

Upper Lake Unified School District

County of Lake

Upper Lake, California

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2018



**K • C O E
I S O M**

Upper Lake Unified School District

TABLE OF CONTENTS

June 30, 2018

	<u>Page Number</u>
Independent Auditors' Report	1
 FINANCIAL SECTION	
 Required Supplementary Information	
Management's Discussion and Analysis	6
 Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of Governmental Fund Balances to Government-Wide Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of Net Change in Fund Balances to Change in Net Position	21
Statement of Fiduciary Net Position – Fiduciary Funds	23
Notes to the Financial Statements	24
 Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	62
Notes to the Budgetary Comparison Schedule	63
Schedule of Changes in District's Total OPEB Liability and Related Ratios	64
Schedule of District's Proportionate Share of the Net Pension Liability –	
California State Teachers' Retirement System	65
Schedule of District's Contributions – California State Teachers' Retirement System	66
Schedule of District's Proportionate Share of the Net Pension Liability –	
California Public Employees' Retirement System	67
Schedule of District's Contributions – California Public Employees' Retirement System	68
Notes to the Required Supplementary Information	69
 OTHER SUPPLEMENTARY INFORMATION SECTION	
Local Educational Agency Organization Structure	72
Schedule of Charter Schools	73
Schedule of Average Daily Attendance	74
Schedule of Instructional Time	75
Schedule of Financial Trends and Analysis	76
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	77
Schedule of Expenditures of Federal Awards	78
Note to the Other Supplementary Information	79

Upper Lake Unified School District

TABLE OF CONTENTS

June 30, 2018

(Continued)

Page Number

OTHER REPORTS SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	81
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	83
Independent Auditors' Report on State Compliance	86

FINDINGS AND QUESTIONED COSTS SECTION

Schedule of Findings and Questioned Costs	91
Corrective Action Plan	100
Summary Schedule of Prior Audit Findings	101



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, 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 Upper Lake Unified School District (the District) as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinions

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

Other Matters

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

Other Information Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information on pages 72 to 77 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 74 to 78 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT

(Continued)

The local educational agency organization structure and the schedule of charter schools have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KCoe Jam, LLP

February 11, 2019
Chico, California

FINANCIAL SECTION

Required Supplementary Information

Upper Lake Union High School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

An overview of the Upper Lake Unified School District's (the District) financial activities for the fiscal year ended June 30, 2018, is provided in this management's discussion and analysis of the District's financial performance.

As discussed in note 1 to the basic financial statements, the District implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, as amended by GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. The summarized comparative information presented in this management's discussion and analysis for the year ended June 30, 2017, has not been restated to reflect OPEB expense accounting as required by GASB Statement No. 75, as amended by GASB Statement No. 85. Information was not available for such restatement. Therefore, certain accounts fluctuate significantly between fiscal years 2016-17 and 2017-18 due to information for the two years not being comparable.

This management's discussion and analysis (MD&A) should be read in conjunction with the District's financial statements (including notes and supplementary information).

USING THIS ANNUAL REPORT

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

- The first two statements are *government-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 government-wide statements. The District maintains governmental funds and fiduciary funds as follows:
 - *Governmental Funds*: Statements provide information on how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *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 explains and supports the financial statements with a comparison of the District's budget for the year.

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL HIGHLIGHTS

Overall revenues were \$10,553,669 for the year ended June 30, 2018. Expenses were exceeded by revenues by \$1,482,508.

Total net position in governmental funds was \$2,188,732. The General Fund reported a total fund balance of \$4,985,312.

Enrollment in the District was 838 students during 2017-18.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets owned less the liabilities owed. The statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The two statements report the District's net position and how it has changed.

Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are 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 statement of net position and the statement of activities divide the District into two kinds of activities:

Governmental Activities: Represent the basic services provided by the District, such as regular and special education, administration, and transportation.

Business-Type Activities: Represent services for which the District charges fees to help cover the cost of certain services beyond the scope of normal district operations. The District does not have any of these types of activities at this time.

Upper Lake Unified School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fund Financial Statements

More detailed information about the District's most significant funds – not the District as a whole – is provided in the fund financial statements. 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 bond covenants and by state law.
- Other funds are established by the District to control and manage money for particular purposes (such as repaying its long-term debts). Other funds may also show proper usage of certain revenues (such as federal grants).

