 87, or (0.3)%.

**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.

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




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

**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 |
|---|---|---|---|
| *Scope* | 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 |
| *Required financial statements* | • Statement of Net Position<br>• Statement of Activities | • Balance Sheet<br>• Statement of Revenues, Expenditures & Changes in Fund Balances | • Statement of Fiduciary Net Position<br>• Statement of Changes in Fiduciary Net Position |
| *Accounting basis and measurement focus* | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| *Type of asset/liability information* | 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 |
| *Type of inflow/outflow information* | 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 |

**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.

**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, 2015, than it was the year before – decreasing 19.7% to ($62.5) million (See Table A-1).

**Table A-1**

| | Governmental Activities (In millions) | | Variance Increase |
|---|---|---|---|
| | **2015** | **2014*** | **(Decrease)** |
| Current assets | $ 166.2 | $ 194.7 | $ (28.5) |
| Capital assets | 563.1 | 549.7 | 13.4 |
| **Total assets** | 729.3 | 744.4 | (15.1) |
| **Total deferred outflows** | 27.1 | 26.1 | 1.0 |
| Current liabilities | 43.2 | 45.8 | (2.6) |
| Long-term liabilities | 719.6 | 776.9 | (57.3) |
| **Total liabilities** | 762.8 | 822.7 | (59.9) |
| **Total deferred inflows** | 56.1 | - | 56.1 |
| Net position | | | |
| Net investment in capital assets | 141.2 | 132.1 | 9.1 |
| Restricted | 47.8 | 52.3 | (4.5) |
| Unrestricted | (251.5) | (236.6) | (14.9) |
| **Total net position** | $ (62.5) | $ (52.2) | $ (10.3) |

**Restated*

**Changes in net position, governmental activities.** The District's total revenues increased 5.8% to $345.9 million (See Table A-2). The increase is due primarily to increases in state aid from LCFF.

The total cost of all programs and services increased 6.9% to $356.2 million. The District's expenses are predominantly related to educating and caring for students, 77.1%. The purely administrative activities of the District accounted for just 3.2% of total costs. A significant contributor to the increase in costs was instruction related costs.

**Table A-2**

| | Governmental Activities (In millions) | | Variance Increase |
|---|---|---|---|
| | **2015** | **2014** | **(Decrease)** |
| Total Revenues | $ 345.9 | $ 327.1 | $ 18.8 |
| Total Expenses | 356.2 | 333.2 | 23.0 |
| Increase (decrease) in net position | $ (10.3) | $ (6.1) | $ (4.2) |

## 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 $129.6 million, which is below last year's ending fund balance of $155.6 million. The primary cause of the decreased fund balance is ongoing expenditures related to the modernization program.

### 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 $21.8 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased $4.7 million due to staffing and collective bargaining changes.
- Other non-personnel expenses – increased $38.6 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 $30.8 million, the actual results for the year show that revenues exceeded expenditures by roughly $9.0 million. Actual revenues were $6.2 million less than anticipated, but expenditures were $46.1 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2015 that will be carried over into the 2015-16 budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2014-15 the District had invested $34.1 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 6 to the financial statements). Total depreciation expense for the year was nearly $20.8 million.

**Table A-3: Capital Assets at Year-End, Net of Depreciation**

| | Governmental Activities (In millions) | | Variance Increase (Decrease) |
|---|---|---|---|
| | **2015** | **2014** | |
| Land | $ 14.4 | $ 14.4 | $ - |
| Improvement of sites | 92.5 | 94.8 | (2.3) |
| Buildings | 345.6 | 340.0 | 5.6 |
| Equipment | 3.3 | 3.7 | (0.4) |
| Construction in progress | 107.3 | 96.8 | 10.5 |
| Total | $ 563.1 | $ 549.7 | $ 13.4 |

## CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

### Long-Term Debt

At year-end the District had $719.6 million in long-term debt – a decrease of 7.4% from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements).

**Table A-4: Outstanding Long-Term Debt at Year-End**

| | Governmental Activities (In millions) | | Variance Increase |
|---|---|---|---|
| | 2015 | 2014* | (Decrease) |
| General obligation bonds | $ 466.5 | $ 476.7 | $ (10.2) |
| Construction loan | 4.5 | 4.8 | (0.3) |
| Capital leases | 1.2 | 1.7 | (0.5) |
| Compensated absences | 3.2 | 3.0 | 0.2 |
| Net pension liability | 206.5 | 259.5 | (53.0) |
| Other postemployment benefits | 37.7 | 31.2 | 6.5 |
| Total | $ 719.6 | $ 776.9 | $ (57.3) |

**Restated*

## FACTORS BEARING ON THE DISTRICT'S FUTURE

### Overview

On June 16, 2015, the Governor, the Senate President pro Tempore, and the Speaker of the Assembly announced a budget agreement. The Legislature passed the budget bill and related legislation on Friday, June 19. The budget agreement relies on the administration's May 2015 estimates of (1) General Fund revenues, (2) the Proposition 98 minimum guarantee for schools and community colleges, and (3) budget reserve and debt payment requirements under Proposition 2. School and community college funding is the centerpiece of the agreement, as administration estimates of the Proposition 98 minimum guarantee have increased substantially over June 2014 levels. With savings resulting from (1) rejection of various administration proposals, (2) an error in the administration's Medi-Cal estimates, (3) legislative changes made to the Middle-Class Scholarship Program, and (4) other legislative actions, the agreement makes modest augmentations outside of Proposition 98 above May Revision levels.

***2015-16 to End With $4.6 Billion in Estimated Total Reserves***

The budget agreement assumes $115 billion in revenues, a 3.3 percent increase over 2014-15. (This total is net of the $1.9 billion deposit in the Proposition 2 Budget Stabilization Account [BSA].) The state's "big three" General Fund taxes—the personal income tax, sales and use tax, and corporation tax—are estimated to increase at a slightly higher rate (4 percent). General Fund revenue growth was much higher in 2014-15, increasing at a very healthy 7.7 percent rate. General Fund spending is largely flat across 2014-15 and 2015-16, increasing at only 0.8 percent. Growth in ongoing programmatic spending, however, is masked by various one-time actions, including one-time spending in 2014-15 on debt payments and mandate backlog claims, and the end of the "triple flip" mechanism used to finance the state's prior deficit financing bonds. The budget ends 2015-16 with $4.6 billion in estimated total reserves, including $1.1 billion in the Special Fund for Economic Uncertainties—the state's traditional budget reserve—and $3.5 billion in the BSA.

**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**Proposition 98**

***Substantial Upward Revisions to Estimates of Proposition 98 Minimum Guarantee***
State budgeting for preschool, elementary and secondary schools, and the California Community Colleges (CCC) is based primarily on Proposition 98, approved by voters in 1988. Proposition 98 established a minimum funding requirement commonly called the minimum guarantee. The estimate of the 2013-14 and 2014-15 minimum guarantees have increased $612 million and $5.4 billion, respectively from the June 2014 estimates. The estimate of the 2015-16 minimum guarantee is $7.6 billion (12 percent) higher than the *2014-15 Budget Act* level. These increases in the guarantee are due primarily to state revenues being higher than assumed in last year's budget package. The budget package funds at these latest estimates of the minimum guarantees.

***Large Upward 2014-15 Adjustments Result in Relatively Modest Year-Over-Year Growth***
Growth from the revised 2014-15 level to 2015-16 is $2.1 billion (3 percent). This relatively modest growth is due to the large upward revision to 2014-15 noted above. In 2015-16, total Proposition 98 funding is $68.4 billion. Of this amount, $49.4 billion is General Fund and $19 billion is local property tax revenue. The notable increase in local property tax revenue from 2014-15 to 2015-16 ($2.3 billion, 14 percent) is due in large part to the end of the triple flip and the shift of associated local property tax revenue back from cities, counties, and special districts to school and community college districts. Growth in local property tax revenue is slightly greater than growth in the Proposition 98 minimum guarantee, resulting in a slight reduction in Proposition 98 General Fund from 2014-15 to 2015-16.

***Per-Student Funding Increases Significantly***
Under the budget package, K-12 per-student funding increases on average, based on district demographics, from the *2014-15 Budget Act* level of $8,931 to $9,942 in 2015-16—an increase of $1,011 (11 percent).

***Budget Package Contains Many Spending Changes***
The budget accounts for higher Local Control Funding Formula (LCFF) costs and uses the remaining funding increase for paying down the K-14 mandate backlog. In addition to these changes, the budget package includes a $256 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2006-07 and 2009-10 and $207 million in unspent prior-year Proposition 98 funds that have been repurposed.

***Package Notably Reduces Outstanding K-14 Obligations***
The budget package includes the following K-14 actions, all of which reduce the state's outstanding K-14 obligations.

- ***Pays Down Mandate Backlog.*** The budget package includes $3.8 billion to pay down the K-14 mandate backlog ($3.2 billion is for the K-12 backlog and $632 million for the CCC backlog). After accounting for these payments, the LAO estimates the outstanding K-14 mandate backlog to be $1.5 billion ($1.2 billion for schools and about $300 million for community colleges).
- ***Retires All K-14 Payment Deferrals.*** As required by trailer legislation enacted last year, the budget package provides $992 million to eliminate all remaining K-14 payment deferrals. The budget year will be the first fiscal year since 2000-01 that the state is set to make all K-14 payments on time.
- ***Pays Off Emergency Repair Program (ERP) Obligation.*** The budget includes $273 million for the final ERP payment. Statute requires the state to provide a total of $800 million to school districts for emergency facility repairs, and the state has provided $527 million to date. (Of the $273 million, $145 million comes from a settle-up payment and $128 million comes from unspent prior-year Proposition 98 funds.)

## FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

### K-12 Education

***Large Increase for Local Control Funding Formula (LCFF)***
The largest single augmentation in the state budget is $6.0 billion for implementing the LCFF for school districts and charter schools—bringing total LCFF funding to $52 billion. This reflects a 13 percent year-over-year increase in LCFF funding. The administration estimates this funding will close 52 percent of the remaining gap to LCFF target rates. The budget funds 90 percent of the estimated statewide full LCFF implementation cost. School districts and charter schools may use LCFF monies for any educational purpose, including implementation of their Local Control and Accountability Plans.

***New Secondary School Career Technical Education (CTE) Competitive Grant Program***
The budget package includes $900 million in one-time funding for a three-year competitive grant program to promote high-quality CTE. Of this amount, $400 million is provided in 2015-16, $300 million in 2016-17, and $200 million in 2017-18. School districts, county offices of education (COEs), charter schools, and Regional Occupational Centers and Programs operated by joint powers agencies (JPAs) may apply for grants, individually or in consortia. The program provides separate pools of funding for large, medium-sized, and small applicants, based on applicants' average daily attendance (ADA) in grades 7-12. Specifically, 88 percent of the funding is reserved for applicants with ADA greater than 550, 8 percent is reserved for applicants with ADA between 140 and 550, and 4 percent is reserved for applicants with less than 140 ADA. The Superintendent of Public Instruction (SPI), in collaboration with the executive director of the State Board of Education (SBE), will determine the number of grants to be awarded and specific grant amounts.

***Package of Special Education Actions***
The budget includes $67 million for a package of special education-related activities. Of the $67 million, $52 million is ongoing and $15 million is one time. The largest ongoing augmentation in this package is for expanding services for infants, toddlers, and preschoolers with disabilities as well as requiring preschool staff training and parent education relating to identifying and meeting preschoolers' special needs. The largest one-time augmentation is for one or two COEs to develop statewide resources and training opportunities for addressing students' diverse instructional and behavioral needs.

***Second Round of Internet Infrastructure Grants***
The budget includes $50 million in one-time funding for the second round of Broadband Internet Infrastructure Grants. The K-12 High Speed Network is to award grants to schools that cannot administer online tests or can only administer the tests by shutting down other essential online activities such as email. Grants may be used to purchase Internet infrastructure. The Department of Finance (DOF) must approve projects resulting in costs exceeding $1,000 per test-taking pupil.

