

BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2019

BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019
(Continued)

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BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Berkeley Unified School District
Berkeley, 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 Berkeley Unified School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Berkeley Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 15, the General Fund Budgetary Comparison Schedule, the Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 55 to 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Berkeley Unified School District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019 on our consideration of Berkeley Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Berkeley Unified School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Sacramento, California
December 12, 2019

BERKELEY UNIFIED SCHOOL DISTRICT

2020 Bonar Street, Berkeley, California 94702

www.berkeley.net

Management's Discussion & Analysis

The Management's Discussion and Analysis Section of the audit report is District management's view of the District's financial condition, and provides an opportunity to discuss important fiscal issues with the Board and the public. Accounting rules require this discussion and analysis, which makes reporting of finances similar to that of private business.

Financial Reports

Two government-wide financial reports are included in the financial statements, the Statement of Net Position and the Statement of Activities, which begin on page 16. These two statements report the District-wide financial condition and activities. The individual fund statements which focus on reporting the District's operations in more detail begin on page 18.

Overview of the Financial Statements

This annual report consists of three parts—Management's 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.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explain and support the financial statements with a comparison of the District's budget for the year.

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. This overview section is the Management's Discussion and Analysis and highlights the structure and contents of each of the statements.

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

| Type of Statements | District-wide | Fund Statements | | |
|---|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| <i>Scope</i> | Entire district, except fiduciary activities | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses; food services and adult education | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> statement of net position | <ul style="list-style-type: none"> balance sheet | <ul style="list-style-type: none"> statement of net position | <ul style="list-style-type: none"> statement of fiduciary net position |
| | <ul style="list-style-type: none"> statement of activities | <ul style="list-style-type: none"> statement of revenues, expenditures & changes in fund balances | <ul style="list-style-type: none"> statement of revenues, expenses & change in fund net position statement of cash flows | <ul style="list-style-type: none"> statement of changes in fiduciary net position |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain non-financial assets, though they can |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

District-wide Statements

The District-wide statements report information about the District's financial position as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Position reports the difference between the District's assets and liabilities and can be used to measure the District's financial health or position.

Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District ended the year with a Net Position of \$15,037,166, an increase of \$5,698,181 over prior year.

Statement of Net Position

| ASSETS | Governmental Activities | | Percentage Change <u>2018-19</u> |
|---|-------------------------|----------------------|--|
| | <u>2018</u> | <u>2019</u> | |
| Current and other assets | \$ 127,235,888 | \$ 211,142,419 | |
| Capital assets | <u>326,303,378</u> | <u>329,584,768</u> | |
| Total assets | <u>453,539,266</u> | <u>540,727,187</u> | 19% |
| DEFERRED OUTFLOWS | | | |
| Deferred outflow of resources - pensions and OPEB | 47,083,962 | 59,592,178 | |
| Deferred loss from refunding of debt | <u>3,112,359</u> | <u>2,728,526</u> | -12% |
| | 50,196,321 | 62,320,704 | |
| LIABILITIES | | | |
| Long-term debt outstanding | 295,983,976 | 370,364,252 | |
| Net pension liability | 144,449,000 | 164,459,000 | |
| Other liabilities | <u>30,340,626</u> | <u>32,377,473</u> | |
| Total liabilities | <u>470,773,602</u> | <u>567,200,725</u> | 20% |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources - pensions and OPEB | <u>23,623,000</u> | <u>20,810,000</u> | -12% |
| NET POSITION | | | |
| Invested in capital assets, net of related debt | 85,348,529 | 88,628,501 | |
| Restricted | 53,126,910 | 57,246,406 | |
| Unrestricted | <u>(129,136,454)</u> | <u>(130,837,741)</u> | |
| Total net position | <u>\$ 9,338,985</u> | <u>\$ 15,037,166</u> | 61% |

Statement of Activities

All current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and the state aid formula finance most of these activities.

Governmental Activities

| | <u>2018</u> | <u>2019</u> |
|--|-------------------------|----------------------|
| REVENUES | | |
| Program Revenues: | | |
| Charges for Services | \$ 783,334 | \$ 996,395 |
| Operating Grants | 42,052,884 | 45,715,072 |
| General Revenues | | |
| Property Taxes | 102,948,677 | 108,706,725 |
| Federal and State Aid | 45,884,914 | 48,900,428 |
| Other | 3,447,608 | 6,180,665 |
| Total Revenues | <u>195,117,417</u> | <u>210,499,285</u> |
| EXPENSES | | |
| Instruction | 105,688,249 | 114,903,237 |
| Instruction Related Services | 22,000,212 | 24,127,023 |
| Pupil Services | 16,512,228 | 17,689,845 |
| Ancillary Services | 303,534 | 385,528 |
| Community Services | 190,392 | 211,633 |
| General Administration | 11,536,621 | 14,791,092 |
| Plant Services | 18,459,792 | 19,496,667 |
| Enterprise Services | 196,871 | 202,223 |
| Interest | 10,051,715 | 12,032,877 |
| Other and Other Outgo | 394,839 | 960,979 |
| Total Expenses | <u>185,334,453</u> | <u>204,801,104</u> |
| Increase in Net Position | 9,782,964 | 5,698,181 |
| Net Position - Beginning | <u>9,983,787</u> | <u>9,338,985</u> |
| <i>Cumulative effect of GASB 75 implementation</i> | <u>(10,427,766)</u> | |
| <i>Net position - Beginning (restated)</i> | <u>(443,979)</u> | |
| Net Position - Ending | <u>\$ 9,338,985</u> | <u>\$ 15,037,166</u> |

Capital Assets

At year-end, the District's capital assets had a net increase of \$3.3 million over the prior year. This represents a 1% increase over last year's total capital assets, and was primarily due to construction projects that are in process.

The following table summarizes the District's capital assets, net of accumulated depreciation:

| | <u>2018</u> | <u>2019</u> | Percentage Change <u>2018-19</u> |
|----------------------|-----------------------|-----------------------|--|
| Land | \$ 6,908,949 | \$ 6,908,949 | |
| Improvement of sites | 14,015,910 | 11,443,544 | |
| Buildings | 283,833,913 | 279,369,317 | |
| Equipment | 1,450,456 | 1,347,859 | |
| Work in Process | <u>20,094,150</u> | <u>30,515,099</u> | |
| Total | <u>\$ 326,303,378</u> | <u>\$ 329,584,768</u> | 1.0% |

Land is accounted for at purchase value, not market value, and is not depreciated. Many of our school sites have low values for today's market because the District acquired the land many decades ago. We have determined the value of school buildings to be the depreciated cost of modernization unless the building is less than 25 years old. The increase in the value of Buildings and Improvement of Sites was primarily due to completion of projects districtwide. Once these projects are completed, these costs are transferred to Improvement of Sites or Building assets.

District Indebtedness

At year-end, the District has \$534.8 million of long-term debt, which includes a refunding of General Obligation Bonds of \$85 million during the year. Of total long-term debt, \$331 million is for General Obligation Bonds secured by property tax increases voted on by local residents. General Obligation Bonds are a long-term obligation issued in order to borrow up-front funds for bond measures until property tax proceeds are received from Berkeley residents.

| | Governmental Activities | | Percentage Change |
|--------------------------------------|-------------------------|-----------------------|----------------------|
| | <u>2018</u> | <u>2019</u> | <u>2018-19</u> |
| Compensated absences | \$ 1,895,506 | \$ 1,837,451 | |
| General obligation bonds | 260,510,000 | 331,070,000 | |
| Premiums on General Obligation Bonds | 11,805,980 | 14,107,974 | |
| Net pension liability | 144,449,000 | 164,459,000 | |
| Total OPEB Liability | <u>21,772,490</u> | <u>23,348,827</u> | |
| Total | <u>\$ 440,432,976</u> | <u>\$ 534,823,252</u> | 21.4% |

The total OPEB liability represents the total unfunded liability estimated to be paid for future payments. The balance of \$23.3 million as of year end, for the total OPEB liability is based on an actuarial study. Compensated Absences represent the amount of liability the District owes for vacation that has been earned but not yet taken or paid out.

Fund 20 – Special Reserve Fund for Postemployment Benefits

In FY 2014-15, the District established Fund 20 for funds the District has set aside for the future cost of Post-Employment benefits, and transferred \$1.2 million to this fund. The ending fund balance as of June 30, 2019 is \$11.2 million. For financial reporting purposes, the District's Fund 20 is included within the District's General Fund.

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 (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has three kinds of funds:

- *Governmental funds*— The District's General Operating, Special Revenue and Capital Projects Funds are included in the governmental funds. Special Revenue Funds include the Adult Education, Child Development, Cafeteria, Pupil Transportation Equipment and Special Reserve Funds. The Capital Projects Funds include the Building and County School Facilities Funds. The District also has the Bond Interest and Redemption Fund for purposes of debt service. 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 at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds*—Services the District funds by making a contribution based on a percentage of payroll expenditures are reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's Self Insurance Fund used to account for the District's Workers' Compensation program transactions is a proprietary fund.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for assets that belong to others, such as the Warrant Pass-Through fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a statement of Changes in 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 Condition of the General Fund

The District's Unaudited Actuals demonstrate the District is fiscally solvent and has met the 3% reserve required by the State of California. The State of California requires all districts reserve 3% of their total expenditures (including transfers out) for economic uncertainties. The District's 3% state reserve requirement of \$3.7 million is maintained in the Special Reserve for Other Than Capital Outlay Projects Fund, which is included with the General Fund for financial reporting purposes.

As of June 30, 2019, the District ended the year with \$1.9 million in excess of the 3% state reserve requirement in its Unrestricted General fund, after Commitments of \$.1 million and Assignments of \$10.5 million. The Assignment of \$10.5 million included \$1 million in supplemental grant LCAP reserves and \$9.5 million in the parcel tax funds reserve.

The State revenue incorporated in the District's financials is based on the Local Control Funding Formula (LCFF) and consists of Base and Supplemental funding. Supplemental funding is the allocation that increases or improves services as part of the District's Local Control Accountability Plan (LCAP) for English Learners, pupils eligible for free and reduced-price meals, and Foster Your pupils.

The following table summarizes General Fund financial statements:

| | General Fund | | Percentage |
|-------------------------|---------------------|---------------------|---------------------------------|
| | <u>2018</u> | <u>2019</u> | <u>Change</u> <u>2018-19</u> |
| Total Revenues | \$ 156,879,124 | \$ 166,318,561 | 6.0% |
| Total Expenditures | 148,538,922 | 163,041,514 | 9.8% |
| Other financing sources | <u>(776,521)</u> | <u>(329,424)</u> | -57.6% |
| Change in fund balance | <u>\$ 7,563,681</u> | <u>\$ 2,947,623</u> | -61.0% |

The decrease in fund balance by \$4.6 million in FY 2018-19 is due to increased expenditures of \$14.5 million of which \$4 million was in salaries and \$9 million in benefits due to significant increases in STRS and PERS.

Cost of General Fund Operations (Funds 01-08)

At year-end, the General Fund's total cost of operations was \$163 million. Total District expenditures were \$14.5 million more than the previous year due mainly to increases in salaries and in STRS and PERS rates.

| | General Fund | | Percentage |
|--|-----------------------|-----------------------|---------------------------------|
| | <u>2018</u> | <u>2019</u> | <u>Change</u> <u>2018-19</u> |
| Certificated salaries | \$ 60,932,155 | \$ 64,145,345 | 5.3% |
| Classified salaries | 26,992,904 | 27,750,589 | 2.8% |
| Employee benefits | 31,568,374 | 40,952,326 | 29.7% |
| Books and supplies | 4,426,782 | 4,077,070 | -7.9% |
| Contract services and operating expenditures | 23,786,928 | 25,736,240 | 8.2% |
| Capital outlay | 820,775 | 370,548 | -54.9% |
| Other outgo | <u>11,004</u> | <u>9,396</u> | -14.6% |
| Total | <u>\$ 148,538,922</u> | <u>\$ 163,041,514</u> | 9.8% |

Budget to Actual Analysis – General Fund (Funds 01-08)

The District develops its budget pursuant to the Governor’s proposals. Throughout the year, the budget is adjusted primarily due to new or adjusted funding levels. A comparison of the General Fund Budget to Actual Revenues and Expenditures is as follows:

| | Final Budget <u>2019</u> | Actual <u>2019</u> | Percentage Variance |
|-------------------------------|-----------------------------|-----------------------|------------------------|
| Revenues | | | |
| Local Control Funding Formula | \$ 90,193,648 | \$ 90,822,388 | |
| Federal Revenues | 3,639,174 | 3,639,174 | |
| State Revenues | 19,700,128 | 19,700,128 | |
| Local Revenues | <u>51,973,516</u> | <u>52,156,871</u> | |
| Total Revenues | <u>\$ 165,506,466</u> | <u>\$ 166,318,561</u> | 0.49% |
| Expenditures | | | |
| Salaries & Benefits | 132,848,260 | 132,848,260 | |
| Books & Supplies | 4,077,070 | 4,077,070 | |
| Services & Other Operating | 25,736,240 | 25,736,240 | |
| Capital Outlay Other Outgo | <u>370,548</u> | <u>379,944</u> | |
| Total Expenditures | <u>\$ 163,032,118</u> | <u>\$ 163,041,514</u> | 0.01% |

Actual revenues and expenses were within 0.5% compared to Final Budget.