The District has two types of funds:

Governmental Funds

Most of the District's basic services are included in governmental funds, which generally focus on:

- How cash and other financial assets can readily be converted to cash flow (in and out).
- The balances left at year end that are available for spending.

A detailed short-term view is provided by the governmental fund statements. These help determine whether there are more or fewer financial resources that can be spent in the near future for financing the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental fund statements that explains the differences (or relationships) between them.

Fiduciary Funds

For assets that belong to others, such as the student activities funds, the District acts as the trustee, or fiduciary. 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. A separate statement of fiduciary net position reports the District's fiduciary activities. These activities are excluded from the government-wide financial statements, as the assets cannot be used by the District to finance its operations.

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

As shown in the following table, the District's net position as of June 30, 2018, was \$2,188,732. Of this amount, a negative \$7,935,119 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the Board of Trustees' ability to use the net position for day-to-day operations. All District net position is the result of governmental activities.

June 30	Governmental Activities		Percentage Change 2017-18
	2017	2018	
ASSETS			
Cash and investments	\$ 3,975,918	\$ 3,758,288	-5.5%
Receivables	458,914	427,251	-6.9%
Other assets	13,447 *	28,429	111.4%
Restricted cash and investments	-	2,888,740	N/A
Capital assets - net	9,542,168	10,336,614	8.3%
TOTAL ASSETS	13,990,447 *	17,439,322	24.7%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pensions	1,704,120	2,606,190	52.9%
LIABILITIES			
Accounts payable and other liabilities	409,152	797,661	95.0%
Advances from grantors	141,310	246,138	74.2%
Long-term debt	11,264,930 *	16,492,653	46.4%
TOTAL LIABILITIES	11,815,392 *	17,536,452	48.4%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pensions	207,935	309,570	48.9%
Deferred inflows of resources for OPEB	-	10,758	N/A
TOTAL DEFERRED INFLOWS OF RESOURCES	207,935	320,328	54.1%
NET POSITION			
Net investment in capital assets	12,901,346	5,897,719	-54.3%
Restricted	1,443,187	4,226,132	192.8%
Unrestricted	(10,673,293) *	(7,935,119)	25.7%
TOTAL NET POSITION	\$ 3,671,240 *	\$ 2,188,732	-40.4%

* As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Change in Net Position

The following table summarizes the change in net position for the District.

Total revenues were \$10,553,669. Property taxes and state aid funding accounted for most of the District's income, representing 79.7% of total revenues. Another 18.6% came from federal and state aid for specific programs, and the remaining 1.7% came from fees charged for services and miscellaneous sources.

The total cost of all programs and services was \$12,036,177. Expenses exceeded the District's revenues for the year by \$1,482,508. The District's expenses are primarily related to educating and caring for students (74.3%). Administrative activities of the District account for 9.5% of the total costs and plant maintenance activities account for another 10.6%.

Years Ended June 30	Governmental Activities		Percentage
	2017	2018	Change 2017-18
REVENUES			
Program Revenues			
Charges for services	\$ 50,395	\$ 34,994	-30.6%
Federal and state categorical programs	1,697,893	1,962,609	15.6%
General Revenues			
Property taxes	2,576,099	2,547,674	-1.1%
State formula aid	5,904,180	5,862,275	-0.7%
Other	486,466	146,117	-70.0%
TOTAL REVENUES	10,715,033	10,553,669	-1.5%
EXPENSES			
Instruction-related services	6,441,224	7,066,978	9.7%
Student support services	1,703,722	1,875,473	10.1%
Ancillary	211,424	212,914	0.7%
Plant services	1,370,126	1,277,704	-6.7%
Administration	950,448	1,145,300	20.5%
Other	178,673	457,808	156.2%
TOTAL EXPENSES	10,855,617	12,036,177	10.9%
Change in Net Position	\$ (140,584)	\$ (1,482,508)	-954.5%

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District's governmental funds reported a combined fund balance of \$6,093,318. Following is a summary of the District's fund balances.