All of these factors were considered in preparing the Mount Diablo Unified School District budget for the 2015-16 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.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Statement of Net Position*
*June 30, 2015*

| | Total Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash | $ 136,627,278 |
| Investments | 14,614,406 |
| Accounts receivable | 14,469,268 |
| Inventories | 454,138 |
| Prepaid expenses | 3,500 |
| Non-depreciable capital assets | 121,735,801 |
| Depreciable capital assets | 695,764,189 |
| Less, accumulated depreciation | (254,426,569) |
| Total assets | 729,242,011 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Pension contributions subsequent to measurement date | 16,820,636 |
| Deferred amounts on refunding | 10,284,286 |
| Total deferred outflows of resources | 27,104,922 |
| **LIABILITIES** | |
| Cash overdraft | 6,135,656 |
| Accounts payable | 36,103,161 |
| Unearned revenue | 941,843 |
| Long term liabilities: | |
| Due or payable within one year | 13,676,602 |
| Due or payable after one year | 705,907,131 |
| Total liabilities | 762,764,393 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Net differences between projected and actual earnings on plan investments | 55,237,778 |
| Adjustment due to differences in proportions | 819,778 |
| Total deferred inflows of resources | 56,057,556 |
| **NET POSITION** | |
| Net investment in capital assets | 141,220,512 |
| Restricted for: | |
| Capital projects | 8,063,587 |
| Debt service | 24,574,120 |
| Categorical programs | 15,137,312 |
| Unrestricted | (251,470,547) |
| Total net position | $ (62,475,016) |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2015*

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| Instructional Services: | | | | | |
| Instruction | $ 196,389,034 | $ 59,681 | $ 38,702,638 | $ 1,746 | $ (157,624,969) |
| Instruction-Related Services: | | | | | |
| Supervision of instruction | 13,099,640 | 3,897 | 5,148,620 | - | (7,947,123) |
| Instructional library, media and technology | 4,013,216 | 6,222 | 375,100 | - | (3,631,894) |
| School site administration | 22,670,387 | 1,858 | 565,634 | - | (22,102,895) |
| Pupil Support Services: | | | | | |
| Home-to-school transportation | 9,588,477 | 3,250 | 592,373 | - | (8,992,854) |
| Food services | 12,881,350 | 2,883,696 | 9,363,657 | - | (633,997) |
| All other pupil services | 16,114,475 | 58,626 | 5,314,389 | - | (10,741,460) |
| General Administration Services: | | | | | |
| Data processing services | 2,743,776 | 2,322 | 74,025 | - | (2,667,429) |
| Other general administration | 8,753,362 | 103,870 | 1,634,429 | - | (7,015,063) |
| Plant Services | 45,313,413 | 701,407 | 5,740,728 | - | (38,871,278) |
| Ancillary Services | 1,420,813 | 27,217 | 216,872 | - | (1,176,724) |
| Community Services | 26,949 | 13 | 5,730 | - | (21,206) |
| Enterprise Activities | 31 | - | - | - | (31) |
| Interest on Long-term Debt | 20,332,668 | - | - | - | (20,332,668) |
| Other Outgo | 2,848,424 | 3,513 | 883,386 | - | (1,961,525) |
| Total Governmental Activities | $ 356,196,015 | $ 3,855,572 | $ 68,617,581 | $ 1,746 | (283,721,116) |

| | |
|---|---|
| **General Revenues:** | |
| Property taxes | 142,244,787 |
| Federal and state aid not restricted to specific purpose | 120,393,858 |
| Interest and investment earnings | 356,939 |
| Miscellaneous | 10,440,166 |
| Total general revenues | 273,435,750 |
| Change in net position | (10,285,366) |
| Net position - July 1, 2014, as originally stated | 192,386,355 |
| Adjustment for restatements (Note 1.I.) | (244,576,005) |
| Net position - July 1, 2014, as restated | (52,189,650) |
| Net position - June 30, 2015 | $ (62,475,016) |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Balance Sheet – Governmental Funds*

*June 30, 2015*

| | General Fund | Building Fund | Bond Interest and Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash | $ 85,273,578 | $ 20,850,877 | $ 24,567,059 | $ 5,935,764 | $ 136,627,278 |
| Investments | 1,484,978 | - | - | 13,129,428 | 14,614,406 |
| Accounts receivable | 11,412,000 | 8,441 | 7,061 | 2,029,705 | 13,457,207 |
| Due from other funds | 2 | 13 | - | 10,261 | 10,276 |
| Inventories | 427,936 | - | - | 26,202 | 454,138 |
| Prepaid expenditures | 3,500 | - | - | - | 3,500 |
| Total Assets | $ 98,601,994 | $ 20,859,331 | $ 24,574,120 | $ 21,131,360 | $ 165,166,805 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **Liabilities** | | | | | |
| Cash overdraft | $ - | $ - | $ - | $ 6,135,656 | $ 6,135,656 |
| Accounts payable | 26,128,476 | 1,781,383 | - | 594,678 | 28,504,537 |
| Due to other funds | 10,274 | - | - | 2 | 10,276 |
| Unearned revenue | 941,843 | - | - | - | 941,843 |
| Total Liabilities | 27,080,593 | 1,781,383 | - | 6,730,336 | 35,592,312 |
| **Fund Balances** | | | | | |
| Nonspendable | 736,436 | - | - | 26,202 | 762,638 |
| Restricted | 12,179,404 | 19,077,948 | 24,574,120 | 13,080,640 | 68,912,112 |
| Committed | - | - | - | 1,294,182 | 1,294,182 |
| Assigned | 19,110,390 | - | - | - | 19,110,390 |
| Unassigned | 39,495,171 | - | - | - | 39,495,171 |
| Total Fund Balances | 71,521,401 | 19,077,948 | 24,574,120 | 14,401,024 | 129,574,493 |
| Total Liabilities and Fund Balances | $ 98,601,994 | $ 20,859,331 | $ 24,574,120 | $ 21,131,360 | $ 165,166,805 |

| | | |
|---|---|---|
| **Total fund balances - governmental funds** | | $ 129,574,493 |
| 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 $817,499,990, and the accumulated depreciation is ($254,426,569). | | 563,073,421 |
| In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The net OPEB liability at the end of the period was: | | (37,651,743) |
| In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of: | | |
| General obligation bonds payable | (466,501,430) | |
| Construction loan payable | (4,545,225) | |
| Capital leases payable | (1,190,281) | |
| Net pension liability | (206,457,458) | |
| Compensated absences payable | (3,237,596) | (681,931,990) |
| Deferred amounts on refunding represent amount paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the government-wide statements it is recognized as a deferred outflow of resources. The remaining deferred amounts on refunding at the end of the period were: | | 10,284,286 |
| In governmental funds, interest subsidies received from the federal government are recognized in the period that they are received. In the government-wide statements, they are recognized in the period in which they are earned. | | 1,012,061 |
| 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. Deferred outflows and inflows of resources relating to pensions consist of: | | |
| Deferred outflows | | 16,820,636 |
| Deferred inflows | | (56,057,556) |
| In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: | | (7,598,624) |
| **Total net position - governmental activities** | | $ (62,475,016) |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds*
*For the Fiscal Year Ended June 30, 2015*

| | General Fund | Building Fund | Bond Interest and Redemption Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| LCFF sources | $ 222,626,709 | $ - | $ - | $ - | $ 222,626,709 |
| Federal sources | 20,477,079 | - | 2,082,240 | 9,917,098 | 32,476,417 |
| Other state sources | 43,949,387 | - | 277,647 | 756,553 | 44,983,587 |
| Other local sources | 14,833,542 | 115,753 | 29,332,689 | 7,070,782 | 51,352,766 |
| Total Revenues | 301,886,717 | 115,753 | 31,692,576 | 17,744,433 | 351,439,479 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| Instruction | 191,602,811 | - | - | 3,240,955 | 194,843,766 |
| Instruction-related services: | | | | | |
| Supervision of instruction | 12,724,248 | - | - | 445,984 | 13,170,232 |
| Instructional library, media and technology | 3,871,317 | - | - | 100,082 | 3,971,399 |
| School site administration | 20,868,863 | - | - | 1,678,695 | 22,547,558 |
| Pupil support services: | | | | | |
| Home-to-school transportation | 9,747,833 | - | - | - | 9,747,833 |
| Food services | 1,363 | - | - | 12,870,653 | 12,872,016 |
| All other pupil services | 15,502,938 | - | - | 17,029 | 15,519,967 |
| Ancillary services | 1,441,559 | - | - | - | 1,441,559 |
| Community services | 6,289 | - | - | - | 6,289 |
| Enterprise activities | 32 | - | - | - | 32 |
| General administration services: | | | | | |
| Data processing services | 2,780,700 | - | - | - | 2,780,700 |
| Other general administration | 8,391,645 | - | - | 44,767 | 8,436,412 |
| Plant services | 22,111,775 | - | - | 1,864,762 | 23,976,537 |
| Transfers of indirect costs | (582,745) | - | - | 582,745 | - |
| Intergovernmental transfers | 2,848,424 | - | - | - | 2,848,424 |
| Capital outlay | 1,022,534 | 33,037,378 | - | 770,543 | 34,830,455 |
| Debt service: | | | | | |
| Principal | 465,477 | - | 12,120,000 | 294,935 | 12,880,412 |
| Interest | 42,122 | - | 17,594,361 | - | 17,636,483 |
| Total Expenditures | 292,847,185 | 33,037,378 | 29,714,361 | 21,911,150 | 377,510,074 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 9,039,532 | (32,921,625) | 1,978,215 | (4,166,717) | (26,070,595) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Interfund transfers in | - | - | - | 3,276,196 | 3,276,196 |
| Interfund transfers out | (3,276,196) | - | - | - | (3,276,196) |
| Total Other Financing Sources and Uses | (3,276,196) | - | - | 3,276,196 | - |
| Net Change in Fund Balances | 5,763,336 | (32,921,625) | 1,978,215 | (890,521) | (26,070,595) |
| Fund Balances, July 1, 2014 | 65,758,065 | 51,999,573 | 22,595,905 | 15,291,545 | 155,645,088 |
| Fund Balances, June 30, 2015 | $ 71,521,401 | $ 19,077,948 | $ 24,574,120 | $ 14,401,024 | $ 129,574,493 |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities*

*For the Fiscal Year Ended June 30, 2015*

| | | |
|---|---|---|
| **Total net change in fund balances - governmental funds** | | $ (26,070,595) |
| Amounts reported for governmental *activities* in the statement of activities are different because: | | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is: | | |
| Expenditures for capital outlay | 34,137,247 | |
| Depreciation expense | (20,794,932) | 13,342,315 |
| In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: | | 12,880,412 |
| In governmental funds, postemployment benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postemployment benefits costs are recognized in the period that they are incurred. The increase in the net OPEB liability at the end of the period was: | | (6,427,350) |
| In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premiums for the period is: | | 1,928,492 |
| In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period, but owing from the prior period, was: | | 128,285 |
| In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. Accreted interest for the period was: | | (3,887,219) |
| Deferred amounts on refunding represent amounts paid to an escrow agent in excess of the outstanding debt at the time of the payment for refunded bonds which have been defeased. In the statement of activities these amounts are amortized over the shorter of the life of the refunded bonds or the refunding bonds. The current year amortization was: | | (865,744) |
| In government funds, pension costs are recognized when empoyer 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: | | (1,118,373) |
| In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). | | (195,589) |
| **Change in net position of governmental activities** | | $ (10,285,366) |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Statement of Fiduciary Net Position*
*June 30, 2015*

| | Trust Fund | Agency Funds | |
|---|---|---|---|
| | Private-Purpose Trust Fund | Student Body Funds | Debt Service Fund for Special Assessment Debt |
| **ASSETS** | | | |
| Cash | $ 5,874 | $ 1,232,665 | $ 3,026,535 |
| Investments | 49,000 | - | 10,660,686 |
| Accounts receivable | 2 | - | 625 |
| **Total Assets** | 54,876 | $ 1,232,665 | $ 13,687,846 |
| **LIABILITIES** | | | |
| Due to bondholders | - | $ - | $ 13,687,846 |
| Due to student groups | - | 1,232,665 | - |
| **Total Liabilities** | - | $ 1,232,665 | $ 13,687,846 |
| **NET POSITION** | | | |
| Restricted | $ 54,876 | | |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Statement of Changes in Fiduciary Net Position*
*For the Fiscal Year Ended June 30, 2015*

| | Trust Fund |
|---|---|
| | Private-Purpose Trust Fund |
| **ADDITIONS** | |
| Interest | $ 387 |
| Change in net position | 387 |
| Net position - July 1, 2014 | 54,489 |
| Net position - June 30, 2015 | $ 54,876 |

## 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:

### A. Reporting Entity

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

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

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

The Mount Diablo Unified School District Education Facilities Financing Corporation (the Corporation) financial activity is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. Certificates of participation and other debt issued by Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Corporation.