Cost of General Fund Operations (Fund 01 - Unrestricted)

At year-end, the District’s cost of operations in the Unrestricted General Fund 01 was \$93.8 million. Total District expenditures were \$4.1 million more than the previous year primarily due to an increase in salaries and an increase in benefits particularly the STRS and PERS rates. There was an increase in contract services and operating expenditures due to increased costs in Special Education. A summary of the cost of operations is as follows:

| | Fund 01- Unrestricted General Fund | | Percentage Change |
|--|------------------------------------|----------------------|----------------------|
| | <u>2018</u> | <u>2019</u> | <u>2018-19%</u> |
| Certificated salaries | \$ 46,412,611 | \$ 48,258,710 | 4.0% |
| Classified salaries | 13,976,769 | 14,283,655 | 2.2% |
| Employee benefits | 18,092,010 | 19,618,889 | 8.4% |
| Books and supplies | 1,807,920 | 1,792,971 | -0.8% |
| Contract services and operating expenditures | 8,995,956 | 9,836,974 | 9.3% |
| Capital outlay | <u>395,430</u> | <u>39,156</u> | -90.1% |
| Total | <u>\$ 89,682,714</u> | <u>\$ 93,830,355</u> | 4.6% |

Budget to Actual Analysis – Unrestricted General Fund (Fund 01)

The District develops its budget pursuant to the Governor’s proposals. Throughout the year, the budget is adjusted primarily due to new or adjusted funding levels. A comparison of the General Fund Budget to Actual Revenues and Expenditures is as follows:

| | Final Budget 2019 | Actual 2019 | Percentage Variance |
|----------------------------|----------------------|----------------------|------------------------|
| Revenues | | | |
| LCFF Funding | 89,821,874 | 90,193,648 | |
| Federal Revenues | - | - | |
| State Revenues | 3,599,384 | 3,772,733 | |
| Local Revenues | <u>2,229,529</u> | <u>2,516,927</u> | |
| Total Revenues | <u>\$ 95,650,787</u> | <u>\$ 96,483,308</u> | 0.9% |
| Expenditures | | | |
| Salaries & Benefits | 81,854,683 | 82,161,254 | |
| Books & Supplies | 2,082,932 | 1,792,971 | |
| Services & Other Operating | 9,903,644 | 9,836,974 | |
| Capital Outlay | <u>41,698</u> | <u>39,156</u> | |
| Total Expenditures | <u>\$ 93,882,957</u> | <u>\$ 93,830,355</u> | -0.1% |

Total actual revenues were \$0.8 million more than budgeted revenues due to a \$.3 million increase in LCFF Funding due to an increase in ADA by 33 students and a \$.5 million increase in State and Local Revenues. Actual expenditures were within 0.1% of budgeted expenditures. Unexpended funds were assigned in the fund balance.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

As of October 31, 2019, the District’s Unrestricted General Fund is projected to deficit spend by \$.8 million and has a projected ending fund balance of \$1.4 million. The deficit includes \$2.4 million in planned one-time expenditures, and one-time unrestricted revenues for \$1.3 million. Without one-time revenue and expenditures, there would be a projected surplus of \$1.1 million.

The designated fund balance includes \$1 million in carryover funds assigned for supplemental grant funds for targeted students, \$.1 million for the revolving fund, and \$.2 million in additional funds projected to meet the 3% reserve held in Fund 17.

Other Significant Changes for Budgeted Revenues and Expenditures

The District’s budgeted revenue generated from LCFF for 2019-20 include \$87.5 million in base grant (general fund) revenue and \$5.5 million in supplemental grant (general fund LCAP) revenue. The budget assumptions used for projecting revenue are based on the Governor’s Enacted Budget. There are no changes in LCFF funding since budget adoption. Other State Revenues increased by \$.5 million due to the receipt of special education early intervention preschool grants, which was used for the contribution to the Special Education program. Local revenue increased by \$.8 million since Adoption, mainly due to the receipt of one-time grant funding to purchase emission-free buses.

Significant changes since Budget Adoption include the negotiated agreement between the District and the Berkeley Federation of Teachers which provided for an on-schedule 2.5% increase for 2019-20 and 2020-21 as well as other provisions relating to special education case managers, independent study teachers and medical benefits.

The First Interim includes the impact of increases in salaries and benefits for all salaried employees as a result of the “me-too” provision in the other bargaining unit contracts. The District’s retiree benefit rate was reduced to fund expenditures for retirees on a pay-as-you-go basis, which resulted in a decreased rate from 2.3% to 0.9%. Other significant changes include a \$1 million increase in expenditures for one-time ballot measure costs, legal cost of \$.5 million and one-time expenditures, including the cost of consultants in the amount of \$.3 million. Capital outlay increased by \$.6 million primarily due to the acquisition of emission-free buses, which are funded by a grant from Bay Area Air Quality Management District. The overall increase in expenditures since Adoption is \$4 million since Adoption mainly due to the above mentioned changes. Any additional increases in expenditures, without corresponding increases in revenue will require reductions in expenditures or implementation of procedures to increase the District’s Unrestricted General Fund revenue.

The District transferred \$2 million from the post-employment benefit fund to address the projected increase in expenditures. The District also increased the contribution to the Special Education program by \$2.4 million. This increase was needed to correct the amount projected at Adoption which was based on the prior year contribution level at the Second Interim reporting period which was the trend used by the District in past years. This year, program and fiscal staff collaborated closely and examined the student needs and projected costs for Non-Public School placements for services provided by Non-Public Agencies, settlements, and legal costs. District staff will continue to monitor costs and to audit estimated costs.

Multi-Year Projections

Based on the District’s Multi-Year Projections, the District’s Unrestricted General Fund is projected to have an ending fund balance of \$1.2 million for 2020-21. Prior year one-time revenues and expenditures for non-emission buses have been removed from the budget, as well as prior year one-time expenditures, which include \$1 million in ballot measure cost. Expenditures include an additional 2.5% increase in salaries and benefits for all salaried employees. The District will receive an additional \$2.5 million in base LCFF funding which is being absorbed by increase in salary and statutory costs, and step and column movement on the salary schedule. The projected ending fund balance is \$.1 million after designations. Any proposed budget cuts will increase the ending fund balance.

For 2021-22, the District is projected have a fund balance of \$.9 million after implementing \$1 million in on-going budget reductions in 2021-22 to balance the budget. Base LCFF revenues are projected to increase by \$2.5 million which is being absorbed by increases in statutory rates and step and column changes.

Local Control and Accountability Plan (LCAP)

During the 2019-20 fiscal year, districts will continue to implement the actions and services outlined in their LCAPs. Since 2019-20 is the last year of the current three-year LCAP document (2017-20), districts will need to simultaneously collect information necessary to complete the current plan and begin developing actions and services for the new three-year LCAP for fiscal years 2020-21 through 2022-23. Pursuant to the requirements set forth in AB 1840, the State Board of Education (SBE) will adopt a new LCAP template for the coming three-year cycle. A draft version of the new template was presented to the SBE on September 11, 2019 and it is expected that the final version of the template will be approved at its January 2020 meeting.

Reserves

County offices continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The required reserve for economic uncertainty represents only about a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%. School funding in California remains highly dependent on growth in the general fund, and large year-over-year revenue increases are behind us. Future revenues

may be inadequate to cover increases in largely uncontrolled expenditures (increasing employer pension rates, step and column, medical premiums, inflation, special education, etc.). If an economic downturn or other unforeseen circumstances occur, a prudent reserve affords districts and their governing board's time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees, or worse.

The District approved Board Policy (BP) 3101 at the October 11, 2017 Board meeting. Under BP 3101, the Board would be required to place funds into the committed reserve if all of the following conditions are met:

- The committed reserve is less than 1 percent of the District's combined general fund expenditures,
- The most recent adopted budget received a positive certification, and
- The unaudited actuals show that there are unassigned funds above 2% of combined general fund expenditures

The basic intent of these conditions is to have the Board place funds into the committed reserve only when the committed reserve is below the 1 percent ceiling and when Berkeley USD's fiscal situation is strong. When the Board does place funds into the committed reserve, BP 3101 dictates that it should be half of any increase in Fund 01 (General Fund) from the estimated actuals (which are typically published in June of each year) to the unaudited actuals (which are typically published in September of each year). Under BP 3101, the Board would be able to uncommit funds from the committed reserve only under one of the following conditions:

- It is projected that the District's 3-year multiyear budget will be deemed to be qualified or negative by the County Office of Education
- It is projected that the District may need to make mid-year layoffs
- It is projected that the District's combined state and federal revenue is reduced in the middle of a fiscal year
- Average Daily Attendance at P-1 is significantly below projections
- The Superintendent's Budget Advisory Committee recommends doing so
- All five elected members of the Board vote to do so

Summary

The District has a balanced budget for 2019-20 based on current projections in School Service's dashboard, and projected revenues and expenditures based on information known at this time. The budget for 2020-21 is balanced after implementing measures to ensure the District has a positive ending fund balance, which include the transfer of funds from Fund 20 – Post Employment Benefits Fund. Any on-going increase in Special Education in 2019-20 without a corresponding increase in revenue, will necessitate additional reductions to the 2020-21 budget. The budget is projected to be balanced in 2021-22 after \$1.3 million in required budget reductions.

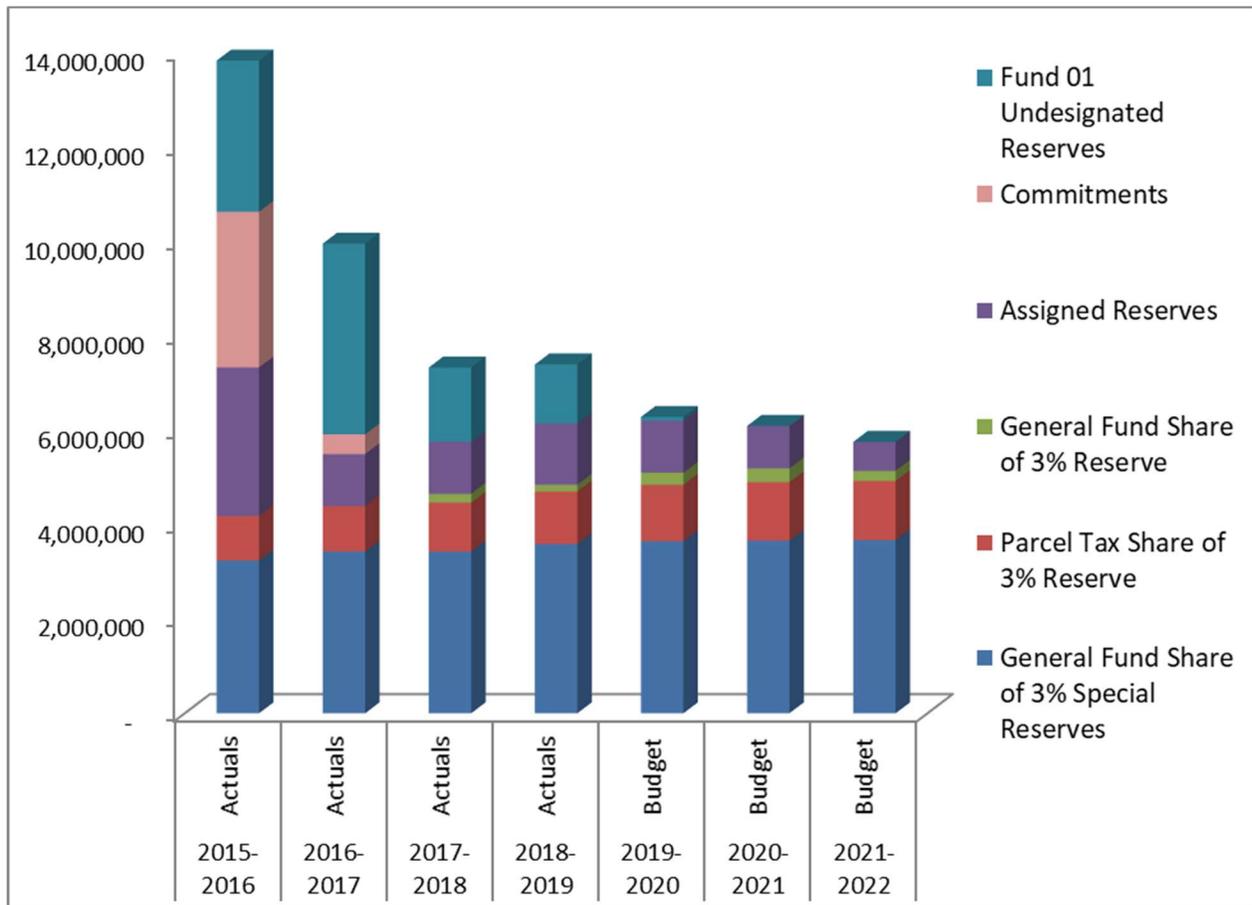
The Legislative Analyst's Office (LAO) reports that the condition of the California economy and budget are stable, but cautions that the state may face headwinds in the near future.

Consistent with its recent approaches to forecasting California's economy, the LAO looks at the state's outlook through two lenses—a growth lens and a recession lens. Under an economic growth scenario, the LAO estimates state revenues to grow from \$146 billion in 2019–20 to \$167 billion in 2023–24. Conversely, in a recession scenario, the LAO predicts that the state could lose roughly \$50 billion in revenue over the forecast period; due largely to declines in revenue generated by the personal income tax.

It is imperative the District stays well informed, and consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly. The greatest increases in LCFF funding are behind us. As funding for education flattens, the Alameda County Office of Education (ACOE) is cautioning Districts to have contingency plans. Increases in both retirement and special education expenses, a greater focus on targeted LCAP spending, and minimal funding through Prop. 98 can quickly impact a district's financial status. ACOE encourages all Districts to continue to enlist their services and assistance in an increasingly uncertain fiscal environment.

Components of Ending Fund Balance

The following chart reflects the components of ending fund balances from 2015-16 to 2021-22 for Funds 01-08, and shows the decline in ending fund balance over the six-year period.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information please feel free to contact Pauline Follansbee, Assistant Superintendent of Business Services at 510-644-8593.