June 30	Fund Balance		Increase (Decrease)
	2017	2018	
General	\$ 2,693,817	\$ 4,985,312	\$ 2,291,495
Cafeteria Special Revenue	31,345	9,037	(22,308)
Building	990	998	8
Capital Facilities	590,763	548,974	(41,789)
State School Building Lease-Purchase	105	106	1
County School Facilities	4,210	4,311	101
Special Reserve Capital Projects	191,138	192,704	1,566
Bond Interest and Redemption	385,449	351,876	(33,573)
Total	\$ 3,897,817	\$ 6,093,318	\$ 2,195,501

The increase in the General Fund is due to the issuance of Qualified Zone Academy Bonds (QZAB) notes payable for solar panel construction and energy efficient improvements and the issuance of \$2,855,000 of certificates of participation.

The decrease in the Capital Facilities Fund is due to expenditures for the gym floors at Upper Lake Middle School and Upper Lake High School exceeding interest earnings and developer fee collections.

The decrease in the Bond Interest and Redemption Fund is due to interest and principal payments on the general obligations bonds exceeding property tax collections.

General Fund Budgetary Highlights

During the course of the year, the District revises its budget as information is available that results in changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received for the General Fund is provided in the budgetary comparison schedule for the General Fund.

Budgeted revenues increased by \$544,968 and budgeted expenditures increased by \$2,022,848 during 2017-18.

The District budgeted General Fund revenues and other financing sources to exceed expenditures and other financing uses by \$2,442,188. However, actual results for the year reflected an increase of \$2,291,495. This was due to decreased revenues and increased expenditures related to employee benefits.

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The District has invested \$16,071,779 in capital assets including land, construction in progress, site improvements, buildings, and equipment. During 2017-18, the District replaced roofing district-wide, installed three HVACs, and completed various other improvement projects. Construction in progress consists primarily of solar and energy upgrades.

June 30	Governmental Activities		Percentage Change 2017-18
	2017	2018	
Land	\$ 210,000	\$ 210,000	0.0%
Construction in progress	-	930,565	N/A
Buildings and improvements	12,916,082	13,205,728	2.2%
Equipment and vehicles	1,698,217	1,725,486	1.6%
Total	\$ 14,824,299	\$ 16,071,779	8.4%

Long-Term Debt

At year end, the District had \$16,492,653 in outstanding long-term debt. The District made regularly scheduled payments on its general obligation bonds, capital leases, and note payable. In addition, the District issued an additional QZAB note payable and certificates of participation to fund the solar and energy upgrades that are in progress. On December 20, 2018, the District issued an additional \$5.5 million in general obligation bonds at a premium of \$227,583, to be used for capital projects.

June 30	Governmental Activities		Percentage Change 2017-18
	2017	2018	
General obligation bonds	\$ 794,302	\$ 672,806	-15.3%
Capitalized interest	1,378,773	1,279,351	-7.2%
Capital leases	224,564	205,757	-8.4%
Compensated absences	21,622	42,052	94.5%
Notes payable	960,549	2,146,622	123.5%
Certificates of participation	-	2,803,677	N/A
Early retirement incentives	-	217,138	N/A
Total OPEB liability	346,252 *	363,193	4.9%
Net pension liability	7,538,868	8,762,057	16.2%
Total	\$ 11,264,930 *	\$ 16,492,653	46.4%

* As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.

Upper Lake Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has begun the process of improving its physical plant, and is using QZAB funds to complete an extension of the solar field to generate more energy savings in conjunction with its Proposition 39 funding. The District is also using the certificates of participation proceeds to finance capital projects.

On December 20, 2018, the District issued \$5.5 million in general obligation bonds at a premium of \$227,583, to be used toward capital projects at the elementary and middle schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, please contact:

Michael Kauble, Chief Business Official
Upper Lake Unified School District
675 Clover Valley Road
Upper Lake, CA 95485

Basic Financial Statements

Upper Lake Unified School District

STATEMENT OF NET POSITION

June 30, 2018	Governmental Activities
ASSETS	
Cash and investments	\$ 3,758,288
Accounts receivable	44,392
Due from other governments	382,859
Inventories	4,683
Prepaid expenses	23,746
Restricted cash and investments	2,888,740
Nondepreciated capital assets	1,140,565
Depreciated capital assets	14,931,214
Accumulated depreciation	(5,735,165)
TOTAL ASSETS	17,439,322
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources for pensions	2,606,190
LIABILITIES	
Accounts payable and other current liabilities	592,289
Due to other governments	205,372
Advances from grantors	246,138
Long-term obligations:	
Due within one year	435,105
Due beyond one year	16,057,548
TOTAL LIABILITIES	17,536,452
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources for pensions	309,570
Deferred inflows of resources for OPEB	10,758
TOTAL DEFERRED INFLOWS OF RESOURCES	320,328
NET POSITION	
Net investment in capital assets	5,897,719
Restricted for capital projects	3,222,709
Restricted for debt service	351,876
Restricted for educational programs	647,423
Restricted for other purposes	4,124
Unrestricted	(7,935,119)
TOTAL NET POSITION	\$ 2,188,732