### B. Basis of Presentation, Basis of Accounting

#### 1. Basis of Presentation

**Government-Wide Financial Statements**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**1. Basis of Presentation (continued)**

**Government-Wide Financial Statements (continued)**
The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

**Major Governmental Funds**
The District reports the following major governmental funds:

**General Fund:** This fund is used to account for and report all financial resources not accounted for and reported in another fund.

**Building Fund:** This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.

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

**Non-Major Governmental Funds**
The District reports the following non-major governmental funds:

**Special Revenue Funds:**

**Adult Education Fund:** This fund is used to account for resources committed to adult education programs maintained by the District.

**Cafeteria Fund:** This fund is used to account for revenues received and expenditures made to operate the District's food service operations.

**Deferred Maintenance Fund:** This fund is used to account for resources committed to major repair or replacement of District property.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**1. Basis of Presentation (continued)**

**Non-Major Governmental Funds (continued)**

**Capital Projects Funds:**

**Capital Facilities Fund:** This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

**County School Facilities Fund:** This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

**Capital Projects Fund for Blended Component Units:** This fund is used to account for the activity of the Community Facilities Districts.

**Fiduciary Funds**
Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District maintains the following fiduciary funds:

**Foundation Private-Purpose Trust Fund:** This fund is used to account separately for gifts or bequests per *Education Code Section* 41031 that 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.

**Student Body Funds:** The District maintains a separate agency fund for each school that operates an Associated Student Body (ASB) Fund, whether it is organized or not. The District maintains these funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District that maintain a student body fund.

**Debt Service Fund for Special Assessment Debt:** This agency fund is used to account for the accumulation of resources for, and the repayment of debt for the CFD bonds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**2. Measurement Focus, Basis of Accounting**

**Government-Wide and Fiduciary Fund Financial Statements**
The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements**
Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

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

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

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Budgetary Data (continued)**

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

**D. Encumbrances**

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

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

**1. Cash and Cash Equivalents**

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

**2. Inventories and Prepaid Items**

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

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

**3. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| Description | Estimated Lives |
|---|---|
| Buildings and Improvements | 30 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 8 years |

**4. Unearned Revenue**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**5. Deferred Outflows/Inflows of Resources**
In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is to recognize contributions made to the pension plan after the measurement date of the net pension liability. The second is deferred amounts on refunding, which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that are reported as deferred inflows of resources. These items recognize the District's proportionate share of the deferred inflows of resources related to its pension plans as more fully described in the footnote entitled "Pension Plans".

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

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 8. Fund Balances

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

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

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

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

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

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

#### 9. Net Position

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

- **Net investment in capital assets -** This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**9. Net Position (continued)**

- **Restricted -** This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted net position -** This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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

**F. Minimum Fund Balance Policy**

During the 2010-11 fiscal year, pursuant to GASB Statement No. 54, the District adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of total General Fund expenditures and other financing uses.

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

**G. Property Tax Calendar**

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

**H. Use of Estimates**

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. New GASB Pronouncements**

During the 2014-15 fiscal year, the following GASB Pronouncements became effective:

1. **Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 (Issued 06/12)***

   The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

   This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

   This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

   **Cost-Sharing Employers**

   In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

   A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. New GASB Pronouncements (continued)**

**2. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68 (Issued 11/13)***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net position liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

**3. Cumulative Effect of Change in Accounting Principle**

Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards was to decrease the net position at July 1, 2013 by $244,576,005, which is the amount of net pension liability, net of the deferred outflows of resources related to pensions at July 1, 2014.

## NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2015, are reported at fair value and consisted of the following:

| | Rating | Governmental Funds/Activities | Fiduciary Funds |
|---|---|---|---|
| Pooled Funds: | | | |
| Cash in county treasury | | $ 135,936,824 | $ 3,032,409 |
| Cash overdraft in county treasury | | (6,135,656) | - |
| Deposits: | | | |
| Cash on hand and in banks | | 374,290 | 1,232,665 |
| Cash collections awaiting deposit | | 11,164 | - |
| Cash in revolving fund | | 305,000 | - |
| Total Cash | | $ 130,491,622 | $ 4,265,074 |
| Investments: | | | |
| Local Agency Investment Fund (LAIF) | Not rated | $ 14,614,406 | $ 49,000 |
| California Asset Management Program (CAMP) | Not rated | - | 10,660,686 |
| Total Investments | | $ 14,614,406 | $ 10,709,686 |

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

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2015, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**Custodial Credit Risk – Deposits**
Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

**NOTE 2 – CASH AND INVESTMENTS (continued)**

**Custodial Credit Risk - Deposits (continued)**
As of June 30, 2015, $1,149,348 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

**Investments - Interest Rate Risk**
The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment.

Maturities of investments held at June 30, 2015, consisted of the following:

| | | Maturity | |
|---|---|---|---|
| | Fair value | Less Than One Year | One Year Through Five Years |
| Local Agency Investment Fund (LAIF) | $ 14,663,406 | $ 14,663,406 | $ - |
| CAMP Pool - Money Market | 10,660,686 | 10,660,686 | - |
| | $ 25,324,092 | $ 25,324,092 | $ - |

**Investments - Credit Risk**
The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2015, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**Investments - Concentration of Credit Risk**
The District does not place limits on the amount it may invest in any one issuer. At June 30, 2015, the District had the following investment that represented more than five percent of the District's net investments.

| | |
|---|---|
| Local Agency Investment Fund (LAIF) | 57.9% |
| CAMP Pool - Money Market | 42.1% |

## NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015, consisted of the following:

| | General Fund | Building Fund | Bond Interest and Redemption Fund | Non-Major Governmental Funds | Totals |
|---|---|---|---|---|---|
| Federal Government: | | | | | |
| Categorical aid programs | $ 4,594,260 | $ - | $ - | $ 1,801,781 | $ 6,396,041 |
| State Government: | | | | | |
| LCFF | 302,609 | - | - | - | 302,609 |
| Lottery | 1,330,056 | - | - | - | 1,330,056 |
| Categorical aid programs | 1,193,839 | - | - | 95,100 | 1,288,939 |
| Local: | | | | | |
| Interest | 27,352 | 8,441 | 7,061 | 9,992 | 52,846 |
| Mental Health | 2,171,887 | - | - | - | 2,171,887 |
| Miscellaneous | 1,791,997 | - | - | 122,832 | 1,914,829 |
| Total | $ 11,412,000 | $ 8,441 | $ 7,061 | $ 2,029,705 | $ 13,457,207 |

## NOTE 4 – INTERFUND TRANSACTIONS

### A. Balances Due To/From Other Funds

Balances due to/from other funds at June 30, 2015, consisted of the following:

| | |
|---|---|
| Adult Education Fund due to General Fund for Perkins funding | $ 2 |
| General Fund due to Adult Education Fund to adjust payroll funding source | 6,354 |
| General Fund due to Cafeteria Fund for catering | 3,907 |
| General Fund due to Building Fund to correct interest revenue | 13 |
| | $ 10,276 |

### B. Transfers To/From Other Funds

During the 2014-15 fiscal year, the General Fund transferred $3,276,196 to the Adult Education Fund to meet the required maintenance of effort.

## NOTE 5 – FUND BALANCES

At June 30, 2015, fund balances of the District's governmental funds were classified as follows:

| | General Fund | Building Fund | Bond Interest and Redemption Fund | Non-Major Governmental Funds | Total |
|---|---|---|---|---|---|
| Nonspendable: | | | | | |
| Revolving cash | $ 305,000 | $ - | $ - | $ - | $ 305,000 |
| Stores inventories | 427,936 | - | - | 26,202 | 454,138 |
| Prepaid expenditures | 3,500 | - | - | - | 3,500 |
| Total Nonspendable | 736,436 | - | - | 26,202 | 762,638 |
| Restricted: | | | | | |
| Categorical programs | 12,179,404 | - | - | 28,172 | 12,207,576 |
| Food service program | - | - | - | 2,931,706 | 2,931,706 |
| Capital projects | - | 19,077,948 | - | 10,120,762 | 29,198,710 |
| Debt service | - | - | 24,574,120 | - | 24,574,120 |
| Total Restricted | 12,179,404 | 19,077,948 | 24,574,120 | 13,080,640 | 68,912,112 |
| Committed: | | | | | |
| Adult education program | - | - | - | 1,285,771 | 1,285,771 |
| Deferred maintenance program | - | - | - | 8,411 | 8,411 |
| Total Committed | - | - | - | 1,294,182 | 1,294,182 |
| Assigned: | | | | | |
| Site carryover | 4,736,104 | - | - | - | 4,736,104 |
| Supplemental and targeted instruction | 14,374,286 | - | - | - | 14,374,286 |
| Total Assigned | 19,110,390 | - | - | - | 19,110,390 |
| Unassigned: | | | | | |
| Reserve for economic uncertainties | 8,577,749 | - | - | - | 8,577,749 |
| Remaining unassigned balances | 30,917,422 | - | - | - | 30,917,422 |
| Total Unassigned | 39,495,171 | - | - | - | 39,495,171 |
| Total | $ 71,521,401 | $ 19,077,948 | $ 24,574,120 | $ 14,401,024 | $ 129,574,493 |

## NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Balance, July 1, 2014 | Additions | Deletions | Balance, June 30, 2015 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 14,436,462 | $ - | $ - | $ 14,436,462 |
| Construction in progress | 96,805,307 | 10,494,032 | - | 107,299,339 |
| Total capital assets not being depreciated | 111,241,769 | 10,494,032 | - | 121,735,801 |
| Capital assets being depreciated: | | | | |
| Improvement of sites | 105,220,560 | 1,180,158 | - | 106,400,718 |
| Buildings | 549,032,200 | 22,264,520 | - | 571,296,720 |
| Equipment | 17,868,214 | 198,537 | - | 18,066,751 |
| Total capital assets being depreciated | 672,120,974 | 23,643,215 | - | 695,764,189 |
| Accumulated depreciation for: | | | | |
| Improvement of sites | (10,407,752) | (3,498,387) | - | (13,906,139) |
| Buildings | (209,087,547) | (16,626,547) | - | (225,714,094) |
| Equipment | (14,136,338) | (669,998) | - | (14,806,336) |
| | (233,631,637) | (20,794,932) | - | (254,426,569) |
| Total capital assets being depreciated, net | 438,489,337 | 2,848,283 | $ - | 441,337,620 |
| Governmental activity capital assets, net | $ 549,731,106 | 13,342,315 | - | $ 563,073,421 |

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---|
| Instruction | $ 10,157 |
| Instructional Supervision | 8,127 |
| Pupil Services | 499,019 |
| All Other General Administration | 79,724 |
| Plant Services | 20,197,905 |
| Total | $ 20,794,932 |

## NOTE 7 – GENERAL LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2015, were as follows:

| | Balance, July 1, 2014* | Additions | Deductions | Balance, June 30, 2015 | Amount Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds: | | | | | |
| Principal repayments | $ 434,220,057 | $ - | $ 12,120,000 | $ 422,100,057 | $ 11,267,272 |
| Accreted interest component | 11,265,250 | 3,887,219 | - | 15,152,469 | 157,728 |
| Unamortized issuance premium | 31,177,396 | - | 1,928,492 | 29,248,904 | 1,928,492 |
| Total - Bonds | 476,662,703 | 3,887,219 | 14,048,492 | 466,501,430 | 13,353,492 |
| Construction Loan | 4,840,160 | - | 294,935 | 4,545,225 | - |
| Capital Leases | 1,655,758 | - | 465,477 | 1,190,281 | 323,110 |
| Compensated Absences | 3,042,007 | 195,589 | - | 3,237,596 | - |
| Net pension liability* | 259,514,304 | - | 53,056,846 | 206,457,458 | - |
| Other Postemployment Benefits | 31,224,393 | 6,427,350 | - | 37,651,743 | - |
| Totals | $ 776,939,325 | $ 10,510,158 | $ 67,865,750 | $ 719,583,733 | $ 13,676,602 |

*Beginning balance has been restated to reflect the retroactive implementation of GASB Statement No. 68 for the net pension liability.