BASIC FINANCIAL STATEMENTS

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2019

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and investments (Note 2) | \$ 197,195,047 |
| Receivables | 13,773,627 |
| Stores inventory | 84,734 |
| Prepaid expenses | 89,011 |
| Non-depreciable capital assets (Note 4) | 37,424,048 |
| Depreciable capital assets, net of accumulated depreciation (Note 4) | <u>292,160,720</u> |
| Total assets | <u>540,727,187</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflow of resources - pensions (Notes 7 and 8) | 57,111,611 |
| Deferred outflow of resources - OPEB (Note 9) | 2,480,567 |
| Deferred loss from refunding of debt | <u>2,728,526</u> |
| Total deferred outflows of resources | <u>62,320,704</u> |
| LIABILITIES | |
| Accounts payable | 24,016,243 |
| Unpaid claims and claim adjustment expenses (Note 10) | 7,570,000 |
| Unearned revenue | 791,230 |
| Long-term liabilities (Note 5): | |
| Due within one year | 18,201,057 |
| Due after one year | <u>516,622,195</u> |
| Total liabilities | <u>567,200,725</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources - pensions (Notes 7 and 8) | <u>20,810,000</u> |
| NET POSITION | |
| Net investment in capital assets | 88,628,501 |
| Restricted: | |
| Legally restricted programs | 7,177,905 |
| Capital projects | 1,176,303 |
| Debt service | 48,892,198 |
| Unrestricted | <u>(130,837,741)</u> |
| Total net position | <u><u>\$ 15,037,166</u></u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

| | Program Revenues | | | Capital Grants and Contributions | Net (Expense) Revenues and Changes in Net Position |
|---|----------------------------|--|--|--|---|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Governmental activities: | | | | | |
| Instruction | \$ 114,903,237 | \$ 405,890 | \$ 26,984,883 | \$ - | \$ (87,512,464) |
| Instruction-related services: | | | | | |
| Supervision of instruction | 11,973,308 | 22,533 | 3,009,637 | - | (8,941,138) |
| Instructional library, media and technology | 2,692,705 | - | 201,150 | - | (2,491,555) |
| School site administration | 9,461,010 | - | 1,896,053 | - | (7,564,957) |
| Pupil services: | | | | | |
| Home-to-school transportation | 4,412,531 | - | 105,714 | - | (4,306,817) |
| Food services | 3,711,711 | 494,903 | 2,203,732 | - | (1,013,076) |
| All other pupil services | 9,565,603 | - | 1,574,385 | - | (7,991,218) |
| General administration: | | | | | |
| Data processing | 1,942,076 | - | 55,742 | - | (1,886,334) |
| All other general administration | 12,849,016 | 62,602 | 1,443,325 | - | (11,343,089) |
| Plant services | 19,496,667 | 10,467 | 1,077,974 | - | (18,408,226) |
| Ancillary services | 385,528 | - | 15,627 | - | (369,901) |
| Community services | 211,633 | - | 36 | - | (211,597) |
| Enterprise services | 202,223 | - | - | - | (202,223) |
| Interest on long-term liabilities | 12,032,877 | - | - | - | (12,032,877) |
| Other outgo | 960,979 | - | 7,146,814 | - | 6,185,835 |
| | <u>\$ 204,801,104</u> | <u>\$ 996,395</u> | <u>\$ 45,715,072</u> | <u>\$ -</u> | <u>(158,089,637)</u> |
| General revenues: | | | | | |
| Taxes and subventions: | | | | | |
| Taxes levied for general purposes | | | | | 45,694,693 |
| Taxes levied for debt service | | | | | 25,395,503 |
| Taxes levied for other specific purposes | | | | | 37,616,529 |
| Federal and state aid not restricted to specific purposes | | | | | 48,900,428 |
| Interest and investment earnings | | | | | 2,247,571 |
| Interagency revenues | | | | | 204,024 |
| Miscellaneous | | | | | 3,729,070 |
| | | | | | <u>163,787,818</u> |
| | | | | | <u>5,698,181</u> |
| | | | | | <u>9,338,985</u> |
| | | | | | <u>\$ 15,037,166</u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

| | <u>General Fund</u> | <u>Building Fund</u> | <u>Bond Interest and Redemption Fund</u> | <u>All Non-Major Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--------------------------|--|------------------------------------|---|
| ASSETS | | | | | |
| Cash and investments: | | | | | |
| Cash in County Treasury | \$ 37,891,589 | \$ 102,426,137 | \$ 24,279,375 | \$ 1,827,265 | \$ 166,424,366 |
| Cash on hand and in banks | 45,457 | - | - | 1,188,111 | 1,233,568 |
| Cash in revolving fund | 100,000 | - | - | - | 100,000 |
| Cash with fiscal agent | 135,000 | - | 24,452,842 | - | 24,587,842 |
| Receivables | 7,509,189 | 471,557 | 98,617 | 766,569 | 8,845,932 |
| Due from other funds | 5,771,751 | - | - | 46,903 | 5,818,654 |
| Stores inventory | - | - | - | 84,734 | 84,734 |
| Prepaid expenditures | 89,011 | - | - | - | 89,011 |
| | <u>51,541,997</u> | <u>102,897,694</u> | <u>48,830,834</u> | <u>3,913,582</u> | <u>207,184,107</u> |
| Total assets | <u>\$ 51,541,997</u> | <u>\$ 102,897,694</u> | <u>\$ 48,830,834</u> | <u>\$ 3,913,582</u> | <u>\$ 207,184,107</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 16,594,933 | \$ 1,402,840 | \$ - | \$ 446,169 | \$ 18,443,942 |
| Unearned revenue | 721,247 | - | - | 69,983 | 791,230 |
| Due to other funds | 588,129 | 1,673 | - | 851,114 | 1,440,916 |
| | <u>17,904,309</u> | <u>1,404,513</u> | <u>-</u> | <u>1,367,266</u> | <u>20,676,088</u> |
| Total liabilities | <u>17,904,309</u> | <u>1,404,513</u> | <u>-</u> | <u>1,367,266</u> | <u>20,676,088</u> |
| Fund balances: | | | | | |
| Nonspendable | 189,011 | - | - | 84,734 | 273,745 |
| Restricted | 5,869,256 | 101,493,181 | 48,830,834 | 2,461,582 | 158,654,853 |
| Assigned | 21,759,870 | - | - | - | 21,759,870 |
| Unassigned | 5,819,551 | - | - | - | 5,819,551 |
| | <u>33,637,688</u> | <u>101,493,181</u> | <u>48,830,834</u> | <u>2,546,316</u> | <u>186,508,019</u> |
| Total fund balances | <u>33,637,688</u> | <u>101,493,181</u> | <u>48,830,834</u> | <u>2,546,316</u> | <u>186,508,019</u> |
| Total liabilities and fund balances | <u>\$ 51,541,997</u> | <u>\$ 102,897,694</u> | <u>\$ 48,830,834</u> | <u>\$ 3,913,582</u> | <u>\$ 207,184,107</u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019

| | | |
|--|---------------------|----------------------|
| Total fund balances - Governmental Funds | | \$ 186,508,019 |
| 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 \$474,644,111 and the accumulated depreciation is \$145,059,343 (Note 4). | | |
| | | 329,584,768 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at June 30, 2019 consisted of (Note 5): | | |
| General Obligation Bonds | \$ (331,070,000) | |
| Unamortized premiums | (14,107,974) | |
| Net pension liability (Notes 7 and 8) | (164,459,000) | |
| Total OPEB Liability (Note 9) | (23,348,827) | |
| Compensated absences | <u>(1,837,451)</u> | |
| | | (534,823,252) |
| In governmental funds, losses on the refunding of debt are recognized as expenditure in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding debt. | | |
| | | 2,728,526 |
| In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 7 and 8). | | |
| Deferred outflows of resources relating to pensions | 57,111,611 | |
| Deferred inflows of resources relating to pensions | <u>(20,810,000)</u> | |
| | | 36,301,611 |
| In governmental funds, deferred outflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows of resources relating to OPEB are reported (Note 9). | | |
| | | 2,480,567 |
| Internal service funds are used to conduct certain activities or which costs are charged to other funds on a full cost recovery basis. Net position of Self-Insurance Fund not included in the governmental activities - statement of net position: | | |
| | | (2,292,356) |
| In governmental funds, interest on long-term liabilities 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. | | |
| | | <u>(5,450,717)</u> |
| Total net position - governmental activities | | <u>\$ 15,037,166</u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

| | General Fund | Building Fund | Bond Interest and Redemption Fund | All Non-Major Funds | Total Governmental Funds |
|---|----------------------|-----------------------|--|---------------------------|--------------------------------|
| Revenues: | | | | | |
| Local Control Funding Formula (LCFF): | | | | | |
| State apportionment | \$ 46,767,933 | \$ - | \$ - | \$ - | \$ 46,767,933 |
| Local sources | <u>44,054,455</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>44,054,455</u> |
| Total LCFF | <u>90,822,388</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>90,822,388</u> |
| Federal sources | 3,639,174 | - | 950,878 | 3,459,754 | 8,049,806 |
| Other state sources | 19,700,128 | 11,188 | 147,931 | 7,830,448 | 27,689,695 |
| Other local sources | <u>52,156,871</u> | <u>2,226,422</u> | <u>25,513,234</u> | <u>2,666,859</u> | <u>82,563,386</u> |
| Total revenues | <u>166,318,561</u> | <u>2,237,610</u> | <u>26,612,043</u> | <u>13,957,061</u> | <u>209,125,275</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Certificated salaries | 64,145,345 | - | - | 4,134,622 | 68,279,967 |
| Classified salaries | 27,750,589 | 211,069 | - | 3,739,306 | 31,700,964 |
| Employee benefits | 40,952,326 | 80,298 | - | 3,271,851 | 44,304,475 |
| Books and supplies | 4,077,070 | 213,089 | - | 1,334,088 | 5,624,247 |
| Contract services and operating expenditures | 25,736,240 | 553,976 | - | 291,898 | 26,582,114 |
| Other outgo | 9,396 | - | - | - | 9,396 |
| Capital outlay | 370,548 | 10,462,551 | - | 7,295 | 10,840,394 |
| Debt service: | | | | | |
| Principal retirement | - | - | 14,440,000 | - | 14,440,000 |
| Interest | <u>-</u> | <u>-</u> | <u>12,820,854</u> | <u>-</u> | <u>12,820,854</u> |
| Total expenditures | <u>163,041,514</u> | <u>11,520,983</u> | <u>27,260,854</u> | <u>12,779,060</u> | <u>214,602,411</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>3,277,047</u> | <u>(9,283,373)</u> | <u>(648,811)</u> | <u>1,178,001</u> | <u>(5,477,136)</u> |
| Other financing (uses) sources: | | | | | |
| Proceeds from issuance of long-term liabilities | - | 85,000,000 | - | - | 85,000,000 |
| Debt issuance premiums | - | - | 3,581,750 | - | 3,581,750 |
| Transfers in | 660,848 | - | - | 692,542 | 1,353,390 |
| Transfers out | <u>(990,272)</u> | <u>-</u> | <u>-</u> | <u>(660,848)</u> | <u>(1,651,120)</u> |
| Total other financing (uses) sources | <u>(329,424)</u> | <u>85,000,000</u> | <u>3,581,750</u> | <u>31,694</u> | <u>88,284,020</u> |
| Net change in fund balances | 2,947,623 | 75,716,627 | 2,932,939 | 1,209,695 | 82,806,884 |
| Fund balances, July 1, 2018 | <u>30,690,065</u> | <u>25,776,554</u> | <u>45,897,895</u> | <u>1,336,621</u> | <u>103,701,135</u> |
| Fund balances, June 30, 2019 | <u>\$ 33,637,688</u> | <u>\$ 101,493,181</u> | <u>\$ 48,830,834</u> | <u>\$ 2,546,316</u> | <u>\$ 186,508,019</u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

| | |
|--|---------------|
| Net change in fund balances - Total Governmental Funds | \$ 82,806,884 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Acquisition of capital assets is an expenditure in governmental funds, but increases capital assets in the statement of net position (Note 4). | 11,906,034 |
| Depreciation of capital assets is an expense that is not recorded in governmental funds (Note 4). | (8,594,758) |
| In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported (Note 4). | (29,886) |
| In governmental funds, proceeds from the issuance of General Obligation Bonds are recognized as revenue. In government-wide statements, debt issuance is reported as an increase to the District's long-term liabilities (Note 5). | (85,000,000) |
| Repayment of principal on long-term liabilities is an expenditure in governmental funds, but decreases the long-term liabilities in the statement of net position (Note 5). | 14,440,000 |
| In governmental funds, premiums on debt issuance is recognized as revenue. In government-wide statements, premiums are reported as adjustments to the related debt (Note 5). | (2,301,994) |
| In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was: | (6,455,625) |
| In governmental funds, expenses for OPEB are recognized when the employer contributions are made. In the statement of activities, OPEB expense is recognized on the accrual basis of accounting (Notes 5 and 9). | 190,502 |
| In governmental funds, losses incurred through the refunding of debt are recognized as expenditure in the period incurred. In the government-wide statements, they are deferred and amortized over the shortened life of the refunded or refunding debt. | (383,833) |
| Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds. | (1,059,527) |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

| | |
|---|---------------------|
| In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In governmental funds, expenditures are measured by the amount of financial resources used (Note 5). | \$ 58,055 |
| The Self-Insurance Fund is used to conduct certain activities for the benefit of governmental activities for which costs are charged to other funds on a full cost-recovery basis. Self-Insurance Fund activities are reported with governmental activities in the statement of activities. | <u>122,329</u> |
| Change in net position of governmental activities | <u>\$ 5,698,181</u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2019

ASSETS

| | |
|-------------------------|------------------|
| Cash and investments: | |
| Cash in County Treasury | \$ 4,405,396 |
| Cash with Fiscal Agent | 443,875 |
| Receivables | 19,897 |
| Due from other funds | <u>541,226</u> |
| Total current assets | <u>5,410,394</u> |

LIABILITIES

| | |
|--|------------------|
| Current liabilities: | |
| Self-insurance claims liabilities - current portion | 2,242,000 |
| Accounts payable | 121,584 |
| Due to other funds | <u>11,166</u> |
| Total current liabilities | 2,374,750 |
| Self-insurance claims liabilities - less current portion | <u>5,328,000</u> |
| Total liabilities | <u>7,702,750</u> |