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

Upper Lake Unified School District
STATEMENT OF ACTIVITIES

Year Ended June 30, 2018	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position - Governmental Activities
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities:				
Instruction	\$ 6,103,903	\$ 23,805	\$ 947,181	\$ (5,132,917)
Instruction-related services	963,075	1,628	78,985	(882,462)
Pupil services	1,875,473	7,432	507,730	(1,360,311)
Ancillary services	212,914	-	4,171	(208,743)
General administration	1,145,300	1,070	101,003	(1,043,227)
Plant services	1,277,704	-	233,347	(1,044,357)
Other outgo	286,233	1,059	90,192	(194,982)
Interest on long-term debt	171,575	-	-	(171,575)
Total Governmental Activities	\$ 12,036,177	\$ 34,994	\$ 1,962,609	(10,038,574)
GENERAL REVENUES				
Property taxes - levied for general purposes				2,202,519
Property taxes - levied for debt service				295,253
Property taxes - levied for other specific purposes				49,902
Federal and state aid not restricted to specific purposes				5,862,275
Unrestricted investment earnings				29,412
Interagency revenues				16,908
Miscellaneous				99,797
Total General Revenues				8,556,066
Change in Net Position				(1,482,508)
Net Position - as Previously Reported				4,049,143
Cumulative effect of changes in accounting principles				(377,903)
Net Position - as Restated				3,671,240
Net Position - End of Year				\$ 2,188,732

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

Upper Lake Unified School District
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2018	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,595,256	\$ 1,163,032	\$ 3,758,288
Accounts receivable	44,392	-	44,392
Due from other governments	382,859	-	382,859
Due from other funds	32,588	-	32,588
Inventories - supplies and materials	-	4,683	4,683
Prepaid expenditures	23,746	-	23,746
Restricted cash and investments	2,888,740	-	2,888,740
TOTAL ASSETS	\$ 5,967,581	\$ 1,167,715	\$ 7,135,296
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and other current liabilities	\$ 557,759	\$ 121	\$ 557,880
Due to other governments	205,372	-	205,372
Due to other funds	-	32,588	32,588
Advances from grantors	219,138	27,000	246,138
Total Liabilities	982,269	59,709	1,041,978
Fund Balances			
Nonspendable	25,746	4,913	30,659
Restricted	3,315,743	910,389	4,226,132
Assigned	724,259	192,704	916,963
Unassigned	919,564	-	919,564
Total Fund Balances	4,985,312	1,108,006	6,093,318
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,967,581	\$ 1,167,715	\$ 7,135,296

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

Upper Lake Unified School District

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2018

Total Fund Balances - Governmental Funds	\$ 6,093,318
---	---------------------

Amounts reported for assets, deferred outflows of resources, liabilities, and deferred inflows of resources for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$ 16,071,779
Accumulated depreciation	(5,735,165)

Total Capital Assets - Net	10,336,614
-----------------------------------	-------------------

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

(34,409)

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

General obligation bonds	1,952,157
Certificates of participation	2,803,677
Total OPEB liability	363,193
Net pension liability	8,762,057
Compensated absences	42,052
Capital leases	205,757
Notes payable	2,146,622
Early retirement incentives	217,138

Total Long-Term Liabilities	(16,492,653)
------------------------------------	---------------------

Balance Forward	\$ (97,130)
------------------------	--------------------

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

Upper Lake Unified School District

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO GOVERNMENT-WIDE NET POSITION

June 30, 2018

Balance Brought Forward	\$	(97,130)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported:		
Deferred outflows of resources relating to pensions		2,606,190
Deferred inflows of resources relating to pensions		(309,570)
Deferred outflows and inflows of resources relating to other postemployment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to OPEB are reported:		
Deferred inflows of resources relating to OPEB		(10,758)
Total Net Position - Governmental Activities	\$	2,188,732