**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

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 lease obligations are made from the General Fund. Payments for postemployment benefits and compensated absences are made from the fund for which the related employee worked.

**A. General Obligation Bonds**

**2002 Election (Measure C)**
In a general election held on March 5, 2002, the voters approved $250 million of general obligation bonds for the purpose of improving the health and safety conditions of the schools.

**2010 Election (Measure C)**
In a general election held on June 8, 2010, the voters approved $348 million of general obligation bonds for the purpose of financing the construction, acquisition, furnishing, and equipping of District facilities, and to prepay certain outstanding lease purchase obligations.

A portion of the bonds, issued as 2010 Series B, were designated as "New Clean Renewable Energy Bonds". Another portion of the bonds, issued as 2011 Series C, were designated as "Qualified School Construction Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), with a direct payment to be paid to the District by the United States Treasury (the "Treasury") for each payment of interest due on the bonds. The District is obligated to deposit any cash subsidy payments it receives into the debt service fund for the Bonds.

**Refunding Bonds**
In previous years, beginning in 2011, the District has issued refunding bonds to advance refund certain of the District's previously issued and outstanding Measure C bonds. Net proceeds from the refunding bonds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. As of June 30, 2015, deferred amounts on refunding of $10,284,286 remain to be amortized, and there is no principal balance outstanding on the defeased debt.

**Source of Repayment on Bonds**
The Bonds are general obligations of the District only. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District to pay the principal and interest on each bond as they become due and payable.

## NOTE 7 – GENERAL LONG-TERM DEBT (continued)

### A. General Obligation Bonds (continued)

A summary of outstanding general obligation bonds issued is presented below:

| Bond | Interest Rate | Date of Issue | Maturity Date | Amount of Original Issue | Outstanding, July 1, 2014 | Additions | Redeemed During Year | Outstanding, June 30, 2015 |
|---|---|---|---|---|---|---|---|---|
| **Measure C (2002)** | | | | | | | | |
| Series 2004 | 3.0%-5.625% | 7/1/2004 | 7/1/2029 | $ 121,000,000 | $ 4,025,000 | $ - | $ 4,025,000 | $ - |
| **Measure C (2010)** | | | | | | | | |
| Series A | 2.46%-4.70% | 9/30/2010 | 8/1/2035 | 50,456,475 | 50,456,475 | - | - | 50,456,475 |
| Series B | 1.244%-5.048% | 9/30/2010 | 8/1/2027 | 59,540,000 | 57,855,000 | - | - | 57,855,000 |
| Series C | 2.0%-5.4% | 4/12/2011 | 8/1/2025 | 3,865,000 | 3,860,000 | - | - | 3,860,000 |
| Series D | 3.22%-5.5% | 4/12/2011 | 8/1/2031 | 7,133,582 | 7,133,582 | - | - | 7,133,582 |
| Series E | 0.3%-5.0% | 6/20/2012 | 6/1/2037 | 149,995,000 | 142,890,000 | - | 5,830,000 | 137,060,000 |
| **Refunding Issues** | | | | | | | | |
| Series 2011 | 2.0%-5.0% | 6/21/2011 | 8/1/2026 | 37,790,000 | 32,225,000 | - | 2,025,000 | 30,200,000 |
| Series B | 2.0%-5.0% | 12/29/2011 | 7/1/2023 | 43,700,000 | 42,405,000 | - | 90,000 | 42,315,000 |
| Series B-2 | 2.0%-5.0% | 4/5/2012 | 7/1/2029 | 40,540,000 | 39,955,000 | - | - | 39,955,000 |
| Series C | 2.0%-5.0% | 4/10/2013 | 6/1/2031 | 54,015,000 | 53,415,000 | - | 150,000 | 53,265,000 |
| | | | | | $ 434,220,057 | $ - | $ 12,120,000 | $ 422,100,057 |
| | | | | Accreted Interest: | | | | |
| | | | | 2010, Series A | $ 10,920,156 | $ 3,735,414 | $ - | $ 14,655,570 |
| | | | | 2010, Series D | 345,094 | 151,805 | - | 496,899 |
| | | | | | $ 11,265,250 | $ 3,887,219 | $ - | $ 15,152,469 |

The annual requirements to amortize general obligation bonds outstanding at June 30, 2015, is as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015-2016 | $ 11,267,272 | $ 17,410,300 | $ 28,677,572 |
| 2016-2017 | 10,607,351 | 17,065,607 | 27,672,958 |
| 2017-2018 | 11,913,230 | 16,648,151 | 28,561,381 |
| 2018-2019 | 13,465,203 | 16,140,562 | 29,605,765 |
| 2019-2020 | 15,386,782 | 15,295,196 | 30,681,978 |
| 2020-2025 | 86,843,228 | 82,594,745 | 169,437,973 |
| 2025-2030 | 123,144,230 | 79,919,023 | 203,063,253 |
| 2030-2035 | 100,945,633 | 51,707,496 | 152,653,129 |
| 2035-2040 | 48,527,128 | 6,210,917 | 54,738,045 |
| | $ 422,100,057 | $ 302,991,997 | $ 725,092,054 |

### B. Construction Loan

In February 2003, the Redevelopment Agency of the City of Pittsburg made an interest-free loan of $6,178,936 to the District. The loan is to be used for 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 after January 1, 2005. The District will continue to make payments equivalent to 24% of impact fees collected in the City every six months on June 1st and January 1st until June 1, 2040, or until the loan is paid off, whichever occurs first. The balance at June 30, 2015, is $4,545,225.

**NOTE 7 – GENERAL LONG-TERM DEBT (continued)**

**C. Capital Leases**

The District leases school buses having a value of $2,393,976 under agreements which provide for title to pass upon expiration of the lease period. Future yearly payments on capitalized lease obligations are as follows:

| Fiscal Year | Payment |
|---|---|
| 2015-2016 | $ 351,731 |
| 2016-2017 | 351,731 |
| 2017-2018 | 252,150 |
| 2018-2019 | 152,568 |
| 2019-2020 | 152,568 |
| Total payments | 1,260,748 |
| Less amount representing Interest | (70,467) |
| Total | $ 1,190,281 |

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment, classroom or buses.

**D. 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 Mark-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 $25,890,000 as of June 30, 2015, does not represent debt of the District and, as such, does not appear in the financial statements.

## NOTE 8 – JOINT VENTURES

The Mount Diablo Unified School District participates in joint ventures under joint powers agreements with the CSAC Excess Insurance Authority (CSAC-EIA), the Schools' Self-Insurance of Contra Costa County (SSICCC), and the School Project for Utility Rate Reduction (SPURR). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide property and liability insurance coverage as well as health and welfare benefits coverage. The JPAs are governed by a board consisting of a representative from each member district. The 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.

Condensed audited financial information is available by contacting the JPAs directly.

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

**B. Construction Commitments**
As of June 30, 2015, the District had commitments with respect to unfinished capital projects of $6.9 million be paid from a combination of State and local funds.

**C. Litigation**
The District is involved in certain other legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2015.

## NOTE 10 – 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 11 – PENSION PLANS

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

### A. General Information about the Pension Plans

#### Plan Descriptions

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions under the Plan are established by State statute and District resolution. CalSTRS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalSTRS website.

The District also contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

#### Benefits Provided

CalSTRS provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of final compensation for each year of credited service at age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, increasing to a maximum of 2.4 percent at age 63 for members under *CalSTRS 2% at 60*, or age 65 for members under *CalSTRS 2% at 62*. The normal retirement eligibility requirements are age 60 for members under *CalSTRS 2% at 60*, or age 62 for members under *CalSTRS 2% at 62*, with a minimum of five years of service credited under the Defined Benefit Program, which can include service purchased from teaching in an out-of-state or foreign public school. Employees are eligible for service-related disability benefits after five years of service, unless the member is disabled due to an unlawful act of bodily injury committed by another person while working in CalSTRS covered employment, in which case the minimum is one year. Disability benefits are equal to fifty percent of final compensation regardless of age and service credit. Designated recipients of CalSTRS retired members receive a $6,163 lump-sum death payment. There is a 2 percent simple increase each September 1 following the first anniversary of the date on which the monthly benefit began to accrue. The annual 2 percent increase is applied to all continuing benefits other than Defined Benefit Supplement annuities. However, if the member retires with a Reduced Benefit Election, the increase does not begin to accrue until the member reaches age 60 and is not payable until the member receives the full benefit. This increase is also known as the improvement factor.

CalPERS also provides retirement, disability, and death benefits. Retirement benefits are determined as 1.1 percent of final compensation for each year of credited service at age 50 for members under *2% at 55*, or 1.0 percent at age 52 for members under *2% at 62*, increasing to a maximum of 2.5 percent at age 63 for members under *2% at 55*, or age 67 for members under *2% at 62*. To be eligible for service retirement, members must be at least age 50 and have a minimum of five years of CalPERS-credited service. Members joining on or after January 1, 2013 must be at least age 52. Disability retirement has no minimum age requirement and the disability does not have to be job related. However, members must have a minimum of five years of CalPERS service credit.

**NOTE 11 – PENSION PLANS (continued)**

**A. General Information about the Pension Plans (continued)**

**Benefits Provided (continued)**
Pre-retirement death benefits range from a simple return of member contributions plus interest to a monthly allowance equal to half of what the member would have received at retirement paid to a spouse or domestic partner. To be eligible for any type of monthly pre-retirement death benefit, a spouse or domestic partner must have been either married to the member or legally registered before the occurrence of the injury or the onset of the illness that resulted in death, or for at least one year prior to death. Cost-of-living adjustments are provided by law and are based on the Consumer Price Index for all United States cities. Cost-of-living adjustments are paid the second calendar year of the member's retirement on the May 1 check and then every year thereafter. The standard cost-of-living adjustment is a maximum of 2 percent per year.

**Contributions**
Active CalSTRS plan members were required to contribute 8.15% of their salary in 2014-15. The required employer contribution rate for fiscal year 2014-15 was 8.88% of annual payroll. The contribution requirements of the plan members are established by State statute. Active CalPERS plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The required employer contribution for fiscal year 2014-15 was 11.771%. The contribution requirements of the plan members are established by State statute.

For the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

| | CalSTRS | CalPERS |
|---|---|---|
| Employer contributions | $ 18,725,190 | $ 5,327,217 |
| Employee contributions paid by employer | $ - | $ - |

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions**

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

| | Proportionate Share of Net Pension Liability |
|---|---|
| CalSTRS | $ 161,286,120 |
| CalPERS | 45,171,338 |
| Total Net Pension Liability | $ 206,457,458 |

**NOTE 11 – PENSION PLANS (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014, was as follows:

| | CalSTRS* | CalPERS |
|---|---|---|
| Proportion - June 30, 2013 | 0.2760% | 0.4036% |
| Proportion - June 30, 2014 | 0.2760% | 0.3979% |
| Change - Increase (Decrease) | 0.0000% | -0.0057% |

* The District's proportionate share percentage was not separately determined for June 30, 2013, so the June 30, 2014, percentage was used to calculate the beginning amounts.