NET POSITION

| | |
|--------------|-----------------------|
| Unrestricted | <u>\$ (2,292,356)</u> |
|--------------|-----------------------|

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2019

| | |
|--------------------------------------|------------------------------|
| Operating revenues: | |
| In-district contributions | \$ 2,033,962 |
| State contributions | <u>12,791</u> |
| Total operating revenues | <u>2,046,753</u> |
| Operating expenses: | |
| Classified salaries | 207,595 |
| Employee benefits | 94,323 |
| Books and supplies | 1,083 |
| Claims and claims adjustment expense | <u>1,996,323</u> |
| Total operating expenses | <u>2,299,324</u> |
| Operating loss | (252,571) |
| Non-operating revenues: | |
| Interest income | <u>77,170</u> |
| Income before transfers | (175,401) |
| Transfers from other funds | <u>297,730</u> |
| Change in net position | 122,329 |
| Net position, July 1, 2018 | <u>(2,414,685)</u> |
| Net position, June 30, 2019 | <u><u>\$ (2,292,356)</u></u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2019

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Cash received from in-district contributions | \$ 1,574,910 |
| Cash paid to employees for services | (301,918) |
| Cash paid for insurance claims | (1,942,323) |
| Cash paid for books and supplies | <u>(1,083)</u> |
| Net cash used in operating activities | (670,414) |
| Cash flows provided by non-capital financing activities: | |
| Transfer from other funds | 297,730 |
| Cash flows provided by investing activities: | |
| Interest income | <u>77,170</u> |
| Change in cash and investments | (295,514) |
| Cash and investments, July 1, 2018 | <u>5,144,785</u> |
| Cash and investments, June 30, 2019 | <u><u>\$ 4,849,271</u></u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | <u>\$ (252,571)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Increase in receivables | (7,728) |
| Decrease in accounts payable | (177,551) |
| Increase in self-insurance claims liabilities | 54,000 |
| Increase in due to other funds | 11,166 |
| Increase in due from other funds | <u>(297,730)</u> |
| Total adjustments | <u>(417,843)</u> |
| Net cash used in operating activities | <u><u>\$ (670,414)</u></u> |

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2019

| | <u>Agency Funds</u> |
|--------------------------------|-------------------------|
| ASSETS | |
| Cash and investments (Note 2): | |
| Cash in County Treasury | \$ 2,992,951 |
| Cash on hand and in banks | 485,710 |
| Receivables | <u>1,914,847</u> |
| Total assets | <u>\$ 5,393,508</u> |
| LIABILITIES | |
| Due to other funds (Note 3) | 4,907,798 |
| Due to student groups | <u>485,710</u> |
| Total liabilities | <u>\$ 5,393,508</u> |

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The District has reviewed GASB criteria to determine whether other entities should be included within its financial reporting entity. The District has determined that no other outside entity meets the criteria, and therefore, no other agencies have been included as components unit in the District's financial statements.

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

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - Major Funds

General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. The activity of the Special Reserve for Other than Capital Outlay Projects Fund and the Special Reserve for Postemployment Benefits Fund are included with the General Fund for financial reporting purposes.

Building Fund:

The Building Fund is a capital projects fund used to account for resources used for the acquisition of capital facilities by the District.

Bond Interest and Redemption Fund:

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

B - Other Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This classification includes the Adult Education, Child Development, Cafeteria, and Pupil Transportation Equipment Funds.

Capital Projects Funds are used to account for resources restricted for new school facilities construction, modernization projects, facility hardship grants, developer fees, or acquisition of capital facilities of the District. This classification includes the Capital Facilities and County School Facilities Funds.

The Tax Override Fund is a debt service fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The Self-Insurance Fund is an internal service fund which is used to account for the District's workers compensation claims.

The Agency Funds are fiduciary funds which are used to account for assets of others, for which the District has an agency relationship with the activity of the fund. This classification consists of the Warrant/Pass-Through and the Student Body Funds.

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

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Operating Revenues: Operating revenues are those revenues that are generated directly from the primary activity of the District's proprietary fund, the Self-Insurance Fund. For the District, this includes Insurance Premiums recorded on a cost-reimbursement basis from the District. All revenues not meeting this definition within the internal service fund are reported as nonoperating revenues

Receivables: Receivables are made up principally of amounts due from the State of California and categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2019.

Stores Inventory: Stores inventory is recorded using the consumption method, in that inventory acquisitions are initially recorded in the inventory asset account, and then charged to expenditure when used. Inventory reserves are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net position.

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

Custodial Relationships: The Agency Funds represent the assets and liabilities of various student organizations within the District, as well as ending balances from Warrant/Pass-Through Fund transactions. As the funds are custodial in nature, no measurement of operating results is involved.

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

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, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the net pension liability, reported in the Statement of Net Position.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The following is a summary of pension amounts in aggregate as of June 30, 2019:

| | <u>STRP</u> | <u>PERF B</u> | <u>Total</u> |
|--------------------------------|----------------------|----------------------|----------------------|
| Deferred outflows of resources | <u>\$ 42,672,096</u> | <u>\$ 14,439,515</u> | <u>\$ 57,111,611</u> |
| Deferred inflows of resources | <u>\$ 20,251,000</u> | <u>\$ 559,000</u> | <u>\$ 20,810,000</u> |
| Net pension liability | <u>\$110,639,000</u> | <u>\$ 53,820,000</u> | <u>\$164,459,000</u> |
| Pension expense | <u>\$ 23,691,002</u> | <u>\$ 10,857,255</u> | <u>\$ 34,548,257</u> |

Interfund Activity: Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Compensated Absences: Compensated absences in the amount of \$1,837,451 is recorded as a liability of the District. The liability is for earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are not recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenditures in the period sick leave is taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for all STRP and PERF B employees, when the employee retires.

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

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

Net Position: Net position is displayed in three components:

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

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

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Trustees is required to remove any commitment from any fund balance. At June 30, 2019, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. While the Board of Trustees has empowered members of management to suggest individual amounts to be assigned, as of June 30, 2019 no formal designation of assignment authority has occurred and the Board of Trustees retains ultimate authority for assigning fund balance.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E - Unassigned Fund Balance:

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

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

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2019, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

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

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2019 consisted of the following:

| | Governmental Activities | | | <u>Fiduciary Activities</u> |
|----------------------------|-------------------------------|-----------------------------|----------------------|---------------------------------|
| | <u>Governmental Funds</u> | <u>Proprietary Fund</u> | <u>Total</u> | |
| Pooled funds: | | | | |
| Cash in County Treasury | \$166,424,366 | \$ 4,405,396 | \$170,829,762 | \$ 2,992,951 |
| Deposits: | | | | |
| Cash in revolving fund | 100,000 | - | 100,000 | - |
| Cash on hand and in banks | 1,233,568 | - | 1,233,568 | 485,710 |
| Cash with Fiscal Agent | <u>24,587,842</u> | <u>443,875</u> | <u>25,031,717</u> | <u>-</u> |
| Total cash and investments | <u>\$192,345,776</u> | <u>\$ 4,849,271</u> | <u>\$197,195,047</u> | <u>\$ 3,478,661</u> |

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Alameda County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2019, the carrying amount of the District's accounts was \$1,819,278 and the bank balance was \$1,853,379. \$543,002 of the bank balance was FDIC insured and \$1,310,377 remained uninsured but fully collateralized.

Cash with Fiscal Agent: Cash with Fiscal Agent in the General Fund and Self-Insurance Fund represent a security deposit held by a third party. Cash with Fiscal Agent in the Bond Interest and Redemption Fund consists of proceeds from the issuance of General Obligation crossover refunding bonds held for the repayment of refunded bonds on the crossover refunding date. At June 30, 2019 amounts reported as Cash with Fiscal Agent are held at amortized cost.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2019, the District had no significant interest rate risk related to cash and investments held.

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

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2019, the District had no concentration of credit risk.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 3 - INTERFUND TRANSACTIONS

Interfund Activity: Transactions between funds of the District for goods and services are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and from other funds.

Interfund Receivables/Payables: Interfund receivable and payable balances at June 30, 2019 were as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--------------------------|-----------------------------------|-----------------------------------|
| Major Funds: | | |
| General | \$ 5,771,751 | \$ 588,129 |
| Building | - | 1,673 |
| Non-Major Funds: | | |
| Adult Education | 655 | 180,177 |
| Child Development | 46,248 | 325,608 |
| Cafeteria | - | 345,329 |
| Proprietary Fund: | | |
| Self-Insurance | 541,226 | 11,166 |
| Agency Fund: | | |
| Warrant/Pass-Through | <u>-</u> | <u>4,907,798</u> |
| Totals | <u><u>\$ 6,359,880</u></u> | <u><u>\$ 6,359,880</u></u> |

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

Transfers for the 2018-2019 fiscal year were as follows:

| | |
|---|-----------------------------------|
| Transfer from the General Fund to the Adult Education Fund to provide operational support for the program. | \$ 60,000 |
| Transfer from the General Fund to the Cafeteria Fund for meals for the needy and to cover an operational shortfall in the fund. | 632,542 |
| Transfer from the General Fund to the Self-Insurance Fund to provide required reserves for property and liability insurance. | 297,730 |
| Transfer from the Adult Education Fund to the General Fund for indirect costs support. | 158,376 |
| Transfer from the Child Development Fund to the General Fund for indirect costs support. | 289,120 |
| Transfer from the Cafeteria Fund to the General Fund for indirect cost support. | <u>213,352</u> |
| | <u><u>\$ 1,651,120</u></u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2019, is shown below:

| | Balance July 1, <u>2018</u> | <u>Additions</u> | Transfers and <u>Deletions</u> | Balance June 30, <u>2019</u> |
|-----------------------------------|-----------------------------------|---------------------|--------------------------------------|------------------------------------|
| Non-depreciable: | | | | |
| Land | \$ 6,908,949 | \$ - | \$ - | \$ 6,908,949 |
| Work-in-process | 20,094,150 | 11,737,979 | (1,317,030) | 30,515,099 |
| Depreciable: | | | | |
| Improvement of sites | 21,266,962 | - | - | 21,266,962 |
| Buildings | 402,280,436 | - | 1,287,144 | 403,567,580 |
| Equipment | <u>12,217,466</u> | <u>168,055</u> | <u>-</u> | <u>12,385,521</u> |
| Totals, at cost | <u>462,767,963</u> | <u>11,906,034</u> | <u>(29,886)</u> | <u>474,644,111</u> |
| Less accumulated depreciation: | | | | |
| Improvement of sites | (9,061,726) | (761,692) | - | (9,823,418) |
| Buildings | (116,635,849) | (7,562,414) | - | (124,198,263) |
| Equipment | <u>(10,767,010)</u> | <u>(270,652)</u> | <u>-</u> | <u>(11,037,662)</u> |
| Total accumulated depreciation | <u>(136,464,585)</u> | <u>(8,594,758)</u> | <u>-</u> | <u>(145,059,343)</u> |
| Capital assets, net | <u>\$ 326,303,378</u> | <u>\$ 3,311,276</u> | <u>\$ (29,886)</u> | <u>\$ 329,584,768</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|---|---------------------|
| Instruction | \$ 5,151,577 |
| Supervision of instruction | 416,648 |
| Instructional library, media and technology | 123,089 |
| School site administration | 492,240 |
| Home-to-school transportation | 249,201 |
| Food services | 222,640 |
| All other pupil services | 313,514 |
| Ancillary services | 15,775 |
| Community services | 13,612 |
| Enterprise activities | 169,787 |
| All other general administration | 509,094 |
| Centralized data processing | 82,553 |
| Plant services | <u>835,028</u> |
| Total depreciation expense | <u>\$ 8,594,758</u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 - LONG-TERM LIABILITIES

General Obligation Bonds: On May 26, 2009, the District issued 2009 General Obligation Bonds totaling \$17,774,222, for the purpose of financing renovations and modernization projects of school facilities. The 2009 General Obligation Bonds bear interest at rates ranging from 3.375% to 5.00% and are scheduled to mature through August 1, 2033.

On November 10, 2009, the District issued 2009 General Obligation Refunding Bonds, totaling \$25,440,000, for the purpose of refunding the District's 1998 General Obligation Refunding Bonds. The 2009 General Obligation Refunding Bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through August 1, 2020.

On May 10 2011, the District issued General Obligation Bonds, Election of 2010, Series A and Series B totaling \$25,000,000 and \$10,000,000, respectively, for the purpose of financing renovations and modernization projects of school facilities. The 2010 Series A General Obligation Bonds bear interest at rates ranging from 3.5% to 5.0% and are scheduled to mature through May 1, 2026. The 2010 Series B General Obligation Bonds bear interest at rates ranging from 5.00% to 5.375% and are scheduled to mature through August 1, 2035.

On September 29, 2011, the District issued 2011 General Obligation Refunding Bonds, totaling \$55,625,000, for the purpose of refunding the District's General Obligation Bonds, Election of 2000, Series 2003 and the District's 2004 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through August 1, 2027.

On February 5, 2013, the District issued 2013 General Obligation Refunding Bonds, Series A, totaling \$19,590,000. The proceeds of the Bonds were used to refund a portion of the outstanding balance of the Election of 2000, Series 2005 General Obligation Bonds. The 2013 General Obligation Refunding Bonds, Series A bear interest at rates ranging from 2.0% to 4.0% and are scheduled to mature through August 1, 2029.

On May 13, 2013, the District issued General Obligation Bonds, Election of 2010, Series C totaling \$40,000,000 for the purpose of financing renovations and modernization projects of school facilities. The 2010 Series C General Obligation Bonds bear interest at rates ranging from 3.00% to 4.125% and are scheduled to mature through August 1, 2052.

On June 27, 2013, the District issued 2013 General Obligation Refunding Bonds, Series B, totaling \$13,000,000. The proceeds of the Bonds were used to refund a portion of the outstanding balance of the 2005 General Obligation Refunding Bonds. The 2013 General Obligation Refunding Bonds, Series B bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through August 1, 2024.