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

Upper Lake Unified School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2018	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 2,202,519	\$ 295,253	\$ 2,497,772
Local control funding formula sources	5,549,657	-	5,549,657
Other state revenue	1,104,236	26,281	1,130,517
Federal revenue	617,045	372,992	990,037
Other local revenue	536,203	33,334	569,537
Total Revenues	10,009,660	727,860	10,737,520
Expenditures			
Current:			
Instruction	5,715,399	-	5,715,399
Instruction-related services	927,913	-	927,913
Pupil services	1,048,599	597,753	1,646,352
Ancillary services	195,587	-	195,587
General administration	1,009,898	-	1,009,898
Plant services	1,153,285	-	1,153,285
Transfers between agencies	20,305	-	20,305
Debt service:			
Principal	79,734	121,496	201,230
Interest and other charges	26,579	208,504	235,083
Issuance costs	318,756	-	318,756
Capital outlay	1,151,858	68,353	1,220,211
Total Expenditures	11,647,913	996,106	12,644,019
Excess (Deficiency) of Revenues Over Expenditures	(1,638,253)	(268,246)	(1,906,499)
Other Financing Sources (Uses)			
Interfund transfers in	-	172,252	172,252
Interfund transfers out	(172,252)	-	(172,252)
Other sources	1,247,000	-	1,247,000
Proceeds from certificates of participation	2,855,000	-	2,855,000
Total Other Financing Sources (Uses)	3,929,748	172,252	4,102,000
Net Change in Fund Balances	2,291,495	(95,994)	2,195,501
Fund Balances - Beginning of Year	2,693,817	1,204,000	3,897,817
Fund Balances - End of Year	\$ 4,985,312	\$ 1,108,006	\$ 6,093,318

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

Upper Lake Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION

Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 2,195,501
---	---------------------

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

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 1,257,480
Depreciation expense	(463,034)

Net Capital Outlay	794,446
---------------------------	----------------

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principle portion of long-term debt were:

201,230

Debt proceeds: In governmental funds, proceeds from long-term debt are recognized as other financing sources. In the government-wide statements, proceeds from long-term debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from long-term debt, net of issue premium or discount, were:

(4,049,172)

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

65,013

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

(20,430)

Balance Forward	\$ (813,412)
------------------------	---------------------

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

Upper Lake Unified School District

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION (Continued)

Year Ended June 30, 2018

Balance Brought Forward	\$ (813,412)
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was:	(422,754)
Other postemployment benefits (OPEB): In governmental funds, OPEB expenses are recognized when employer OPEB contributions are made. In the statement of activities, OPEB expenses are recognized on the accrual basis. This year, the difference between OPEB expenses and actual employer OPEB contributions was:	(27,699)
Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:	(217,138)
Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding, for the period is:	(1,505)
Change in Net Position of Governmental Activities	\$ (1,482,508)

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

Upper Lake Unified School District

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

	Foundation Private- Purpose Trust		Agency
June 30, 2018			
ASSETS			
Cash and investments	\$	5	\$ 467,707
Accounts receivable		-	1,853
TOTAL ASSETS		5	\$ 469,560
LIABILITIES			
Accounts payable		-	\$ 280,989
Due to student groups		-	188,571
TOTAL LIABILITIES		-	\$ 469,560
NET POSITION			
Held in trust for scholarships	\$	5	

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

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The District is governed by an elected five-member board. The District operates one elementary school, one middle school, one high school, one community day school, one continuation high school, and an adult education program in Upper Lake, California.

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's, *California School Accounting Manual*. The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP, and used by the District, are discussed below.

Implementation of New Accounting Standards

Governmental Accounting Standards Board, Statement No. 75 The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, for the fiscal year ended June 30, 2018. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Governmental Accounting Standards Board, Statement No. 85 The District adopted the provisions of GASB Statement No. 85, *Omnibus 2017*, for the fiscal year ended June 30, 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. It addresses the timing of the measurement of pension or OPEB liabilities and expenditures recognized, recognizing on-behalf payments for pensions or OPEB, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

As a result of the adoption of GASB Statement No. 75 and 85, net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75 and 85:

Net Position - as Previously Reported	\$ 4,049,143
Cumulative Effect of Change in Accounting Principles	
Total OPEB liability	(377,903)
Net Position - as Restated	\$ 3,671,240

Basis of Presentation

Government-Wide Financial Statements The statement of net position and statement of activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

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

Fund Financial Statements Fund financial statements are organized by funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The funds of the District are described below.