For the year ended June 30, 2015, the District recognized pension expense of $17,939,009. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 16,820,636 | $ - |
| Adjustment due to differences in proportions | - | (819,778) |
| Net differences between projected and actual earnings on plan investments | - | (55,237,778) |
| | $ 16,820,636 | $ (56,057,556) |

**NOTE 11 – PENSION PLANS (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

The total amount of $16,820,636 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30, | Amount |
|---|---|
| 2016 | $ (12,028,569) |
| 2017 | (12,028,569) |
| 2018 | (12,028,569) |
| 2019 | - |
| 2020 | - |
| Thereafter | - |

***Actuarial Assumptions*** – The total pension liabilities in the June 30, 2013, actuarial valuations were determined using the following actuarial assumptions:

| | CalSTRS | CalPERS |
|---|---|---|
| Valuation Date | June 30, 2013 | June 30, 2013 |
| Measurement Date | June 30, 2014 | June 30, 2014 |
| Actuarial Cost Method | Entry age normal | Entry age normal |
| Actuarial Assumptions: | | |
| Discount Rate | 7.60% | 7.50% |
| Inflation | 3.00% | 2.75% |
| Wage Growth | 3.75% | 3.00% |
| Post-retirement Benefit Increase | 2.00% | - |
| Investment Rate of Return | 7.60% | 7.50% |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis for more information. The underlying mortality assumptions and all other actuarial assumptions used in the CalPERS June 30, 2013, valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

***Discount Rate*** – for CalSTRS
The discount rate used to measure the total pension liability was 7.60 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 Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 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.

**NOTE 11 – PENSION PLANS (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

***Discount Rate*** – for CalSTRS (continued)
Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Discount Rate*** – for CalPERS
The discount rate used to measure the total pension liability was 7.50% for CalPERS. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 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 for each fund.

**NOTE 11 – PENSION PLANS (continued)**

**B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

***Discount Rate*** – for CalPERS (continued)
The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the 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. These rates of return are net of administrative expenses.

| | Target Allocation | | Long-Term Expected Rate of Return | |
|---|---|---|---|---|
| Asset Class | CalSTRS | CalPERS | CalSTRS | CalPERS |
| Global Equity | 47% | 47% | 4.5% | 5.7% |
| Global Fixed Income | N/A | 19% | N/A | 2.4% |
| Inflation Sensitive | 5% | 6% | 3.2% | 3.4% |
| Private Equity | 12% | 12% | 6.2% | 7.0% |
| Real Estate | 15% | 11% | 4.4% | 5.1% |
| Infrastructure and Forestland | N/A | 3% | N/A | 5.1% |
| Fixed Income | 20% | N/A | 0.2% | N/A |
| Liquidity | 1% | 2% | 0.0% | -1.1% |
| | 100% | 100% | | |

***Sensitivity of the 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 for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

| | CalSTRS | CalPERS |
|---|---|---|
| 1% Decrease | 6.60% | 6.50% |
| Net Pension Liability | $ 251,402,880 | $ 79,240,839 |
| Current Discount Rate | 7.60% | 7.50% |
| Net Pension Liability | $ 161,286,120 | $ 45,171,338 |
| 1% Increase | 8.60% | 8.50% |
| Net Pension Liability | $ 86,145,120 | $ 16,702,836 |

***Pension Plan Fiduciary Net Position***
Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

**NOTE 11 – PENSION PLANS (continued)**

**C. Payable to the Pension Plans**
At June 30, 2015, the District reported a payable of $84,946 and $16,837 for the outstanding amount of contributions to the CalSTRS and CalPERS pension plans, respectively, required for the fiscal year ended June 30, 2015.

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

Mount Diablo Unified School District administers a defined benefit postemployment plan, where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefit Fund. The District implemented Governmental Accounting Standards Board Statement #45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

**Plan Descriptions and Contribution Information**
Membership in the plan consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 1,219 |
| Active plan members | 3,005 |
| Total | 4,224 |

*As of July 1, 2014, actuarial valuation date*

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District and meet the age and service requirements for eligibility. The District offers subsidized health insurance until age 65.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2014-15, the District contributed $4,813,524.

**Annual OPEB Cost and Net OPEB Obligation**
The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

| | |
|---|---|
| Annual required contribution (ARC) | $ 11,433,256 |
| Interest on net OPEB obligation | 1,405,098 |
| Adjustment to ARC | (1,597,480) |
| Annual OPEB cost | 11,240,874 |
| Contributions made | (4,813,524) |
| Increase (decrease) in net OPEB obligation | 6,427,350 |
| Net OPEB obligation - July 1, 2014 | 31,224,393 |
| Net OPEB obligation - June 30, 2015 | $ 37,651,743 |

## NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

**Annual OPEB Cost and Net OPEB Obligation (continued)**
The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014-15 and the preceding two years are as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2013 | $ 10,600,315 | 52% | $ 25,342,946 |
| 2014 | 10,947,325 | 46% | 31,224,393 |
| 2015 | 11,240,874 | 43% | 37,651,743 |

**Actuarial Methods and Assumptions**
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation Date | 7/1/2014 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level-percentage of payroll |
| Remaining Amortization Period | 24 years |
| Actuarial Assumptions: | |
| Discount rate | 4.5% |
| Healthcare trend rate | 5.0%-7.0% |
| Inflation rate | 2.75% |

## NOTE 13 – SUBSEQUENT EVENT

On July 15, 2015, the District issued $38,500,000 in 2010 Election, 2015 Series F, General Obligation Bonds. The bonds are being issued to finance the construction, acquisition, furnishing, and equipping of district facilities and to pay certain costs of issuance of the bonds.

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# *Required Supplementary Information*

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**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Budgetary Comparison Schedule – General Fund*

*For the Fiscal Year Ended June 30, 2015*

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual (Budgetary Basis) | Variance with Final Budget - Pos (Neg) |
|---|---|---|---|---|
| **Revenues** | | | | |
| LCFF Sources | $ 219,682,540 | $ 222,626,709 | $ 222,626,709 | $ - |
| Federal Sources | 18,478,654 | 26,583,627 | 20,477,079 | (6,106,548) |
| Other State Sources | 32,214,242 | 37,149,721 | 37,027,169 | (122,552) |
| Other Local Sources | 9,019,297 | 14,796,541 | 14,833,542 | 37,001 |
| Total Revenues | 279,394,733 | 301,156,598 | 294,964,499 | (6,192,099) |
| **Expenditures** | | | | |
| Current: | | | | |
| Certificated Salaries | 134,016,281 | 137,944,405 | 133,833,408 | 4,110,997 |
| Classified Salaries | 40,419,301 | 44,952,300 | 44,044,112 | 908,188 |
| Employee Benefits | 63,607,198 | 59,848,241 | 54,340,309 | 5,507,932 |
| Books and Supplies | 15,070,287 | 44,533,288 | 13,167,352 | 31,365,936 |
| Services and Other Operating Expenditures | 34,619,797 | 39,596,327 | 36,155,758 | 3,440,569 |
| Transfers of Indirect Costs | (403,104) | (408,605) | (582,745) | 174,140 |
| Capital Outlay | 759,767 | 2,173,330 | 1,612,065 | 561,265 |
| Intergovernmental | 566,765 | 3,355,710 | 3,354,708 | 1,002 |
| Total Expenditures | 288,656,292 | 331,994,996 | 285,924,967 | 46,070,029 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (9,261,559) | (30,838,398) | 9,039,532 | 39,877,930 |
| **Other Financing Sources and Uses** | | | | |
| Interfund Transfers Out | (3,355,047) | (3,276,196) | (3,276,196) | - |
| Total Other Financing Sources and Uses | (3,355,047) | (3,276,196) | (3,276,196) | - |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (12,616,606) | (34,114,594) | 5,763,336 | 39,877,930 |
| Fund Balances, July 1, 2014 | 53,483,722 | 65,758,065 | 65,758,065 | - |
| Fund Balances, June 30, 2015 | $ 40,867,116 | $ 31,643,471 | $ 71,521,401 | $ 39,877,930 |

On-behalf payments of $6,922,218 have been included in the Statement of Revenues, Expenditures and Changes in Fund Balance but are not included in the actual amounts above.

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Funding Progress*
*For the Fiscal Year Ended June 30, 2015*

| Actuarial Valuation Date | Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 5/1/2008 | $ - | $ 71,018,299 | $ 71,018,299 | 0% | $ 191,822,548 | 37% |
| 7/1/2012 | $ - | 95,744,443 | 95,744,443 | 0% | 174,900,000 | 55% |
| 7/1/2014 | $ - | 101,535,198 | 101,535,198 | 0% | 171,978,831 | 59% |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Proportionate Share of the Net Pension Liability*
*For the Fiscal Year Ended June 30, 2015*

Last Ten Fiscal Years*

| | **2014** |
|---|---|
| District's proportion of the net pension liability (asset): | |
| CalSTRS | 0.2760% |
| CalPERS | 0.3979% |
| District's proportionate share of the net pension liability (asset): | |
| CalSTRS | $ 161,286,120 |
| CalPERS | $ 45,171,338 |
| District's covered-employee payroll: | |
| CalSTRS | $ 123,886,776 |
| CalPERS | $ 41,430,353 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll: | |
| CalSTRS | 130.2% |
| CalPERS | 109.0% |
| Plan fiduciary net position as a percentage of the total pension liability: | |
| CalSTRS | 76.5% |
| CalPERS | 83.4% |

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

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Contributions*
*For the Fiscal Year Ended June 30, 2015*

Last Ten Fiscal Years*

| | **2014** |
|---|---|
| Actuarially determined contribution: | |
| CalSTRS | $ 10,220,659 |
| CalPERS | $ 4,740,461 |
| Contributions in relation to the actuarially determined contribution: | |
| CalSTRS | $ 10,220,659 |
| CalPERS | $ 4,740,461 |
| Contribution deficiency (excess): | |
| CalSTRS | $ - |
| CalPERS | $ - |
| District's covered-employee payroll: | |
| CalSTRS | $ 123,886,776 |
| CalPERS | $ 41,430,353 |
| Contributions as a percentage of covered-employee payroll: | |
| CalSTRS | 8.25% |
| CalPERS | 11.442% |

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

## NOTE 1 – PURPOSE OF SCHEDULES

### Budgetary Comparison Schedules

These schedules are required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

### Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

### Schedule of Proportionate Share of the Net Pension Liability

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

### Schedule of Contributions

This schedule is required by GASB Statement No. 68 and is required for all employers in a cost-sharing pension plan. The schedule reports the following information:

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

## NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

At June 30, 2015, the District did not incur any excess of expenditures over appropriations in the individual major fund presented in the Budgetary Comparison Schedule.

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# *Supplementary Information*

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The 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. There were no changes in the boundaries of the District during the current year. The District currently operates 28 elementary schools, 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.

**GOVERNING BOARD**

| Member | Office | Term Expires |
|---|---|---|
| Cheryl Hansen | President | December 2018 |
| Debra Mason | Vice-President | December 2018 |
| Brian Lawrence | Member | December 2016 |
| Linda Mayo | Member | December 2018 |
| Barbara Oaks | Member | December 2016 |

**DISTRICT ADMINISTRATORS**

Dr. Nellie Meyer,Ed.D.,
*Superintendent*

Mary-Louise Newling,
*Assistant Superintendent, Elementary Schools*

Jonathan Eagan,
*Assistant Superintendent, Middle Schools*

Christopher Holleran,
*Assistant Superintendent, High Schools*

Jennifer Sachs,
*Executive Director of Instructional Support*

Jeff McDaniel,
*Executive Director of Operations*

Larry Schoenke,
*Interim General Counsel*

Nance Juner,
*Director, Fiscal Services*

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Average Daily Attendance*
*For the Fiscal Year Ended June 30, 2015*

| | Second Period Report<br>Certificate No. (072EBDEA) | Annual Report<br>Certificate No. (38FD3051) |
|---|---|---|
| **Regular ADA & Extended Year:** | | |
| Transitional Kindergarten through Third | 10,178.58 | 10,160.55 |
| Fourth through Sixth | 7,311.81 | 7,301.73 |
| Seventh through Eighth | 4,816.20 | 4,804.41 |
| Ninth through Twelfth | 7,914.54 | 7,812.64 |
| Total Regular ADA | 30,221.13 | 30,079.33 |
| **Special Education, Nonpublic, Nonsectarian Schools:** | | |
| Transitional Kindergarten through Third | 5.61 | 5.33 |
| Fourth through Sixth | 14.77 | 15.98 |
| Seventh through Eighth | 32.22 | 33.02 |
| Ninth through Twelfth | 88.92 | 89.08 |
| Total Special Education, Nonpublic, Nonsectarian Schools | 141.52 | 143.41 |
| **Community Day School:** | | |
| Seventh through Eighth | 0.53 | 1.25 |
| Ninth through Twelfth | 9.88 | 10.69 |
| Total Community Day ADA | 10.41 | 11.94 |
| Total ADA | 30,373.06 | 30,234.68 |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Instructional Time*
*For the Fiscal Year Ended June 30, 2015*

| | 1986-87 Minutes | | 2014-15 | Number of Days | |
|---|---|---|---|---|---|
| Grade Level | Previously Required | Reduced* | Actual Minutes | Traditional Calendar | Status |
| Kindergarten | 36,000 | 35,000 | 36,000 | 180 | Complied |
| Grade 1 | 50,400 | 49,000 | 51,871 | 180 | Complied |
| Grade 2 | 50,400 | 49,000 | 51,871 | 180 | Complied |
| Grade 3 | 50,400 | 49,000 | 51,871 | 180 | Complied |
| Grade 4 | 54,000 | 52,500 | 55,800 | 180 | Complied |
| Grade 5 | 54,000 | 52,500 | 55,800 | 180 | Complied |
| Grade 6 | 54,000 | 52,500 | 58,260 | 180 | Complied |
| Grade 7 | 54,000 | 52,500 | 58,260 | 180 | Complied |
| Grade 8 | 54,000 | 52,500 | 58,260 | 180 | Complied |
| Grade 9 | 64,800 | 63,000 | 65,284 | 180 | Complied |
| Grade 10 | 64,800 | 63,000 | 65,284 | 180 | Complied |
| Grade 11 | 64,800 | 63,000 | 65,284 | 180 | Complied |
| Grade 12 | 64,800 | 63,000 | 65,284 | 180 | Complied |

* Amounts reduced as permitted by Education Code Section 46201.2 (a).