On June 11, 2015, the District issued General Obligation Bonds, Election of 2010, Series D totaling \$50,000,000, for the purpose of financing the acquisition and construction of educational facilities. The Series D General Obligation Bonds bear interest at rates ranging from 3.375% to 5.0% and are scheduled to mature through August 1, 2045.

On July 9, 2015, the District issued 2015 General Obligation Refunding Bonds totaling \$23,665,000. The proceeds were used to refund, on a current basis, all of the outstanding maturities of the 2008 General Obligation Refunding Bonds. The 2015 General Obligation Refunding Bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through August 1, 2024.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 - LONG-TERM LIABILITIES (Continued)

On May 19, 2016, the District issued 2016 General Obligation Refunding Bonds totaling \$17,905,000. The proceeds were used to refund, on a current basis, a portion of the outstanding balance of the Election of 2000, Series 2007 Bonds. The 2016 General Obligation Refunding Bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through August 1, 2031.

On April 25, 2017, the District issued 2017 General Obligation Refunding Bonds totaling \$23,965,000. The proceeds will be used to refund, on an advanced crossover basis, the outstanding balance of the Election of 2000 - Series 2009 bonds (2009 GO Bonds), Election of 2010 - Series 2011 bonds (2011 GO Bonds), and to pay interest on the 2017 General Obligation Bonds until the crossover dates. The refunded 2009 GO Bonds and 2011 GO Bonds will continue to be reported as liabilities, and the District will continue to be responsible for interest and principal payments until the crossover date. The crossover dates for the 2009 GO Bonds and 2011 GO Bonds are August 1, 2019 and August 1, 2020, respectively. On these dates, the respective refunded bonds will be considered defeased and will be removed from the books of the District. The 2017 General Obligation Refunding Bonds bear interest at rates ranging from 3.375% to 5.0% and are scheduled to mature through August 1, 2035.

The result of all refundings above was the recognition of deferred outflows of resources, which are amortized over the shorter of the refunded or new debt maturity. The balance of deferred outflows resulting from refundings was \$2,728,526 as of June 30, 2019.

On August 23, 2018 the District issued General Obligation Bonds, Election of 2010, Series E totaling \$85,000,000, for the purpose of financing the acquisition and construction of educational facilities. The Series E General Obligation Bonds bear interest at rates ranging from 3.125% to 5.0% and are scheduled to mature through August 1, 2048.

The District's outstanding General Obligation bonded debt is as follows:

| Issue Date | Final Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2018 | Bonds Issued | Bonds Redeemed | Bonds Outstanding June 30, 2019 |
|------------|---------------------|---------------|-----------------------|--------------------------------|----------------------|----------------------|---------------------------------|
| 05/26/09 | 08/01/33 | 3.375 - 5.00% | \$ 17,774,222 | \$ 16,005,000 | \$ - | \$ 690,000 | \$ 15,315,000 |
| 11/10/09 | 08/01/20 | 2.00 - 5.00% | 25,440,000 | 3,985,000 | - | 1,760,000 | 2,225,000 |
| 05/10/11 | 05/01/26 | 3.50 - 5.00% | 25,000,000 | 21,640,000 | - | 1,930,000 | 19,710,000 |
| 05/10/11 | 08/01/35 | 5.00 - 5.375% | 10,000,000 | 10,000,000 | - | - | 10,000,000 |
| 09/29/11 | 08/01/27 | 2.00 - 5.00% | 55,625,000 | 32,595,000 | - | 4,000,000 | 28,595,000 |
| 02/05/13 | 08/01/29 | 2.00 - 4.00% | 19,590,000 | 15,635,000 | - | 900,000 | 14,735,000 |
| 05/13/13 | 08/01/52 | 3.00 - 4.125% | 40,000,000 | 40,000,000 | - | 1,445,000 | 38,555,000 |
| 06/27/13 | 08/01/24 | 3.00 - 4.00% | 13,000,000 | 11,350,000 | - | - | 11,350,000 |
| 06/11/15 | 08/01/45 | 3.375 - 5.00% | 50,000,000 | 50,000,000 | - | - | 50,000,000 |
| 07/09/15 | 08/01/24 | 2.00 - 5.00% | 23,665,000 | 18,500,000 | - | 2,780,000 | 15,720,000 |
| 05/19/16 | 08/01/31 | 2.00 - 5.00% | 17,905,000 | 16,835,000 | - | 935,000 | 15,900,000 |
| 04/25/17 | 08/01/35 | 3.375 - 5.00% | 23,965,000 | 23,965,000 | - | - | 23,965,000 |
| 08/23/19 | 08/01/48 | 3.125 - 5.00% | 85,000,000 | - | 85,000,000 | - | 85,000,000 |
| | | | <u>\$ 406,964,222</u> | <u>\$ 260,510,000</u> | <u>\$ 85,000,000</u> | <u>\$ 14,440,000</u> | <u>\$ 331,070,000</u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds mature as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-----------------------|-----------------------|-----------------------|
| 2020 | \$ 16,985,000 | \$ 12,958,721 | \$ 29,943,721 |
| 2021 | 16,840,000 | 12,136,925 | 28,976,925 |
| 2022 | 15,115,000 | 11,457,188 | 26,572,188 |
| 2023 | 14,180,000 | 10,838,468 | 25,018,468 |
| 2024 | 14,855,000 | 10,217,732 | 25,072,732 |
| 2025-2029 | 64,270,000 | 42,790,613 | 107,060,613 |
| 2030-2034 | 58,640,000 | 30,221,156 | 88,861,156 |
| 2035-2039 | 40,090,000 | 23,135,575 | 63,225,575 |
| 2040-2044 | 41,255,000 | 13,280,435 | 54,535,435 |
| 2045-2049 | 39,435,000 | 5,349,782 | 44,784,782 |
| 2050-2053 | <u>9,405,000</u> | <u>798,291</u> | <u>10,203,291</u> |
| | <u>\$ 331,070,000</u> | <u>\$ 173,184,886</u> | <u>\$ 504,254,886</u> |

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

| | Balance July 1, <u>2018</u> | <u>Additions</u> | <u>Deductions</u> | Balance June 30, <u>2019</u> | Amounts Due Within <u>One Year</u> |
|--|-----------------------------------|-----------------------|----------------------|------------------------------------|--|
| Debt: | | | | | |
| General Obligation Bonds | \$ 260,510,000 | \$ 85,000,000 | \$ 14,440,000 | \$ 331,070,000 | \$ 16,985,000 |
| Unamortized premiums | 11,805,980 | 3,581,750 | 1,279,756 | 14,107,974 | 1,216,057 |
| Other Long-Term Liabilities: | | | | | |
| Net pension liability (Notes 7 and 8) | 144,449,000 | 20,010,000 | - | 164,459,000 | - |
| Total OPEB liability (Note 9) | 21,772,490 | 2,939,215 | 1,362,878 | 23,348,827 | - |
| Compensated absences | <u>1,895,506</u> | <u>-</u> | <u>58,055</u> | <u>1,837,451</u> | <u>-</u> |
| | <u>\$ 440,432,976</u> | <u>\$ 111,530,965</u> | <u>\$ 17,140,689</u> | <u>\$ 534,823,252</u> | <u>\$ 18,201,057</u> |

Payments on the General Obligation Bonds were made from the Bond Interest and Redemption Fund. Payments towards the net pension liability, total OPEB liability, and compensated absences are made from the fund for which the related employee worked.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 6 - FUND BALANCES

Fund balances, by category, at June 30, 2019 consisted of the following:

| | General Fund | Building Fund | Bond Interest and Redemption Fund | All Non-Major Funds | Total |
|-------------------------------------|----------------------|-----------------------|--|---------------------------|-----------------------|
| Nonspendable: | | | | | |
| Revolving cash fund | \$ 100,000 | \$ - | \$ - | \$ - | \$ 100,000 |
| Prepaid expenditures | 89,011 | - | - | - | 89,011 |
| Stores inventory | <u>-</u> | <u>-</u> | <u>-</u> | <u>84,734</u> | <u>84,734</u> |
| Subtotal nonspendable | <u>189,011</u> | <u>-</u> | <u>-</u> | <u>84,734</u> | <u>273,745</u> |
| Restricted: | | | | | |
| Legally restricted programs | 5,869,256 | - | - | 1,223,915 | 7,093,171 |
| Capital projects | - | 101,493,181 | - | 1,176,303 | 102,669,484 |
| Debt service | <u>-</u> | <u>-</u> | <u>48,830,834</u> | <u>61,364</u> | <u>48,892,198</u> |
| Subtotal restricted | <u>5,869,256</u> | <u>101,493,181</u> | <u>48,830,834</u> | <u>2,461,582</u> | <u>158,654,853</u> |
| Assigned: | | | | | |
| OPEB | 11,194,861 | - | - | - | 11,194,861 |
| Parcel taxes | 9,565,009 | - | - | - | 9,565,009 |
| LCAP supplemental grants | <u>1,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,000,000</u> |
| Subtotal assigned | <u>21,759,870</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>21,759,870</u> |
| Unassigned: | | | | | |
| Designated for economic uncertainty | 3,900,375 | - | - | - | 3,900,375 |
| Undesignated | <u>1,919,176</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,919,176</u> |
| Subtotal unassigned | <u>5,819,551</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,819,551</u> |
| Total fund balances | <u>\$ 33,637,688</u> | <u>\$ 101,493,181</u> | <u>\$ 48,830,834</u> | <u>\$ 2,546,316</u> | <u>\$ 186,508,019</u> |

(Continued)

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

CalSTRS 2% at 62

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

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

(Continued)

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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

In June 2019, California Senate Bill 90 (SB 90) was signed into law and appropriated approximately \$2.2 billion in fiscal year 2018–19 from the state's General Fund as contributions to CalSTRS on behalf of employers. The bill requires portions of the contribution to supplant the amounts remitted by employers such that the amounts remitted will be 1.03 and 0.70 percentage points less than the statutorily required amounts due for fiscal years 2019–20 and 2020–21, respectively. The remaining portion of the contribution is allocated to reduce the employers' share of the unfunded actuarial obligation of the Defined Benefit Program.

The employer contribution rates set in statute by the CalSTRS Funding Plan were not changed by the passage of SB 90. A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2018-19. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 10.205 percent of applicable member earnings for fiscal year 2018-19.

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

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

Employers – 16.28 percent of applicable member earnings.

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The CalSTRS employer contribution rate increases effective for fiscal year 2018-19 through fiscal year 2045-46 are summarized in the table below:

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

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

The District contributed \$10,412,096 to the plan for the fiscal year ended June 30, 2019.

State - 9.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

As a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047.

The state's base contribution to the Defined Benefit Program is calculated based on creditable compensation from two fiscal years prior. The state rate will increase to 5.811 percent on July 1, 2019, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions. Additionally, the enactment of SB 90 will result in future supplemental contributions to be made by the state to pay down its portion of the unfunded actuarial obligation of the Defined Benefit Program in fiscal years 2019–20 through 2022–23. The CalSTRS state contribution rates effective for fiscal year 2018-19 and beyond are summarized in the table below:

| <u>Effective Date</u> | <u>Base Rate</u> | <u>AB 1469 Increase For 1990 Benefit Structure</u> | <u>SBMA Funding(1)</u> | <u>Total State Appropriation to DB Program</u> |
|------------------------------|------------------|--|------------------------|--|
| July 01, 2018 | 2.017% | 5.311%(2) | 2.50% | 9.828% |
| July 01, 2019 | 2.017% | 5.311%(2) | 2.50% | 10.828%(3) |
| July 01, 2020-2046 | 2.017% | (4) | 2.50% | (4) |
| July 01, 2046 and thereafter | 2.017% | (5) | 2.50% | 4.517%(5) |

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

(2) In May 2019, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2019.

(3) This rate does not include the \$2.2 billion supplemental state contribution on behalf of employers pursuant to SB 90.

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

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

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

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

| | |
|---|------------------------------|
| District’s proportionate share of the net pension liability | \$ 110,639,000 |
| State’s proportionate share of the net pension liability associated with the District | <u>63,346,000</u> |
| Total | <u><u>\$ 173,985,000</u></u> |

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2018, the District’s proportion was 0.120 percent, which was an increase of 0.016 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$23,691,002 and revenue of \$11,456,942 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 343,000 | \$ 1,607,000 |
| Changes in assumptions | 17,188,000 | - |
| Net differences between projected and actual earnings on investments | - | 4,260,000 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 14,729,000 | 14,384,000 |
| Contributions made subsequent to measurement date | <u>10,412,096</u> | <u>-</u> |
| Total | <u><u>\$ 42,672,096</u></u> | <u><u>\$ 20,251,000</u></u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

\$10,412,096 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended <u>June 30,</u> | |
|--------------------------------|--------------|
| 2020 | \$ 3,596,483 |
| 2021 | 1,999,484 |
| 2022 | (904,517) |
| 2023 | 811,150 |
| 2024 | 4,640,400 |
| 2025 | 1,866,000 |

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

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|---|
| Valuation Date | June 30, 2017 |
| Experience Study | July 1, 2010 through June 30, 2015 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.10% |
| Consumer Price Inflation | 2.75% |
| Wage Growth | 3.50% |
| Post-retirement Benefit Increases | 2.00% simple for DB Not applicable for DBS/CBB |

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

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 7 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

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

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

* 20-year geometric average.

Discount Rate: The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | 1% Decrease <u>(6.10%)</u> | Current Discount Rate <u>(7.10%)</u> | 1% Increase <u>(8.10%)</u> |
|---|----------------------------------|--|----------------------------------|
| District’s proportionate share of the net pension liability | <u>\$162,073,000</u> | <u>\$110,639,000</u> | <u>\$ 67,995,000</u> |

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

(Continued)

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B

General Information about the Public Employer’s Retirement Fund B

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

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

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2018.pdf>.

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2019 were as follows:

Members - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2018-19.