Governmental Funds

General Fund The general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds Funds that are established to account for the proceeds from specific resources that are restricted to the financing of particular activities.

1. Cafeteria Special Revenue Fund is used to account separately for federal, state, and local resources received to operate the District's food service program (*California Education Code*, Sections 38091 and 38100).

Capital Projects Funds Funds that are established to account for financial resources to be used for the acquisition or construction of major capital facilities.

1. Building Fund exists primarily to account separately for proceeds from the sale of bonds (*California Education Code*, Section 15146).
2. Capital Facilities Fund is used primarily to account for funds received from fees levied on developers or others as a condition for approving development (*California Education Code*, Sections 17620-17626).
3. State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments as provided by *California Education Code*, Sections 17000-17039.
4. County School Facilities Fund is used to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*California Education Code*, Section 17070.10).
5. Special Reserve Fund is used to account for resources designated for capital outlay projects (*California Education Code*, Section 42840).

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

1. Bond Interest and Redemption Fund is used to account for the repayment of bonds (*California Education Code*, Sections 15125-15262).

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Fiduciary Funds

Private-Purpose Trust Funds Funds that are used to account for assets held by the District as trustee pursuant to formal agreements with donors and under which neither principal nor income may be used for purposes that support the District's own programs. The Foundation Private-Purpose Trust Fund is used to account separately for gifts or bequests that provide scholarships to students of the District.

Agency Funds Funds that are used to account for assets of others for whom the District acts as an agent.

1. Warrant/Pass-Through Fund is used to account for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.
2. Student Body Fund is used to account for the transactions of the associated student body in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*California Education Code*, Sections 48930-48938).

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Major Governmental Funds:

General Fund

Nonmajor Governmental Funds:

Cafeteria Special Revenue Fund

Building Fund

Capital Facilities Fund

State School Building Lease-Purchase Fund

County School Facilities Fund

Special Reserve Capital Projects Fund

Bond Interest and Redemption Fund

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

In the fund financial statements, governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within one year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District’s Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District’s Governing Board satisfied these requirements.

These budgets are revised by the District’s Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures legally cannot exceed appropriations by major object account.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Lake County Treasury (the County) as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the County pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2018, the fair value of the County pool was 100.09% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the County was not available. The County investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The change in the fair value of investments was insignificant during the year ended June 30, 2018, and there was no significant unrealized gain or loss on investments held at June 30, 2018.

Restricted Cash, Cash Equivalents, and Investments

Certain restricted cash, cash equivalents, and investments are held by a fiscal agency in trust for certain capital projects. Restricted cash and cash equivalents are combined with investments and displayed as restricted cash and investments.

Accounts Receivable and Due From Other Governments

Accounts receivable represent amounts due from private persons, firms, or corporations based on contractual agreements or amounts billed, but not received, as of June 30, 2018. Amounts due from other governments include entitlements and grants from federal, state, and local governments that the District has earned or been allocated, but has not received, as of June 30, 2018. At June 30, 2018, no allowance for doubtful accounts was deemed necessary.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Balances Due To/From Other Funds

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Balances due to/from other funds between funds within governmental activities are eliminated in the statement of net position.

Inventories and Prepaid Expenses

Inventories consist of supplies and materials. Expenses are recorded as the supplies and materials are consumed. Inventories are valued on the average cost method for purchased supplies and materials. Donated commodities inventory is valued at its fair value at the time of donation. Prepaid expenses consist of operating expenses for which payment is due in advance and are expensed when the benefit is received.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All fixed assets are valued at historical cost, or estimated historical cost if the actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives in years by type of asset is as follows:

School buildings	7-50
Portable classrooms	20
Site improvements	7-20
Equipment	5-20
Vehicles	5-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Advances From Grantors

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Advances from grantors are recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures.

Compensated Absences

The liability for earned but unused vacation leave is recorded as long-term debt for compensated absences in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), which will only be recognized as an outflow of resources (expense/expenditures) in the future. District contributions subsequent to the measurement date related to pension plans, are reported as deferred outflows of resources in the government-wide statement of net position. District contributions subsequent to the measurement date will be amortized during the next fiscal year.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and would only be recognized as an inflow of resources (revenue) at that time.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Changes in proportion and differences between the District's contributions and proportionate share of pension contributions, the District's proportionate share of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over the estimated service lives of the pension plan participants.