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Schedule of Financial Trends and Analysis*
*For the Fiscal Year Ended June 30, 2015*

| General Fund | (Budget) 2016 [3] | 2015 [1] | 2014 | 2013 |
|---|---|---|---|---|
| Revenues and other financing sources | $ 317,429,838 | $ 294,964,499 | $ 283,613,268 | $ 278,316,060 |
| Expenditures | 305,218,978 | 285,924,967 | 267,651,694 | 274,878,260 |
| Other uses and transfers out | 3,184,396 | 3,276,196 | 3,789,964 | 3,637,547 |
| Total outgo | 308,403,374 | 289,201,163 | 271,441,658 | 278,515,807 |
| Change in fund balance (deficit) | 9,026,464 | 5,763,336 | 12,171,610 | (199,747) |
| Ending fund balance | $ 80,547,865 | $ 71,521,401 | $ 65,758,065 | $ 53,586,455 |
| Available reserves [2] | $ 47,341,028 | $ 39,495,171 | $ 43,731,630 | $ 35,958,103 |
| Available reserves as a percentage of total outgo | 15.4% | 13.7% | 16.1% | 12.9% |
| Total long-term debt [4] | $ 705,907,131 | $ 719,583,733 | $ 776,939,325 | $ 527,211,636 |
| Average daily attendance at P-2 | 30,626 | 30,373 | 30,460 | 30,506 |

The General Fund balance has increased by $17,934,946 over the past two years. The fiscal year 2015-16 adopted budget projects an increase of $9,026,464. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in two of the past three years, and anticipates incurring an operating surplus during the 2015-16 fiscal year. Long-term debt has increased by $192,372,097 over the past two years.

Average daily attendance has decreased by 133 over the past two years. An increase of 253 ADA is projected during fiscal year 2015-16.

[1] On-behalf payments of $6,922,218 have been included in the Statement of Revenues, Expenditures and Changes in Fund Balance but are not included in the actual amounts above.

[2] Available reserves consist of all unassigned fund balances in the General Fund.

[3] Revised Final Budget September, 2015.

[4] As restated.

| Charter School | Inclusion in Financial Statements |
|---|---|
| Eagle Peak Montessori | Not included |

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

# MOUNT DIABLO UNIFIED SCHOOL DISTRICT

*Schedule of Expenditures of Federal Awards*

*For the Fiscal Year Ended June 30, 2015*

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Cluster Expenditures | Federal Expenditures |
|---|---|---|---|---|
| Federal Programs: | | | | |
| U.S. Department of Agriculture: | | | | |
| Farm to School Planning Grant | 10.575 | N/A | | $ 12,026 |
| Passed through California Dept. of Education (CDE): | | | | |
| School Breakfast Program - Basic | 10.553 | 13525 | $ 69,631 | |
| School Breakfast Program - Especially Needy | 10.553 | 13526 | 1,508,697 | |
| National School Lunch Program | 10.555 | 13523 | 5,600,877 | |
| USDA Donated Foods | 10.555 | N/A | 691,853 | |
| Summer Food Service Program Operations | 10.559 | 13004 | 171,515 | |
| Total Child Nutrition Cluster | | | | 8,042,573 |
| Child and Adult Care Food Program | 10.558 | 13393 | 839,788 | |
| Cash in Lieu of Commodities | 10.558 | 13393 | 69,747 | |
| Total Child and Adult Care Food Program Cluster | | | | 909,535 |
| NSLP Equipment Assistance Grants | 10.579 | 14906 | | 99,998 |
| Total U.S. Department of Agriculture | | | | 9,064,132 |
| U.S. Department of Defense: | | | | |
| J.R.O.T.C. | 12.030 | N/A | | 189,102 |
| Total U.S. Department of Defense | | | | 189,102 |
| U.S. Department of Labor: | | | | |
| Passed through Eastbay Works: | | | | |
| Workforce Investment Act From Other Agencies | 17.259 | N/A | | 140,945 |
| Total U.S. Department of Labor | | | | 140,945 |
| U.S. Department of Education: | | | | |
| Passed through California Dept. of Education (CDE): | | | | |
| Adult Education: Adult Basic Education and ESL | 84.002A | 14508 | 303,771 | |
| Adult Education: Adult Secondary Education | 84.002 | 13978 | 161,010 | |
| Adult Education: English Literacy and Civics Education | 84.002A | 14109 | 132,733 | |
| Total Adult Education - State Grants Cluster | | | | 597,514 |
| Pell Grants | 84.063 | N/A | | 200,455 |
| No Child Left Behind (NCLB): | | | | |
| Title I, Part A, Basic Grants Low-Income and Neglected | 84.010 | 14329 | 4,850,232 | |
| Title I, Part A, Program Improvement LEA Corrective Action | 84.010 | 14955 | 33,802 | |
| Total Title I, Part A Cluster | | | | 4,884,034 |
| Title I, Part G, Advanced Placement Test Reimbursement Program | 84.330B | 14831 | | 17,501 |
| Title I, School Improvement Grants for QEIA Schools | 84.377 | 14971 | 3,589,681 | |
| ARRA Title I, School Improvement Grants for QEIA Schools | 84.388 | 15020 | 714,224 | |
| Total School Improvement Grants Cluster | | | | 4,303,905 |
| Title II, Part A, Improving Teacher Quality Local Grants | 84.367 | 14341 | | 747,163 |
| Title III, Limited English Proficiency | 84.365 | 14346 | 663,851 | |
| Title III, Immigrant Education | 84.365 | 15146 | 30,829 | |
| Total English Language Acquisition Grants Cluster | | | | 694,680 |
| Title IV, Part B, 21st CCLC - High School ASSETs | 84.287 | 14349 | | 679 |
| Carl D. Perkins Career and Technical Education: Secondary, Sec. 131 | 84.048 | 14894 | 237,781 | |
| Carl D. Perkins Career and Technical Education: Adult, Section 132 | 84.048 | 14893 | 51,480 | |
| Total Career and Technical Education - Basic Grants to States Cluster | | | | 289,261 |
| Safe and Supportive Schools Programmatic Intervention | 84.184 | 15164 | | 207,100 |
| Individuals with Disabilities Education Act (IDEA): | | | | |
| Basic Local Assistance Entitlement | 84.027 | 13379 | 5,322,943 | |
| Local Assistance, Part B, Sec 611, Private School ISPs | 84.027 | 10115 | 54,981 | |
| Local Assistance, Part B, Sec 611, Early Intervening Services | 84.027 | 10119 | 1,384,699 | |
| Preschool Grants, Part B, Sec 619 | 84.173 | 13430 | 189,265 | |
| Part B, Sec 619, Preschool Grants Early Intervening Services | 84.173 | 10131 | 17,604 | |
| Preschool Local Entitlement, Part B, Sec 611 | 84.027A | 13682 | 272,671 | |
| Mental Health Allocation Plan, Part B, Sec 611 | 84.027A | 14468 | 581,195 | |
| Part B, Sec 611, Preschool Local Entitlement Early Intervening Services | 84.027 | 10132 | 57,245 | |
| Preschool Staff Development, Part B, Sec 619 | 84.173A | 13431 | 2,586 | |
| Alternate Dispute Resolution | 84.173A | 13007 | 20,428 | |
| Total Special Education (IDEA) Cluster | | | | 7,903,617 |
| State Improvement Grant, Improving Special Ed Systems | 84.323 | 14913 | | 6,512 |
| IDEA Early Intervention Grants, Part C | 84.181 | 23761 | | 161,463 |
| Total U.S. Department of Education | | | | 20,013,884 |
| U.S. Department of Health & Human Services: | | | | |
| Passed through California Dept. of Education (CDE): | | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | | 547,460 |
| Total U.S. Department of Health & Human Services | | | | 547,460 |
| Corporation for National and Community Service: | | | | |
| CalSERVES After School Program | 94.006 | N/A | | 49,368 |
| Total Corporation for National and Community Service | | | | 49,368 |
| Total Expenditures of Federal Awards | | | | $ 30,004,891 |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**
*Combining Balance Sheet – Non-Major Governmental Funds*
*June 30, 2015*

| | Adult Education Fund | Cafeteria Fund | Deferred Maintenance Fund | Capital Facilities Fund | County School Facilities Fund | Capital Projects Fund for Blended Component Units | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | $ 306,205 | $ 1,053,988 | $ - | $ 4,573,070 | $ - | $ 2,501 | $ 5,935,764 |
| Investments | 622,931 | 710,597 | 249,754 | 1,219,799 | 8,249,911 | 2,076,436 | 13,129,428 |
| Accounts receivable | 480,256 | 1,538,564 | 147 | 5,077 | 4,011 | 1,650 | 2,029,705 |
| Due from other funds | 6,354 | 3,907 | - | - | - | - | 10,261 |
| Inventories | - | 26,202 | - | - | - | - | 26,202 |
| Total Assets | $ 1,415,746 | $ 3,333,258 | $ 249,901 | $ 5,797,946 | $ 8,253,922 | $ 2,080,587 | $ 21,131,360 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | |
| **Liabilities** | | | | | | | |
| Cash overdraft | $ - | $ - | $ 241,490 | $ - | $ 5,894,166 | $ - | $ 6,135,656 |
| Accounts payable | 101,801 | 375,350 | - | 2,991 | 91,124 | 23,412 | 594,678 |
| Due to other funds | 2 | - | - | - | - | - | 2 |
| Total Liabilities | 101,803 | 375,350 | 241,490 | 2,991 | 5,985,290 | 23,412 | 6,730,336 |
| **Fund Balances** | | | | | | | |
| Nonspendable | - | 26,202 | - | - | - | - | 26,202 |
| Restricted | 28,172 | 2,931,706 | - | 5,794,955 | 2,268,632 | 2,057,175 | 13,080,640 |
| Committed | 1,285,771 | - | 8,411 | - | - | - | 1,294,182 |
| Total Fund Balances | 1,313,943 | 2,957,908 | 8,411 | 5,794,955 | 2,268,632 | 2,057,175 | 14,401,024 |
| Total Liabilities and Fund Balances | $ 1,415,746 | $ 3,333,258 | $ 249,901 | $ 5,797,946 | $ 8,253,922 | $ 2,080,587 | $ 21,131,360 |

**MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds*

*For the Fiscal Year Ended June 30, 2015*

| | Adult Education Fund | Cafeteria Fund | Deferred Maintenance Fund | Capital Facilities Fund | County Schools Facilities Fund | Capital Projects Fund for Blended Component Units | Total Non-Major Governmental Funds |
|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | |
| Federal sources | $ 852,967 | $ 9,064,131 | $ - | $ - | $ - | $ - | $ 9,917,098 |
| Other state sources | 178,268 | 578,285 | - | - | - | - | 756,553 |
| Other local sources | 1,539,513 | 3,016,692 | 663 | 1,696,081 | 1,746 | 816,087 | 7,070,782 |
| Total Revenues | 2,570,748 | 12,659,108 | 663 | 1,696,081 | 1,746 | 816,087 | 17,744,433 |
| **EXPENDITURES** | | | | | | | |
| Current: | | | | | | | |
| Instruction | 3,240,955 | - | - | - | - | - | 3,240,955 |
| Instruction-related services: | | | | | | | |
| Supervision of instruction | 445,984 | - | - | - | - | - | 445,984 |
| Instructional library, media and technology | 100,082 | - | - | - | - | - | 100,082 |
| School site administration | 1,678,695 | - | - | - | - | - | 1,678,695 |
| Pupil Support Services: | | | | | | | |
| Food services | - | 12,870,653 | - | - | - | - | 12,870,653 |
| All other pupil services | 17,029 | - | - | - | - | - | 17,029 |
| General Administration Services: | | | | | | | |
| Other general administration | - | - | - | 44,767 | - | - | 44,767 |
| Plant services | 868,273 | - | 96,949 | - | - | 899,540 | 1,864,762 |
| Transfers of indirect costs | 156,492 | 426,253 | - | - | - | - | 582,745 |
| Capital outlay | - | - | 320,307 | 13,745 | 431,837 | 4,654 | 770,543 |
| Debt service: | | | | | | | |
| Principal | - | - | - | 294,935 | - | - | 294,935 |
| Total Expenditures | 6,507,510 | 13,296,906 | 417,256 | 353,447 | 431,837 | 904,194 | 21,911,150 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,936,762) | (637,798) | (416,593) | 1,342,634 | (430,091) | (88,107) | (4,166,717) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | | |
| Interfund transfers in | 3,276,196 | - | - | - | - | - | 3,276,196 |
| Net Change in Fund Balances | (660,566) | (637,798) | (416,593) | 1,342,634 | (430,091) | (88,107) | (890,521) |
| Fund Balances, July 1, 2014 | 1,974,509 | 3,595,706 | 425,004 | 4,452,321 | 2,698,723 | 2,145,282 | 15,291,545 |
| Fund Balances, June 30, 2015 | $ 1,313,943 | $ 2,957,908 | $ 8,411 | $ 5,794,955 | $ 2,268,632 | $ 2,057,175 | $ 14,401,024 |

## NOTE 1 – PURPOSE OF SCHEDULES

### Schedule of Average Daily Attendance (ADA)

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

### Schedule of Instructional Time

The District has participated in the Incentives for Longer Instructional Day and Longer Instructional Year. The District has not met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, as reduced by Education Code section 46201.2(a).

### Schedule of Financial Trends and Analysis

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

### Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

### Schedule of Expenditures of Federal Awards

The schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

### Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

### Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

### Combining Financial Statements

These financial statements report the financial activity of the individual non-major funds.

# *Other Independent Auditors' Reports*

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

Board of Education
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, 2015, and the related notes to the financial statements, which collectively comprise Mount Diablo Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2015.

**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 the Mount Diablo Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mount Diablo Unified School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2015-3 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2015-1 and 2015-2 to be significant deficiencies.



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-4 and 2015-5.

**Mount Diablo Unified School District's Responses to Findings**
Mount Diablo Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mount Diablo Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Nigro & Nigro, PC

Murrieta, California
December 14, 2015

NIGRO & NIGRO PC
A PROFESSIONAL ACCOUNTANCY CORPORATION

**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Education
Mount Diablo Unified School District
Concord, California

**Report on State Compliance**
We have audited Mount Diablo Unified School District's compliance with the types of compliance requirements described in the *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Mount Diablo Unified School District's state government programs as noted on the following page for the fiscal year ended June 30, 2015.

***Management's Responsibility***
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

***Auditors' Responsibility***
Our responsibility is to express an opinion on compliance for each of Mount Diablo Unified School District's State programs based on our audit of the types of compliance requirements referred to below. 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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below 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 State program. However, our audit does not provide a legal determination of Mount Diablo Unified School District's compliance.



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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

| Description | Procedures Performed |
|---|---|
| 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 | Not Applicable |
| Gann Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | Not Applicable |
| Middle or Early College High Schools | Not Applicable |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Regional Occupation Centers or Programs Maintenance of Effort | Not Applicable |
| Adult Education Maintenance of Effort | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Common Core Implementation Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Charter Schools: | |
| Attendance | Not Applicable |
| Mode of Instruction | Not Applicable |
| Nonclassroom-Based Instruction/Independent Study | Not Applicable |
| Determination of Funding for Nonclassroom-Based Instruction | Not Applicable |
| Annual Instructional Minutes – Classroom Based | Not Applicable |
| Charter School Facility Grant Program | Not Applicable |

***Unmodified Opinion on Compliance with State Programs***
In our opinion, Mount Diablo Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

***Other Matters***
The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* and which are described in the accompanying schedule of findings and questioned costs as Findings 2015-4 and 2015-5.

***District's Responses to Findings***
Mount Diablo Unified School District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Mount Diablo Unified School District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

Nigro & Nigro, PC

Murrieta, California
December 14, 2015

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 *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, 2015. Mount Diablo Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### *Auditors' 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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**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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nigro & Nigro, PC

Murrieta, California
December 14, 2015

# *Findings and Questioned Costs*

**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 |
| Significant deficiency(s) identified not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(s) identified not considered to be material weaknesses? | 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 Circular A-133, Section .510(a) | No |

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.027, 84.173 | Special Education (IDEA) Cluster |
| 10.558 | Child and Adult Care Food Program |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 900,147 |
| Auditee qualified as low-risk auditee? | Yes |

***State Awards***

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

## SECTION II - FINANCIAL STATEMENT FINDINGS

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

| Five Digit Code | AB 3627 Finding Types |
|---|---|
| 10000 | Attendance |
| 20000 | Inventory of Equipment |
| 30000 | Internal Control |
| 40000 | State Compliance |
| 42000 | Charter School Facilities Programs |
| 50000 | Federal Compliance |
| 60000 | Miscellaneous |
| 61000 | Classroom Teacher Salaries |
| 62000 | Local Control Accountability Plan |
| 70000 | Instructional Materials |
| 71000 | Teacher Misassignments |
| 72000 | School Accountability Report Card |

### Finding 2015-1: Associated Student Body (ASB) Oversight (30000)

**Finding:** During our review of the ASB oversight procedures at the District Office, we discovered that there is currently no review process of ASB accounting due to the elimination of a position several years ago. The District Office requests bank statements from the ASBs on a monthly basis, but does not review the statements or reconciliations. Furthermore, the District Office does not require financial statements to be submitted to the District Office. Due to this lack of oversight, the District is unable to determine if all ASB accounts have been properly reported. There is a risk that ASB accounts could be misstated and that this misstatement would go undetected by the District Office.

**Recommendation:** We recommend that the District establish an employee in the Business Office to be responsible for the oversight of the ASB accounts. This position should review bank statements and reconciliations on a monthly basis. Additionally, income and loss statements and balance sheets should be reviewed on a quarterly basis, at a minimum.

**District Response:** We are aware of the inherent risk that comes with operating ASBs and are dedicated to ensure that the ASBs have adequate supervision to ensure all procedures are followed. We will be reviewing the workload of available staff to assign the duties necessary to provide the complete oversight of the ASB accounts at all districts schools. Training opportunities will be provided to get staff up-to-date on regulations and compliance.

**SECTION II - FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2015-2: Associated Student Body (ASB) Controls (30000)**

**Finding:** During our review of the ASB controls at the school sites, we noted the following:

1. ASB bookkeepers are signers on bank accounts at several schools.
2. Disbursements were not approved by the District representative, ASB and/or student representative, prior to incurring the expense.
3. Evidence of receipt of goods or services was not consistently noted prior to disbursement.
4. Revenue potentials are not prepared for fundraising events.
5. Cash receipting documentation was insufficient or did not agree to the amounts deposited.
6. Bank reconciliations were not prepared in a timely manner or were not prepared at all.
7. At Pleasant Hill Middle School, we identified four deposits that were not recorded in the accounting system over a two month period. At this site, transactions are being recorded when the bank statement is received rather than at the time the transaction takes place. Additionally, one disbursement tested was for "Staff Appreciation". ASB disbursements should be for the general welfare of the students and should not be for the benefit of one individual or District employee. At this site we also noted check stock was not kept in a secure location.
8. At College Park High, collections for the District are being comingled in the ASB account for transfer to the District. ASB accounts are not and should not be used as pass-through or clearing accounts for District funds.

**Recommendation:** We recommend the following:

1. Those who record the transaction should be separate from those who authorize and execute the transaction. We therefore recommend that the bookkeepers be removed as authorized signers on the ASB bank accounts. Instead, they should be given "view only" authority.
2. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. We recommend that the site adopt a procedure for compliance with the Education Code in obtaining the required approvals.
3. We recommend that the site document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing "ok to pay" or "received" and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all.
4. It is important for student organizations to have adequate internal controls over their fundraising events, properly evaluate the effectiveness of those events, and account for a fundraiser's financial activity. Revenue potentials are used as a budgeting and planning tool. The form serves as a sales plan that includes expected sales levels, sale prices per unit, expected cost, and net income. We recommend that revenue potentials be prepared for all major fundraising activities.
5. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.
6. Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or ASB Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.

**SECTION II - FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2015-2: Associated Student Body (ASB) Controls (30000) (continued)**

**Recommendation (continued):**

7. We recommend transactions are recorded as they occur, and that a different employee reconcile the bank statement to the financial records. We recommend that the District assist in the bookkeeping and reconciliation duties until a full-time bookkeeper can be trained on the correct ASB procedures. We further recommend that the District investigate the discrepancies noted above. We recommend blank check stock be kept secure and protected by keeping it locked in a drawer or safe.
8. We recommend that the ASB is not used to comingle funds collected for the District. These funds should be kept separately and forwarded to the District Office for deposit.

**District Response:** In April 2015, our auditors provided training on ASB Accounting for all of our ASB bookkeepers and some of our elementary office staff. We are currently working on implementing the procedures and recommendations and plan on training the ASB advisors in the upcoming fiscal year. We will continue to reinforce the importance of proper record keeping and reconciliation and address the noted discrepancies as soon as possible.

**Finding 2015-3: Year-End Closing (30000)**

**Finding:** Due to limited District staffing, the District was unable to provide adequate supporting documentation for several account balances during our audit. The District could not provide evidence to support the balances in accounts payable in the General Fund.

Additionally, the District was unable to provide supporting schedules for any capital assets acquired prior to the 2013-14 fiscal year. Our audit was able to determine that the current year expenditures were for proper capital costs, but we were unable to substantiate the balance of the capital asset classes prior to the 2013-14 fiscal year. Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP) and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections.

The lack of accounting records could lead to the material misstatement of the financial statements of the District. Our audit procedures were expanded significantly to allow us to obtain sufficient audit evidence to determine that the account balances were not materially misstated.

**Recommendation:** We recommend that adequate supporting documentation be maintained for all transactions and account balances. The District should investigate the need for additional staffing in the Business office. Additionally, we recommend that the District 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.

**District Response:** We understand the importance of maintaining records that account for capital assets to assist with long-range acquisition and loss projections. We will be researching a new system to assist us in establishing a current listing and in maintaining our capital asset records.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

***There were no federal award findings or questioned costs in 2014-15.***

## SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

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

### Finding 2015-4: Unduplicated Pupil Count (40000)

**Criteria:** Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the LEA on Census Day (first Wednesday in October). The percentage equals:

- Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. "Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (*EC* sections 2574(b)(2) and 42238.02(b)(1)).

- Divided by total enrollment in the LEA (*EC* sections 2574(b)(1) and 42238.02(b)(5)). All pupil counts are based on Fall 1 certified enrollment reported in the CALPADS as of Census Day.