Employers - The employer contribution rate was 18.062 percent of applicable member earnings.

The District contributed \$5,048,515 to the plan for the fiscal year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$53,820,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2018, the District’s proportion was 0.202 percent, which was a decrease of 0.001 percent from its proportion measured as of June 30, 2017.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

For the year ended June 30, 2019, the District recognized pension expense of \$10,857,255 and revenues of \$1,826,080. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ 3,528,000 | \$ - |
| Changes of assumptions | 5,374,000 | - |
| Net differences between projected and actual earnings on investments | 442,000 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 47,000 | 559,000 |
| Contributions made subsequent to measurement date | <u>5,048,515</u> | <u>-</u> |
| Total | <u>\$ 14,439,515</u> | <u>\$ 559,000</u> |

\$5,048,515 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended <u>June 30,</u> | |
|--------------------------------|--------------|
| 2020 | \$ 5,176,500 |
| 2021 | 4,112,500 |
| 2022 | (139,500) |
| 2023 | (317,500) |

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2018 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2017 |
| Experience Study | June 30, 1997 through June 30, 2015 |
| Actuarial Cost Method | Entry age normal |
| Investment Rate of Return | 7.15% |
| Consumer Price Inflation | 2.50% |
| Wage Growth | Varies by entry age and service |
| Post-retirement Benefit Increases | 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.50% thereafter |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90% of Scale MP 2016. For more details on this table, please refer to the 2017 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

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

| <u>Asset Class</u> | <u>Long-Term* Assumed Asset Allocation</u> | <u>Expected Real Rate of Return Years 1 - 10⁽¹⁾</u> | <u>Expected Real Rate of Return Years 11+⁽²⁾</u> |
|--------------------|--|--|---|
| Global Equity | 50% | 4.80% | 5.98% |
| Fixed Income | 28 | 1.00 | 2.62 |
| Inflation Assets | - | 0.77 | 1.81 |
| Private Equity | 8 | 6.30 | 7.23 |
| Real Estate | 13 | 3.75 | 4.93 |
| Liquidity | 1 | - | (0.92) |

* 10-year geometric average

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

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

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 8 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

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

| | 1% Decrease <u>(6.15%)</u> | Current Discount Rate <u>(7.15%)</u> | 1% Increase <u>(8.15%)</u> |
|--|----------------------------------|--|----------------------------------|
| District’s proportionate share of the net pension liability | <u>\$ 78,359,000</u> | <u>\$ 53,820,000</u> | <u>\$ 33,461,000</u> |

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

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

General Information about the Other Postemployment Benefits Plan (OPEB)

Plan Description: The District provides healthcare benefits to eligible employees who retire from the District, as part of a single-employer defined benefit postemployment health care plan (the "Plan"). The Plan is administered by the District and allows employees who retire after having achieved retirement eligibility requirements to continue receiving medical and dental insurance coverage. The Board of Trustees has the authority to establish or amend the benefit terms offered by the Plan, and also retains the authority to establish the requirements for paying for the Plan's benefits as they come due. As of June 30, 2019, the District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District’s total OPEB liability, and the plan does not issue separate financial statements.

Benefits Provided: In accordance with contracts between the District and the respective employee groups, eligible employees are entitled to receive certain medical and dental benefits through the Plan. The maximum amount paid by the District for medical and dental benefits is same as the District cap for active employee benefits.

Eligibility requirements and the length of time that benefits are provided through the Plan vary depending on employee group, hire date, and years of service to the District:

Certificated Employees: For certificated employees hired after July 1, 2005, who retire after having reached age 55 with at least 15 years of participation in CalSTRS, the District provides medical and dental coverage to the employee and spouse, until the employee reaches age 65. Certificated employees hired on or before June 30, 2005, only require 10 years of participation in CalSTRS to receive these benefits. Certificated employees who retire from the District after having achieved 30 years of service to the District may receive employee-only benefits up to age 67.

Classified and Other Non-Certificated Employees: For classified and other non-certificated employees who retire after having reached age 55 with at least 10 years of service to the District, the District provides medical and dental coverage to the employee and spouse, until the employee reaches age 65. Classified and other non-certificated employees who retire from the District after having achieved 20 years of service to the District may receive employee-only benefits up to age 67.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

Employees Covered by Benefit Terms: The following is a table of plan participants in the June 30, 2017 actuarial valuation:

| | <u>Number of Participants</u> |
|--|-----------------------------------|
| Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits | 71 |
| Active employees | <u>1,137</u> |
| | <u><u>1,208</u></u> |

Contributions: California Government Code specifies that the District's contribution requirements for covered employees are established and may be amended by the Governing Board. The District's premium rates being charged to these retirees are lower than the expected cost for a retiree population under age 65. Thus, an implicit subsidy exists as a result of this difference between the actual cost and the true retiree cost. Contributions to the Plan from the District were \$713,728 for the year ended June 30, 2019. Employees are not required to contribute to the OPEB plan.

Total OPEB Liability

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

Actuarial Assumptions: The total OPEB liability in the District's actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---------------------------------------|--|
| <u>Valuation Date</u> | June 30, 2017. |
| <u>Actuarial Method</u> | Entry Age actuarial cost method has been used, with normal costs calculated as a level percentage of payroll. |
| <u>Discount Rate</u> | 3.80%, per the Bond Buyer 20 Bond Index. |
| <u>Health Care Increases</u> | Medical insurance premiums are assumed to increase by 4.00% in fiscal 2018 onwards. |
| <u>Mortality Rates</u> | Mortality rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified and other non-certificated members) and from the 2009 CalSTRS Mortality (for certificated members). |
| <u>Health Plan Coverage Elections</u> | 100% of eligible employees are assumed to elect coverage upon retirement, and to remain covered under District plans for life. 80% of eligible employees are assumed to continue coverage after reaching age 65. |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

| | |
|--------------------------|--|
| <u>Retirement Rates</u> | 2009 CalSTRS Retirement Rates were used for certificated employees. 2009 CalPERS Retirement Rates for School Employees were used for classified and other non-certificated members hired before July 1, 2013. 2009 CalPERS 2% at 60 Retirement Rates for Miscellaneous Employees were used for classified and other non-certificated members hired after July 1, 2013. |
| <u>Turnover Rates</u> | Turnover rates are taken from the 2009 CalPERS Termination Rates for School Employees (for classified and other non-certificated members) and from the 2009 CalSTRS Termination Rates (for certificated members). |
| <u>Medical Claims</u> | Medical claims were estimated based on the true per person costs of coverage during the year ended June 30, 2017. The age-specific rates were developed to reproduce the same aggregate premiums that would be paid to the carriers for all current employee and retirees. |
| <u>Spouse Prevalence</u> | 80% of Plan members were assumed to be married at retirement. To the extent actual information is unavailable, female spouses are assumed to be 3 years younger than male spouses. |
| <u>Inflation Rate</u> | 2.75% per year |
| <u>Salary Increases</u> | 2.75% per year |
| <u>Disability Rate</u> | None |

Changes in Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|--------------------------|---------------------------------|
| Balance at July 1, 2018 | \$ <u>21,772,490</u> |
| Changes for the year: | |
| Service cost | 2,085,791 |
| Change in assumptions | (649,150) |
| Interest | 853,424 |
| Benefit payments | <u>(713,728)</u> |
| Net change | <u>1,576,337</u> |
| Balance at June 30, 2019 | <u>\$ <u>23,348,827</u></u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

There were no changes between the measurement date and the year ended June 30, 2019 which had a significant effect on the District's total OPEB liability.

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

| | 1% Decrease (<u>2.80%</u>) | Current Discount Rate (<u>3.80%</u>) | 1% Increase (<u>4.80%</u>) |
|----------------------|------------------------------------|--|------------------------------------|
| Total OPEB liability | <u>\$ 25,450,700</u> | <u>\$ 23,348,827</u> | <u>\$ 21,470,936</u> |

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

| | 1% Decrease (<u>3.00%</u>) | Healthcare Cost Trend Rates Rate (<u>4.00%</u>) | 1% Increase (<u>5.00%</u>) |
|----------------------|------------------------------------|---|------------------------------------|
| Total OPEB liability | <u>\$ 21,480,704</u> | <u>\$ 23,348,827</u> | <u>\$ 25,432,174</u> |

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$2,892,847. At June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Changes in assumptions | \$ 602,782 | \$ - |
| Contributions subsequent to measurement date | <u>1,877,785</u> | <u>-</u> |
| Totals | <u>\$ 2,480,567</u> | <u>\$ -</u> |

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

| Years Ended <u>June 30,</u> | |
|--------------------------------|------------|
| 2020 | \$ 46,368 |
| 2021 | \$ 46,368 |
| 2022 | \$ 46,368 |
| 2023 | \$ 46,368 |
| 2024 | \$ 46,368 |
| 2025 | \$ 370,942 |

Deferred outflows related to changes of assumptions are netted and amortized over a closed 14-year period.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 10 - RISK MANAGEMENT

Workers' Compensation: The District's workers' compensation program activities are recorded in the District's Self-Insurance Fund. The program accounts for the risk financing activities of the District, but does not constitute a transfer of risk from the District.

Property and Liability: The District is exposed to various risks of loss related to it's assets, errors and omissions, injuries to employees, and natural disasters. The District has contracted with Alliance of Schools for Cooperative Insurance Program (ACSIP) for excess property and liability insurance over the self-insured retention of \$25,000 per occurrence, up to \$250,000. The District has also contracted with Schools Excess Liability Fund (SELF) for excess property and liability insurance coverage of claims over \$250,000. The property and liability program activities are recorded in the District's Internal Service Fund. The liability program accounts for the risk financing activities of the District, but does not constitute a transfer of risk from the District

Settled claims resulting from the programs above have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

| <u>Insurance Program / Provider Name</u> | <u>Type of Coverage</u> | <u>Limits</u> |
|--|-------------------------------|-------------------------------|
| Berkeley Unified School District Workers' Compensation Insurance Program | Workers' Compensation | Statutory Limit |
| Berkeley Unified School District | Property & Liability | \$25,000 |
| Alliance of Schools for Cooperative Insurance Program (ACSIP) | Excess Property and Liability | \$250,000 |
| Schools Excess Liability Fund (SELF) | Excess Property and Liability | Limits depend on type of loss |

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

Unpaid Claims Liabilities: The Self-Insurance Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses, developed through both the workers compensation and property and liability programs. The self insurance program was initiated in January 1, 2004. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2019:

Self-Insurance Programs

| | |
|----------------------------------|---------------------|
| Liability balance, July 1, 2017 | \$ <u>9,124,000</u> |
| Claims and changes in estimates | 934,187 |
| Claims payments | <u>(2,542,187)</u> |
| Liability balance, June 1, 2018 | 7,516,000 |
| Claims and changes in estimates | 1,996,323 |
| Claims payments | <u>(1,942,323)</u> |
| Liability balance, June 30, 2019 | <u>\$ 7,570,000</u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 11 - JOINT POWERS AUTHORITIES

The District is a member with other school districts in three Joint Powers Authorities, Schools Excess Liability Fund (SELF), Alliance of Schools for Cooperative Insurance Program (ASCIP) and CSAC Excess Insurance Authority (CSAC), for the operation of a common risk management and insurance program for property and liability coverage. SELF, ASCIP and CSAC are governed by Governing Boards consisting of representatives from each member district. The Boards control the operations of SELF, ASCIP and CSAC, including selections of management and approval of operating budgets. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

The following is a summary of financial information for SELF, ASCIP and CSAC at June 30, 2018 (the most recent information available):

| | <u>SELF</u> | <u>ASCIP</u> | <u>CSAC</u> |
|--------------------------------|-----------------------|-----------------------|------------------------|
| Total assets | \$ 118,692,006 | \$ 454,668,010 | \$ 834,314,751 |
| Deferred outflows of resources | 497,939 | 1,762,160 | 1,718,920 |
| Total liabilities | 101,064,545 | 251,584,695 | 712,318,785 |
| Deferred inflows of resources | <u>28,087</u> | <u>442,840</u> | <u>1,144,292</u> |
| Total net position | <u>\$ 18,097,313</u> | <u>\$ 204,402,635</u> | <u>\$ 122,570,594</u> |
| | | | |
| Total revenues | \$ 15,139,473 | \$ 261,987,745 | \$ 888,364,980 |
| Total expenditures | <u>19,471,187</u> | <u>251,547,168</u> | <u>906,269,207</u> |
| Change in net position | <u>\$ (4,331,714)</u> | <u>\$ 10,440,577</u> | <u>\$ (17,904,227)</u> |

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

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

As of June 30, 2019, the District has approximately \$2.3 million in outstanding commitments on Measure I General Obligation Bond construction contracts.

NOTE 13 - SUBSEQUENT EVENT

On August 1, 2019, the District issued 2019 General Obligation Refunding Bonds totaling \$29,465,000. The proceeds were used to refund, on a current basis, all of the outstanding maturities of the 2011 General Obligation Refunding Bonds and 2013 General Obligation Refunding Bonds, Series B. The 2019 General Obligation Refunding Bonds bear interest at 5.0% and are scheduled to mature through August 1, 2027.