Differences between projected and actual earnings on OPEB plan investments, changes in assumptions, and the differences between the District's expected and actual experience, are reported as deferred inflows of resources or deferred outflows of resources in the government-wide statement of net position. These amounts are amortized over closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan.

Equity Classifications

Government-Wide Statements Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: Consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, leases, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Statements Governmental fund equity is classified as fund balance. Fund balance is further classified and displayed in five components:

Nonspendable Fund Balance: Consists of amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Fund Balance: Consists of amounts that can be spent only for specific purposes because of constraints that are externally imposed by groups such as creditors, grantors, contributors, laws or regulations of other governments, or because of laws through constitutional provisions or enabling legislation.

Committed Fund Balance: Consists of amounts that can be used only for specific purposes determined by a formal action of the District's Board of Trustees. The District's Board of Trustees is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or budget adoption approved by the District's Board of Trustees.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Assigned Fund Balance: Consists of amounts that the District intends to use for specific purposes. Assignments may be established either by the District's Board of Trustees or a designee of the District's Board of Trustees.

Unassigned Fund Balance: Consists of the residual balance in the General Fund that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than 4% of total General Fund's expenditures and other financing uses.

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

Local Control Funding Formula Grant and Property Tax

The District's local control funding formula (LCFF) grant is received from a combination of local property taxes and state apportionments.

Lake County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. Secured property taxes attach as an enforceable lien on property as of January 1. Property taxes on the secured roll are due on December 10 and April 10 and become delinquent after December 10 and April 10, respectively.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

Property taxes are recorded as LCFF sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state's General Fund and is referred to as the state apportionment. The District's LCFF provides a base grant per average daily attendance (ADA), which varies by grade span, plus supplemental and concentration grants that reflect student demographic factors and categorical programs.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Revenue – Nonexchange Transactions

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Expenditures and Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental funds – by character:

- Current (further classified by function)

- Debt service

- Capital outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Pensions

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

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS

The following is a summary of cash and investments:

June 30, 2018	Maturities	Fair Value
Deposits (1)	\$	190,691
Investments That Are Not Securities (2)		
County treasurer's investment pool	4.4 months average	4,034,222
Open-end mutual fund		1,087
Subtotal		4,035,309
Total Cash and Investments		4,226,000
Less: Trust fund cash and investments		5
Less: Agency fund cash and investments		467,707
Total Cash and Investments Per Government-Wide Statement of Net Position	\$	3,758,288

- (1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.
- (2) **Investments That Are Not Securities** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

3. RESTRICTED CASH AND INVESTMENTS

The following is a summary of restricted cash and investments with fiscal agents:

June 30, 2018	Maturities	Fair Value
Deposits (1)	\$	2,888,740

- (1) **Deposits** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposit, and money market accounts at financial institutions, if any.

Credit Risk – Investments

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. The District has no investment policy that would further limit its investment choices. The District's investment in the County investment pool is unrated.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; and level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2018:

- County treasurer's investment pool of \$4,034,222 is valued using quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active (level 2 inputs).
- Open-end mutual fund of \$1,087 is valued using quoted market prices (level 1 inputs).

Concentration of Credit Risk – Investments

California Government Code, Section 53635, places the following concentration limits on the County investment pool:

No more than 40% may be invested in eligible commercial paper; no more than 10% may be invested in the outstanding commercial paper of any single issuer; and no more than 10% of the outstanding commercial paper of any single issuer may be purchased.

California Government Code, Section 53601, places the following concentration limits on the District's investments:

No more than 5% may be invested in the securities of any one issuer, except the obligations of the U.S. government, U.S. government agencies, and U.S. government-sponsored enterprises; no more than 10% may be invested in any one mutual fund; no more than 25% may be invested in commercial paper; no more than 10% of the outstanding commercial paper of any single issuer may be purchased; no more than 30% may be invested in bankers' acceptances of any one commercial bank; no more than 30% may be invested in negotiable certificates of deposit; no more than 20% may be invested in reverse repurchase agreements; and no more than 30% may be invested in medium-term notes.