**Condition:** During our testing of the free and reduced price meal eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted that ten students that were reported as qualifying for free or reduced priced meals did not have an application on file for the 2014-15 fiscal year. This is due to the fact that the District applied the local "grace period" to the CALPADS reporting and as a result, many students in the CALPADS system are reported based on 2013-14 application data instead of 2014-15 application data. Additionally, we noted one student who was classified as an EL student, but had no CELDT or other documentation to support the designation.

**Context:** We noted errors at five of the schools tested, for a total of ten exceptions for FRPM applications and one error in classification of EL students.

**Cause:** Some departments were unaware of the requirement to reclassify pupils who did not submit a qualifying free and reduced price meal application during 2014-15 since the CALPADS cutoff date was before the local "grace period" ended. The EL student designation was not supported by documents available at the District.

**Questioned Costs:** $2,501

**Effect:** The unduplicated pupil counts reported in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes as a result of the procedures performed:

| School Site | CALPADS Reported | Adjusted based on eligibility for: FRPM | EL | Adjusted Total |
|---|---|---|---|---|
| Meadow Homes Elementary | 855 | (1) | - | 854 |
| Olympic Continuation High | 238 | (1) | (1) | 236 |
| Pleasant Hill Elementary | 200 | (1) | - | 199 |
| Valley View Middle | 309 | (4) | - | 305 |
| Wren Avenue Elementary | 431 | (3) | - | 428 |
| Aggregate remaining sites | 13,575 | - | - | 13,575 |
| District-wide | 15,608 | (10) | (1) | 15,597 |

The enrollment count of 31,696 was not impacted as a result of the procedures performed.

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)**

**Finding 2015-4: Unduplicated Pupil Count (40000) (continued)**

**Recommendation:** We recommend that the District work with the Child Nutrition Services department to update the CALPADS system once all applications are received. Although there is a grace period recognized at a local level, the District should update CALPADS retroactively to reflect the current year application information in the reporting software. We also recommend that procedures are established to ensure that the student information system which is used for CALPADS reporting is updated to reflect the changes made in the Child Nutrition Services.

**District Response:** A memo was distributed in March 2015 to inform the necessary departments of the change in procedures however there was an issue with the transfer of information between Aeries and the Food Services Information system. A meeting will be held to review procedures to ensure each department involved in updating the CALPADS data is aware of the reporting requirements. We will update our CALPADS retroactively to reflect the current year application.

**Finding 2015-5: School Accountability Report Card (SARC) (72000)**

**Criteria:** The information on the School Accountability Report Card (SARC) should be reported consistent with the most recently completed Facility Inspection Tool for that School as required by the provisions of Education Code Section 33126.

**Condition:** The information published on the SARC for Wren Elementary School was incorrectly reported as ‘Good’ instead of ‘Fair’ in the interior surfaces category.

**Questioned Cost:** There is no questioned cost as the District receives no funding from this program.

**Cause**: The data was entered in error.

**Effect:** Information regarding the condition of Wren Elementary School was incorrectly reported.

**Recommendation:** We recommend that the District implement a procedure for reviewing data to ensure it is based on the most current information.

**District Response:** The Research and Development Department went through a reorganization which left vacancy in key positions. The Assessment, Research and Evaluation Department is now fully staffed and will implement a procedure for reviewing all data to ensure compliance.

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2014-1: Associated Student Body (ASB) Oversight* | During our review of the ASB oversight procedures at the District Office, we discovered that there is currently no review process of ASB accounting due to the elimination of a position several years ago. The District Office requests bank statements from the ASBs on a monthly basis, but does not review the statements or reconciliations. Furthermore, the District Office does not require financial statements to be submitted to the District Office. Due to this lack of oversight, the District is unable to determine if all ASB accounts have been properly reported. There is a risk that ASB accounts could be misstated and that this misstatement would go undetected by the District Office. | 30000 | We recommend that the District establish an employee in the Business Office to be responsible for the oversight of the ASB accounts. This position should review bank statements and reconciliations on a monthly basis. Additionally, income and loss statements and balance sheets should be reviewed on a quarterly basis, at a minimum. | Not Implemented. See Finding 2015-1. |
| *Finding 2014-2: Associated Student Body (ASB) Controls* | During our review of the ASB controls at the school sites, we noted the following:<br><br>1. ASB bookkeepers are signers on bank accounts at several schools.<br>2. Disbursements were not approved by the District representative, ASB and/or student representative, prior to incurring the expense.<br>3. Evidence of receipt of goods or services was not consistently noted prior to disbursement.<br>4. Revenue potentials are not prepared for fundraising events.<br>5. Cash receipting documentation was insufficient or did not agree to the amounts deposits.<br>6. Bank reconciliations were not prepared in a timely manner or were not prepared at all.<br>7. At Mt. Diablo High, site personnel were unable to provide supporting documentation for most transactions. Additionally, based on our interviews with site personnel, we noted a lack of control implementation over record-keeping, disbursements, receipting and reconciliations. | 30000 | 1. Those who record the transaction should be separate from those who authorize and execute the transaction. We therefore recommend that the bookkeepers be removed as authorized signers on the ASB bank accounts. Instead, they should be given “view only” authority.<br>2. Education Code Section 48933(b) requires all expenditures from ASB funds be authorized by a student representative, an advisor, and a district representative (usually a principal or vice-principal) prior to disbursing the funds. We recommend that the site adopt a procedure for compliance with the Education Code in obtaining the required approvals.<br>3. We recommend that the site document a physical receipt of the goods or services on the corresponding invoice, packing slip, or other documentation, such as writing “ok to pay” or “received” and initialing the document prior to issuing the check for payment. This ensures that payment is not being made for items received incorrectly or not received at all. | Partially Implemented. See Finding 2015-2. |

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2014-2: Associated Student Body (ASB) Controls (continued)* | We noted the following concerns:<br>❖ ASB accounting records have not been maintained in the computerized system for several months.<br>❖ The safe contained numerous checks, some dating as far back as January, which had not been deposited.<br>❖ The safe also contained cash in excess of $1,900 with no indication of what collection activity had generated the income.<br>❖ Bank reconciliations have not been completed since January<br>8. We noted the purchase of gift cards, an iPod, and a reimbursement to an employee with insufficient documentation. These disbursements appear to be unallowable or questionable. | | 4. It is important for student organizations to have adequate internal controls over their fundraising events, properly evaluate the effectiveness of those events, and account for a fundraiser's financial activity. Revenue potentials are used as a budgeting and planning tool. The form serves as a sales plan that includes expected sales levels, sale prices per unit, expected cost, and net income. We recommend that revenue potentials be prepared for all major fundraising activities.<br>5. We recommend that before any events are held, control procedures should be established that will allow for the reconciliation between money collected and fundraiser sales.<br>6. Timely and accurate bank reconciliations are prudent and necessary to ensure that the accounting records match the amounts held on deposit. We recommend the bookkeeper perform monthly bank reconciliations within two weeks after the statement arrives. Furthermore, the Principal or ASB Advisor should review the bank reconciliation and initial and date the bank statement and reconciliation as evidence they were reviewed. Review of the bank reconciliations by someone other than the ASB Bookkeeper is an important internal control to detect errors and possible questionable or suspicious activity.<br>7. We recommend that the District assist in the bookkeeping and reconciliation duties until a full-time bookkeeper can be trained on the correct ASB procedures. We further recommend that the District investigate the discrepancies noted above.<br>8. We recommend that the District investigate the noted discrepancies and assist the ASB in developing guidelines for allowable and unallowable purchases. | |

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2014-3: Year-End Closing* | Due to the high degree of management turnover and limited District staffing, the District was unable to provide adequate supporting documentation for several account balances during our audit. The District could not provide evidence to support the balances in accounts receivable in multiple funds and accounts payable in the General Fund.<br><br>Additionally, the District was unable to provide supporting schedules for any capital assets acquired prior to the 2013-14 fiscal year. Our audit was able to determine that the current year expenditures were for proper capital costs, but we were unable to substantiate the balance of the capital asset classes prior to the current fiscal year. Capital assets represent one of the largest investments of the District; control and accountability are of significant concern. Generally accepted accounting principles (GAAP) and Education Code Section 35168 require the District to maintain records that properly account for capital assets. Capital asset records serve as a management tool and have an important bearing on management decisions, such as long-range acquisition and abandonment projections.<br><br>The lack of accounting records could lead to the material misstatement of the financial statements of the District. Our audit procedures were expanded significantly to allow us to obtain sufficient audit evidence to determine that the account balances were not materially misstated. | 30000 | We recommend that adequate supporting documentation be maintained for all transactions and account balances. The District should investigate the need for additional staffing in the Business Office. Additionally, we recommend that the District 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. | Not Implemented. See Finding 2015-3. |
| *Finding 2014-4: CALPADS Unduplicated Pupil Count* | In order to be counted in CALPADS report 1.17, a student must have an open primary or short-term enrollment in CALPADS over Census Day (the first Wednesday in October) and meet one or more of the following criteria: | 40000 | We recommend that the District implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education. | Not Implemented. See Finding 2015-4. |

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2014-4: CALPADS Unduplicated Pupil Count (continued)* | ▪ Have a program record with an education program code of homeless, Migrant, Free Meal Program, or Reduced-Price Meal Program, that is open over Census Day<br>▪ Have an English Language Acquisition Status of "English learner" (EL) that is effective over Census Day<br>▪ Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS<br>▪ Be identified as a foster youth based on a statewide match conducted by CALPADS<br>▪ Be identified as foster youth through a local data matching process and submitted to and validated by CALPADS (functionality will be implemented in fall 2014)<br><br>During our testing of the Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted 10 students who were classified as FRPM eligible, but did not have an application or income eligibility form on file to support the designation. We noted one student who was classified as EL, bud did not have evidence to support the designation. Additionally, we noted two students who were classified as FRPM eligible and EL, but who did not have evidence supporting either designation. | | | |
| *Finding 2014-5: P-2 and Annual Attendance Reports* | Education Code Section 51747(c) and the California Code of Regulations, Title 5, Section 11702 require that attendance generated through independent study be supported by a fully executed master agreement which contains all of the required elements.<br><br>Additionally, the P-2 Report is required to report ADA for students in transitional kindergarten. | 10000 | We recommend that the District work with the sites to revise their master agreement to include all of the required elements. Additionally, we recommend that the site review all attendance reports for accuracy to ensure there are no input errors in the future. | Implemented. |

| Original Finding No. | Finding | Code | Recommendation | Current Status |
|---|---|---|---|---|
| *Finding 2014-5: P-2 and Annual Attendance Reports (continued)* | During our review of the independent study master agreements, we noted that several agreements were lacking several of the required elements as follows: major objectives of course study, methods of study for the pupil's work, specific resources to be made available to the pupil by the District, and the number of course credits to be earned if the objective is reached. The exceptions were noted as follows:<br><br>❖ **Ayers Elementary:** Five of the independent study contracts sampled<br>❖ **Diablo View Middle:** Four of the independent study contracts sampled<br>❖ **Mt. Diablo Elementary:** Five of the independent study contracts sampled<br>❖ **Woodside Elementary:** Three of the independent study contracts sampled<br>❖ **Silverwood Elementary:** Four of the independent study contracts sampled<br>❖ **Sequoia Middle:** Three of the independent study contracts sampled<br>❖ **Pine Hollow Middle:** Two of the independent study contracts sampled | | | |

Board of Education
Mount Diablo Unified School District
Concord, California

In planning and performing our audit of the basic financial statements of Mount Diablo Unified School District for the fiscal year ending June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2015, on the financial statements of Mount Diablo Unified School District.

***Observation****:* During testing of cash disbursements at the District Office, we noted seven of forty-seven disbursements lacked purchase orders, and four lacked evidence of pre-approval.

***Recommendation:*** It is recommended that the staff be reminded of the importance of following proper procedures for expenditures. This is important as it ensures purchases are made within properly and within budgetary guidelines.

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

Nigro & Nigro, PC

Murrieta, California
December 14, 2015



Jeff Nigro, CPA, CFE | Elizabeth Nigro, CPA | CJ Gaunder Singh, CPA | Kevin Brejnak, CPA, CFE | James Whittington, CPA, CFE, CGFM

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