REQUIRED SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2019

| | Budget | | Actual | Variance Favorable (Unfavorable) |
|--|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Local Control Funding Formula (LCFF): | | | | |
| State apportionment | \$ 47,621,160 | \$ 46,767,933 | \$ 46,767,933 | \$ - |
| Local sources | <u>41,763,007</u> | <u>43,425,715</u> | <u>44,054,455</u> | <u>628,740</u> |
| Total LCFF | <u>89,384,167</u> | <u>90,193,648</u> | <u>90,822,388</u> | <u>628,740</u> |
| Federal sources | 3,720,936 | 3,639,174 | 3,639,174 | - |
| Other state sources | 13,159,789 | 19,700,128 | 19,700,128 | - |
| Other local sources | <u>47,973,726</u> | <u>51,973,516</u> | <u>52,156,871</u> | <u>183,355</u> |
| Total revenues | <u>154,238,618</u> | <u>165,506,466</u> | <u>166,318,561</u> | <u>812,095</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated salaries | 63,076,479 | 64,145,345 | 64,145,345 | - |
| Classified salaries | 27,168,337 | 27,750,589 | 27,750,589 | - |
| Employee benefits | 35,674,973 | 40,952,326 | 40,952,326 | - |
| Books and supplies | 5,085,623 | 4,077,070 | 4,077,070 | - |
| Contract services and operating expenditures | 21,835,927 | 25,736,240 | 25,736,240 | - |
| Other outgo | - | - | 9,396 | (9,396) |
| Capital outlay | <u>1,785,024</u> | <u>370,548</u> | <u>370,548</u> | <u>-</u> |
| Total expenditures | <u>154,626,363</u> | <u>163,032,118</u> | <u>163,041,514</u> | <u>(9,396)</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(387,745)</u> | <u>2,474,348</u> | <u>3,277,047</u> | <u>802,699</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 671,247 | 651,452 | 660,848 | 9,396 |
| Transfers out | <u>(1,066,038)</u> | <u>(2,336,551)</u> | <u>(990,272)</u> | <u>1,346,279</u> |
| Total other financing sources (uses) | <u>(394,791)</u> | <u>(1,685,099)</u> | <u>(329,424)</u> | <u>1,355,675</u> |
| Net change in fund balance | (782,536) | 789,249 | 2,947,623 | 2,158,374 |
| Fund balance, July 1, 2018 | <u>30,690,065</u> | <u>30,690,065</u> | <u>30,690,065</u> | <u>-</u> |
| Fund balance, June 30, 2019 | <u>\$ 29,907,529</u> | <u>\$ 31,479,314</u> | <u>\$ 33,637,688</u> | <u>\$ 2,158,374</u> |

See note to required supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
 For the Year Ended June 30, 2019

Last 10 Fiscal Years

| | <u>2018</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Total OPEB liability | | |
| Service cost | \$ 2,029,967 | \$ 2,085,791 |
| Interest | 712,604 | 853,424 |
| Changes of assumptions | - | (649,150) |
| Benefit payments | <u>(686,277)</u> | <u>(713,728)</u> |
| Net change in total OPEB liability | 2,056,294 | 1,576,337 |
| Total OPEB liability - beginning of year | <u>19,716,196</u> | <u>21,772,490</u> |
| Total OPEB liability - end of year | <u>\$ 21,772,490</u> | <u>\$ 23,348,827</u> |
| Covered employee payroll | \$ 80,292,099 | \$ 82,700,862 |
| Total OPEB liability as a percentage of covered-employee payroll | 27.12% | 28.23% |

This is a 10-year schedule, however the information in this schedule is not required to be presented retrospectively. All years prior to 2018 are not available

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2019

| | State Teachers' Retirement Plan Last 10 Fiscal Years | | | | |
|--|---|----------------------|----------------------|----------------------|----------------------|
| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
| District's proportion of the net pension liability | 0.123% | 0.123% | 0.118% | 0.104% | 0.120% |
| District's proportionate share of the net pension liability | \$ 71,617,000 | \$ 82,985,000 | \$ 95,395,000 | \$ 95,921,000 | \$ 110,639,000 |
| District's proportionate share of the net pension liability associated with the District | <u>43,246,000</u> | <u>43,890,000</u> | <u>54,312,000</u> | <u>56,747,000</u> | <u>63,346,000</u> |
| Total Pension Liability | <u>\$114,863,000</u> | <u>\$126,875,000</u> | <u>\$149,707,000</u> | <u>\$152,668,000</u> | <u>\$173,985,000</u> |
| District's covered payroll | \$ 54,586,000 | \$ 57,212,000 | \$ 58,780,000 | \$ 54,972,000 | \$ 64,081,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 131.20% | 145.05% | 162.29% | 174.49% | 172.65% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.52% | 74.02% | 70.04% | 69.46% | 70.99% |

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

All years prior to 2015 are not available.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2019

| | Public Employer's Retirement Fund B Last 10 Fiscal Years | | | | |
|--|---|---------------|---------------|---------------|---------------|
| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
| District's proportion of the net pension liability | 0.215% | 0.216% | 0.209% | 0.203% | 0.202% |
| District's proportionate share of the net pension liability | \$ 24,434,000 | \$ 31,837,000 | \$ 41,254,000 | \$ 48,528,000 | \$ 53,820,000 |
| District's covered payroll | \$ 22,594,000 | \$ 23,912,000 | \$ 25,060,000 | \$ 25,918,000 | \$ 26,624,000 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 108.14% | 133.14% | 164.62% | 187.24% | 202.15% |
| Plan fiduciary net position as a percentage of the total pension liability | 83.38% | 79.43% | 73.89% | 71.87% | 70.85% |

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

All years prior to 2015 are not available.

See note to required supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2019

State Teachers' Retirement Plan
 Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|--|--------------------|--------------------|--------------------|--------------------|---------------------|
| Contractually required contribution | \$ 5,080,410 | \$ 6,307,138 | \$ 6,915,419 | \$ 9,246,888 | \$ 10,412,096 |
| Contributions in relation to the contractually required contribution | <u>(5,080,410)</u> | <u>(6,307,138)</u> | <u>(6,915,419)</u> | <u>(9,246,888)</u> | <u>(10,412,096)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered payroll | \$ 57,212,000 | \$ 58,780,000 | \$ 54,972,000 | \$ 64,081,000 | \$ 63,956,000 |
| Contributions as a percentage of covered payroll | 8.88% | 10.73% | 12.58% | 14.43% | 16.28% |

All years prior to 2015 are not available.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2019

| | Public Employer's Retirement Fund B Last 10 Fiscal Years | | | | |
|--|---|--------------------|--------------------|--------------------|--------------------|
| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
| Contractually required contribution | \$ 2,814,653 | \$ 2,968,813 | \$ 3,600,061 | \$ 4,134,707 | \$ 5,048,515 |
| Contributions in relation to the contractually required contribution | <u>(2,814,653)</u> | <u>(2,968,813)</u> | <u>(3,600,061)</u> | <u>(4,134,707)</u> | <u>(5,048,515)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 23,912,000 | \$ 25,060,000 | \$ 25,918,000 | \$ 26,624,000 | \$ 27,951,000 |
| Contributions as a percentage of covered payroll | 11.77% | 11.85% | 13.89% | 15.53% | 18.06% |

All years prior to 2015 are not available.

See note to required supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

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

The Schedule of Changes in Total OPEB liability is presented to illustrate the elements of the District's Total OPEB liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

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

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

D - Schedule of the District's Contributions

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

E - Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B (PERF B) was 7.50, 7.65, 7.65, 7.15 and 7.15 percent in the June 30, 2013, 2014, 2015, 2016 and 2017 actuarial reports, respectively.

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

| <u>Assumption</u> | <u>Measurement Period as of June 30,</u> | | | |
|---------------------------|--|-------------|-------------|-------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Consumer price inflation | 2.75% | 2.75% | 3.00% | 3.00% |
| Investment rate of return | 7.10% | 7.10% | 7.60% | 7.60% |
| Wage growth | 3.50% | 3.50% | 3.75% | 3.75% |

SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2019

| | Adult Education Fund | Child Development Fund | Cafeteria Fund | Pupil Trans- portation Equipment Fund | Capital Facilities Fund | County School Facilities Fund | Tax Override Fund | Total |
|--------------------------------------|----------------------------|------------------------------|-------------------|---|-------------------------------|--|-------------------------|---------------------|
| ASSETS | | | | | | | | |
| Cash and investments: | | | | | | | | |
| Cash in County Treasury | \$ 329,797 | \$ 159,406 | \$ 95,632 | \$ 9,579 | \$ 1,169,848 | \$ 1,639 | \$ 61,364 | \$ 1,827,265 |
| Cash on hand and in banks | 946,094 | 160,588 | 81,429 | - | - | - | - | 1,188,111 |
| Receivables | 270,124 | 165,327 | 326,259 | 43 | 4,809 | 7 | - | 766,569 |
| Due from other funds | 655 | 46,248 | - | - | - | - | - | 46,903 |
| Stores inventory | <u>-</u> | <u>-</u> | <u>84,734</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>84,734</u> |
| Total assets | <u>\$ 1,546,670</u> | <u>\$ 531,569</u> | <u>\$ 588,054</u> | <u>\$ 9,622</u> | <u>\$ 1,174,657</u> | <u>\$ 1,646</u> | <u>\$ 61,364</u> | <u>\$ 3,913,582</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ 242,311 | \$ 103,800 | \$ 100,058 | \$ - | \$ - | \$ - | \$ - | \$ 446,169 |
| Unearned revenue | - | 69,983 | - | - | - | - | - | 69,983 |
| Due to other funds | <u>180,177</u> | <u>325,608</u> | <u>345,329</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>851,114</u> |
| Total liabilities | <u>422,488</u> | <u>499,391</u> | <u>445,387</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,367,266</u> |
| Fund balances: | | | | | | | | |
| Nonspendable | - | - | 84,734 | - | - | - | - | 84,734 |
| Restricted | <u>1,124,182</u> | <u>32,178</u> | <u>57,933</u> | <u>9,622</u> | <u>1,174,657</u> | <u>1,646</u> | <u>61,364</u> | <u>2,461,582</u> |
| Total fund balances | <u>1,124,182</u> | <u>32,178</u> | <u>142,667</u> | <u>9,622</u> | <u>1,174,657</u> | <u>1,646</u> | <u>61,364</u> | <u>2,546,316</u> |
| Total liabilities and fund balances | <u>\$ 1,546,670</u> | <u>\$ 531,569</u> | <u>\$ 588,054</u> | <u>\$ 9,622</u> | <u>\$ 1,174,657</u> | <u>\$ 1,646</u> | <u>\$ 61,364</u> | <u>\$ 3,913,582</u> |

BERKELEY UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2019

| | Adult Education Fund | Child Development Fund | Cafeteria Fund | Pupil Trans- portation Equipment Fund | Capital Facilities Fund | County School Facilities Fund | Tax Override Fund | Total |
|--|----------------------------|------------------------------|-------------------|---|-------------------------------|--|-------------------------|---------------------|
| Revenues: | | | | | | | | |
| Federal sources | \$ 859,242 | \$ 751,659 | \$ 1,848,853 | \$ - | \$ - | \$ - | \$ - | \$ 3,459,754 |
| Other state sources | 3,399,542 | 4,221,379 | 209,527 | - | - | - | - | 7,830,448 |
| Other local sources | <u>244,874</u> | <u>851,891</u> | <u>564,452</u> | <u>164</u> | <u>1,005,450</u> | <u>28</u> | <u>-</u> | <u>2,666,859</u> |
| Total revenues | <u>4,503,658</u> | <u>5,824,929</u> | <u>2,622,832</u> | <u>164</u> | <u>1,005,450</u> | <u>28</u> | <u>-</u> | <u>13,957,061</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Certificated salaries | 2,220,716 | 1,913,906 | - | - | - | - | - | 4,134,622 |
| Classified salaries | 705,712 | 1,455,649 | 1,577,945 | - | - | - | - | 3,739,306 |
| Employee benefits | 914,054 | 1,592,359 | 765,438 | - | - | - | - | 3,271,851 |
| Books and supplies | 106,804 | 58,967 | 1,168,317 | - | - | - | - | 1,334,088 |
| Contract services and operating expenditures | 286,117 | 512,838 | (508,554) | - | 1,497 | - | - | 291,898 |
| Capital outlay | <u>7,295</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,295</u> |
| Total expenditures | <u>4,240,698</u> | <u>5,533,719</u> | <u>3,003,146</u> | <u>-</u> | <u>1,497</u> | <u>-</u> | <u>-</u> | <u>12,779,060</u> |
| Excess (deficiency) of revenues over(under) expenditures | <u>262,960</u> | <u>291,210</u> | <u>(380,314)</u> | <u>164</u> | <u>1,003,953</u> | <u>28</u> | <u>-</u> | <u>1,178,001</u> |
| Other financing (uses) sources: | | | | | | | | |
| Transfers in | 60,000 | - | 632,542 | - | - | - | - | 692,542 |
| Transfers out | <u>(158,376)</u> | <u>(289,120)</u> | <u>(213,352)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(660,848)</u> |
| Total other financing (uses) sources | <u>(98,376)</u> | <u>(289,120)</u> | <u>419,190</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>31,694</u> |
| Net change in fund balances | 164,584 | 2,090 | 38,876 | 164 | 1,003,953 | 28 | - | 1,209,695 |
| Fund balances, July 1, 2018 | <u>959,598</u> | <u>30,088</u> | <u>103,791</u> | <u>9,458</u> | <u>170,704</u> | <u>1,618</u> | <u>61,364</u> | <u>1,336,621</u> |
| Fund balances, June 30, 2019 | <u>\$ 1,124,182</u> | <u>\$ 32,178</u> | <u>\$ 142,667</u> | <u>\$ 9,622</u> | <u>\$ 1,174,657</u> | <u>\$ 1,646</u> | <u>\$ 61,364</u> | <u>\$ 2,546,316</u> |

BERKELEY UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN
 FIDUCIARY ASSETS AND LIABILITIES
 STUDENT BODY FUNDS
 For the Year Ended June 30, 2019

| | Balance July 1, 2018 | Additions | Deductions | Balance June 30, 2019 |
|--|----------------------------|------------|------------|-----------------------------|
| Student Body Funds | | | | |
| <u>Berkeley High School</u> | | | | |
| Assets: | | | | |
| Cash on hand and in banks | \$ 349,759 | \$ 531,190 | \$ 451,799 | \$ 429,150 |
| Liabilities: | | | | |
| Due to student groups | \$ 349,759 | \$ 531,190 | \$ 451,799 | \$ 429,150 |
| <u>Longfellow Middle School</u> | | | | |
| Assets: | | | | |
| Cash on hand and in banks | \$ 15,915 | \$ 4,373 | \$ - | \$ 20,288 |
| Liabilities: | | | | |
| Due to student groups | \$ 15,915 | \$ 4,373 | \$ - | \$ 20,288 |
| <u>Martin Luther King, Jr. Middle School</u> | | | | |
| Assets: | | | | |
| Cash on hand and in banks | \$ 16,775 | \$ 8,205 | \$ 11,398 | \$ 13,582 |
| Liabilities: | | | | |
| Due to student groups | \$ 16,775 | \$ 8,205 | \$ 11,398 | \$ 13,582 |
| <u>Willard Middle School</u> | | | | |
| Assets: | | | | |
| Cash on hand and in banks | \$ 20,532 | \$ 2,182 | \$ 24 | \$ 22,690 |
| Liabilities: | | | | |
| Due to student groups | \$ 20,532 | \$ 2,182 | \$ 24 | \$ 22,690 |
| <u>Total Student Body Funds</u> | | | | |
| Assets: | | | | |
| Cash on hand and in banks | \$ 402,981 | \$ 545,950 | \$ 463,221 | \$ 485,710 |
| Liabilities: | | | | |
| Due to student groups | \$ 402,981 | \$ 545,950 | \$ 463,221 | \$ 485,710 |

BERKELEY UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2019

Berkeley Unified School District was established in 1879 and is comprised of an area of approximately 19 square miles located in Alameda County. The District was unified in 1936 with the combining of the elementary and high school districts then in existence in the area of the current district boundaries. There were no changes in the District's boundaries in the current year. The District is currently operating eleven elementary schools and three intermediate schools, one high school, one continuation school, and an independent study program. In addition, the District operates an adult school program.

GOVERNING BOARD

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|----------------------|----------------|---------------------|
| Judy Appel | President | 2020 |
| Beatriz Layva-Cutler | Vice President | 2020 |
| Ty Alper | Director/Clerk | 2022 |
| Ka'Dijah Brown | Director | 2022 |
| Julie Sinai | Director | 2022 |

ADMINISTRATION

Donald Evans, Ed. D.
Superintendent

Pauline Follansbee, CPA
Assistant Superintendent, Business Services

Pasquale Scuderi
Associate Superintendent, Educational Services

Evelyn Tamondong-Bradley
Assistant Superintendent, Human Resources

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2019

| | Second Period Report | Annual Report |
|---|----------------------------|---------------------|
| Certificate Number: | <u>D686623D</u> | <u>F3770C58</u> |
| Elementary: | | |
| Transitional Kindergarten through Third | 2,814 | 2,799 |
| Fourth through Sixth | 2,089 | 2,087 |
| Seventh and Eighth | 1,393 | 1,392 |
| Special Education | <u>31</u> | <u>31</u> |
| Subtotal Elementary | <u>6,327</u> | <u>6,309</u> |
| Secondary: | | |
| Ninth through Twelfth | 3,010 | 2,987 |
| Special Education | 20 | 19 |
| Continuation Education | <u>41</u> | <u>41</u> |
| Subtotal Secondary | <u>3,071</u> | <u>3,047</u> |
| District Totals | <u><u>9,398</u></u> | <u><u>9,356</u></u> |

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2019

| <u>Grade Level</u> | <u>Statutory Minutes Requirement</u> | <u>2018-2019 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Status</u> |
|--------------------|--|---|--|---------------|
| Kindergarten | 36,000 | 46,560 | 180 | In Compliance |
| Grade 1 | 50,400 | 54,570 | 180 | In Compliance |
| Grade 2 | 50,400 | 54,570 | 180 | In Compliance |
| Grade 3 | 50,400 | 54,570 | 180 | In Compliance |
| Grade 4 | 54,000 | 54,570 | 180 | In Compliance |
| Grade 5 | 54,000 | 54,570 | 180 | In Compliance |
| Grade 6 | 54,000 | 54,900 | 180 | In Compliance |
| Grade 7 | 54,000 | 54,900 | 180 | In Compliance |
| Grade 8 | 54,000 | 54,900 | 180 | In Compliance |
| Grade 9 | 64,800 | 65,700 | 180 | In Compliance |
| Grade 10 | 64,800 | 65,700 | 180 | In Compliance |
| Grade 11 | 64,800 | 65,700 | 180 | In Compliance |
| Grade 12 | 64,800 | 65,700 | 180 | In Compliance |

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2019

| Federal Catalog Number | Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass- Through Entity Identifying Number | Federal Expend- itures |
|---|---|---|------------------------------|
| <u>U.S. Department of Education - Passed through California Department of Education</u> | | | |
| | Special Education Cluster: | | |
| 84.027 | Special Education: IDEA Basic Local Assistance Entitlement, Part B | 13379 | \$ 1,781,717 |
| 84.027A | Special Education: IDEA Mental Health Average Daily Attendance Allocation, Part B, Sec 611 | 15197 | 108,731 |
| 84.173 | Special Education: IDEA Preschool Grants, Part B, Sec. 619 | 13430 | <u>35,650</u> |
| | Subtotal Special Education Cluster | | <u>1,926,098</u> |
| | Adult Education Programs: | | |
| 84.002 | Adult Education: Adult Secondary Education | 13978 | 227,700 |
| 84.002A | Adult Education: Adult Basic Education & ESL | 14508 | 450,263 |
| 84.002A | Adult Education: English Literacy & Civics Education | 14109 | <u>181,279</u> |
| | Subtotal Adult Education Programs | | <u>859,242</u> |
| | ESEA: Title III Programs: | | |
| 84.365 | ESEA: Title III, English Learner Student Program | 14346 | 57,410 |
| 84.365 | ESEA: Title III, Immigrant Student Program | 15146 | <u>37,538</u> |
| | Subtotal ESEA: Title III Programs | | <u>94,948</u> |
| 84.010 | ESEA: Title I, Part A, Basic Grants Low Income and Neglected | 14329 | 945,728 |
| 84.048 | Carl D. Perkins Career and Technical Education: Secondary, Section 131 | 14894 | 46,374 |
| 84.158 | Department of Rehabilitation: Workability II, Transitions Partnership Program | 10006 | 87,040 |
| 84.181 | Special Education:IDEA Early Intervention Grants, Part C | 23761 | 6,461 |
| 84.367 | ESEA: Title II, Part A, Supporting Effective Instruction Local Grants | 14341 | <u>310,652</u> |
| | Total U.S. Department of Education | | <u>4,276,543</u> |

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 For the Year Ended June 30, 2019

| <u>Federal Catalog Number</u> | <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Pass- Through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|--|--|---------------------------------|
| <u>U.S. Department of Health and Human Services - Passed through California Department of Education</u> | | | |
| 93.596 | Child Development: Federal General Child Care and Development | 13609 | \$ 530,623 |
| 93.243 | Advancing Wellness & Resilience in Education | 15289 | 48,419 |
| 93.778 | Medi-Cal Billing Option - Medicaid Cluster | 10013 | <u>134,307</u> |
| | Total U.S. Department of Health and Human Services | | <u>713,349</u> |
| <u>U.S. Department of Agriculture - Passed through California Department of Education</u> | | | |
| 10.558 | Child Nutrition: CACFP Claims - Centers and Family Day Care | 13393 | 221,036 |
| 10.555 | Child Nutrition Cluster: Child Nutrition: School Programs | 14906 | <u>1,848,853</u> |
| | Total U.S. Department of Agriculture | | <u>2,069,889</u> |
| | Total Federal Programs | | <u>\$ 7,059,781</u> |

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

There were no adjustments proposed to any funds of the District.

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2019
(UNAUDITED)

| | (Budget) 2020 | 2019 | 2018 | 2017 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>General Fund</u> | | | | |
| Revenues and other financing sources | \$ 159,370,152 | \$ 166,979,409 | \$ 157,578,767 | \$ 144,448,241 |
| Expenditures | 156,383,608 | 163,041,514 | 148,538,922 | 146,401,027 |
| Other uses and transfers out | <u>1,108,526</u> | <u>990,272</u> | <u>1,476,164</u> | <u>1,783,825</u> |
| Total outgo | <u>157,492,134</u> | <u>164,031,786</u> | <u>150,015,086</u> | <u>148,184,852</u> |
| Change in fund balance | <u>\$ 1,878,018</u> | <u>\$ 2,947,623</u> | <u>\$ 7,563,681</u> | <u>\$ (3,736,611)</u> |
| Ending fund balance | <u>\$ 35,515,706</u> | <u>\$ 33,637,688</u> | <u>\$ 30,690,065</u> | <u>\$ 23,126,384</u> |
| Available reserves | <u>\$ 10,163,971</u> | <u>\$ 5,819,551</u> | <u>\$ 6,957,402</u> | <u>\$ 8,435,333</u> |
| Designated for economic uncertainties | <u>\$ 3,661,986</u> | <u>\$ 3,900,375</u> | <u>\$ 4,579,406</u> | <u>\$ 4,402,141</u> |
| Undesignated fund balance | <u>\$ 6,501,985</u> | <u>\$ 1,919,176</u> | <u>\$ 2,377,996</u> | <u>\$ 4,033,192</u> |
| Available reserves as a percentage of total outgo | <u>6.5%</u> | <u>3.5%</u> | <u>4.6%</u> | <u>5.7%</u> |
| <u>All Funds</u> | | | | |
| Total long-term liabilities | <u>\$ 516,622,195</u> | <u>\$ 534,823,252</u> | <u>\$ 440,432,976</u> | <u>\$ 435,213,713</u> |
| Average daily attendance at P-2 | <u>9,365</u> | <u>9,398</u> | <u>9,365</u> | <u>9,198</u> |

The General Fund fund balance has increased by \$6,774,693 over the past three fiscal years. The District projects an increase of \$1,878,018 for the year ending June 30, 2020. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses be maintained. For the year ended June 30, 2019, the District has met this requirement. For the purposes of calculating the District's available reserves, the ending fund balance of the Special Reserve for Other Than Capital Projects Fund is included as designated for economic uncertainties.

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating surplus during 2019-20 fiscal year.

Total long-term liabilities have increased by \$99,609,539 over the past two years.

Average daily attendance has increased by 200 over the past two years. The District anticipates a decrease of 33 ADA during the fiscal year ending June 30, 2020.

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2019

Charter Schools Chartered by District

1255 - REALM Charter School Amended

Included in District
Financial Statements, or
Separate Report

Separate Report*

* The charter for REALM was revoked by the California Department of Education effective June 30, 2019.

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 June 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Berkeley Unified School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent either expenditures from Federal entitlement programs where the revenues have not been received by June 30, 2019, or Federal revenues which are not required to be presented in the Schedule of Expenditure of Federal Awards.

| <u>Description</u> | <u>CFDA Number</u> | <u>Amount</u> |
|---|------------------------|---------------------|
| Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances | | \$ 8,049,806 |
| Less: | | |
| Medi-Cal Billing Funds unspent | 93.778 | (39,147) |
| Federal interest reimbursement on Build America Bonds | * | <u>(950,878)</u> |
| Total Schedule of Expenditure of Federal Awards | | <u>\$ 7,059,781</u> |

* There is no CFDA number associated with this Federal revenue.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

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

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

E - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2019-2020 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2019, the District did not adopt such a program.



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

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on Compliance with State Laws and Regulations

We have audited Berkeley Unified School District's compliance with the types of compliance requirements described in the State of California's *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2019.

| <u>Description</u> | <u>Procedures Performed</u> |
|--|-----------------------------|
| Attendance | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | Yes |
| Continuation Education | No, see below |
| Instructional Time | Yes |
| Instructional Materials | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | No, see below |
| Gann Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | No, see below |
| Middle or Early College High Schools | No, see below |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Apprenticeship: Related and Supplemental Instruction | No, see below |
| Comprehensive School Safety Plan | Yes |
| District of Choice | No, see below |
| California Clean Energy Jobs Act | Yes |
| After/Before School Education and Safety Program: | |
| General requirements | Yes |
| After school | Yes |
| Before school | Yes |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control and Accountability Plan | Yes |
| Independent Study – Course Based | No, see below |
| Attendance, for charter schools | No, see below |
| Mode of Instruction, for charter schools | No, see below |
| Nonclassroom-Based Instruction/Independent Study, for charter schools | No, see below |
| Determination of Funding for Nonclassroom-Based Instruction, for charter schools | No, see below |
| Annual Instructional Minutes Classroom-Based, for charter schools | No, see below |
| Charter School Facility Grant Program | No, see below |

(Continued)

The ADA reported for Continuation Education was below the level required for testing; therefore, we did not perform any procedures related to Continuation Education.

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

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

The District did not report any attendance hours for Apprenticeship: Related and Supplemental Instruction; therefore, we did not perform any procedures related to this program.

The District did is not a District of Choice; therefore, we did not perform any procedures related to District of Choice.

The District did not report any ADA for an Independent Study-Course Based program; therefore, we did not perform any procedures related to Independent Study-Course Based.

The District does not include any charter schools in this report; therefore, we did not perform any procedures related to Charter Schools.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Compliance with State Laws and Regulations

In our opinion, Berkeley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2019.

Purpose of this Report

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

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Sacramento, California
December 12, 2019

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

Board of Trustees
Berkeley Unified School District
Berkeley, 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 Berkeley Unified School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Berkeley Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

(Continued)

Purpose of this Report

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

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and fluid.

Crowe LLP

Sacramento, California
December 12, 2019

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

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

(Continued)

Report on Internal Control Over Compliance

Management of Berkeley 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 Berkeley Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Berkeley Unified School District's internal control over compliance.

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

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

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



Crowe LLP

Sacramento, California
December 12, 2019

FINDINGS AND RECOMMENDATIONS

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

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 No

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

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

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

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-------------------------|---|
| 84.027, 84.173, 84.027A | Special Education Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

STATE AWARDS

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

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

BERKELEY UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2019

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>District Explanation If Not Implemented</u> |
|-------------------------------|-----------------------|--|
| No matters were reported. | | |