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

June 30, 2018	General Fund
Other	\$ 44,392

5. DUE FROM OTHER GOVERNMENTS

Due from other governments consisted of the following:

June 30, 2018	General Fund
Due From	
Federal government	\$ 222,002
State government	109,319
Local governments	51,538
Total	\$ 382,859

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. INTERFUND TRANSFERS AND BALANCES DUE TO/FROM OTHER FUNDS

Balances Due To/From Other Funds

Balances due to/from other funds in the fund financial statements are as follows:

Due From Other Funds	Due to Other Funds		
General	Cafeteria Special Revenue	\$	32,588

The specific purposes of the balances due to/from other funds are as follows:

General Fund interfund receivable from the Cafeteria Special Revenue Fund to reimburse the General Fund for expenditures incurred by the Cafeteria Special Revenue Fund and disbursed from the General Fund.

Interfund Transfers

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

Interfund transfers are as follows:

Interfund Transfer Out	Interfund Transfer In		
General	Cafeteria Special Revenue	\$	172,252

Transfers are used for the following:

To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and

To use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no transfers that were not routine or inconsistent with the activities of the funds making the transfer.

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. CAPITAL ASSETS

Capital assets activity is as follows:

Year Ended June 30, 2018	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Nondepreciated Capital Assets				
Land	\$ 210,000	\$ -	\$ -	\$ 210,000
Construction in progress	-	930,565	-	930,565
Total Nondepreciated Capital Assets	210,000	930,565	-	1,140,565
Depreciated Capital Assets				
Buildings and improvements	11,991,650	289,646	-	12,281,296
Site improvements	924,432	-	-	924,432
Equipment and vehicles	1,698,217	37,269	10,000	1,725,486
Total Depreciated Capital Assets	14,614,299	326,915	10,000	14,931,214
Totals at Historical Cost	14,824,299	1,257,480	10,000	16,071,779
Less: Accumulated Depreciation				
Buildings and improvements	4,011,715	318,685	-	4,330,400
Site improvements	201,051	46,187	-	247,238
Equipment and vehicles	1,069,365	98,162	10,000	1,157,527
Total Accumulated Depreciation	5,282,131	463,034	10,000	5,735,165
Total Depreciated Capital Assets - Net	9,332,168	(136,119)	-	9,196,049
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS - NET	\$ 9,542,168	\$ 794,446	\$ -	\$ 10,336,614

Depreciation expense was charged to governmental activities as follows:

Year Ended June 30, 2018	
Governmental Activities	
Instruction	\$ 355,516
Pupil services	75,461
Ancillary services	17,413
General administration	1,636
Plant services	13,008
Total Depreciation Expense - Governmental Activities	\$ 463,034

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

8. ACCOUNTS PAYABLE

Accounts payable consisted of the following:

June 30, 2018	General Fund	Other Governmental Funds
Vendors	\$ 424,201	\$ -
Salaries and benefits	117,104	-
Other	16,454	121
Total	\$ 557,759	\$ 121

9. DUE TO OTHER GOVERNMENTS

Amounts due to other governments consisted of the following:

June 30, 2018	General Fund
Due To	
State government	\$ 205,372

10. BONDED DEBT

The outstanding general obligation bonded debt is as follows:

Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 1, 2017	Redeemed Current Year	Outstanding June 30, 2018
1999	4.60-5.75%	2025	\$ 4,136,347	\$ 794,302	\$ 121,496	\$ 672,806

The amount of interest cost incurred during the year ended June 30, 2018, was \$109,082, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 113,623	\$ 216,908	\$ 330,531
2020	107,482	223,322	330,804
2021	101,340	228,660	330,000
2022	95,172	234,828	330,000
2023	89,928	240,072	330,000
2024-2025	165,261	494,739	660,000
Total	\$ 672,806	\$ 1,638,529	\$ 2,311,335

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. CAPITAL LEASES

The District leases energy retrofit and lighting retrofit projects under agreements which provide for titles to pass upon expiration of the lease periods. The cost of the energy retrofit and lighting retrofit projects are included in buildings and improvements on the statement of net position as depreciated capital assets and totaled \$366,985 at June 30, 2018. Accumulated depreciation of the leased buildings and improvements at June 30, 2018, was \$112,010. Depreciation of the asset under capital lease is included in depreciation expense and amounted to \$15,821 for the year ended June 30, 2018. The amount of interest cost incurred during the year ended June 30, 2018, was \$12,512, all of which was charged to expenses. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2019	\$ 31,319
2020	31,319
2021	31,319
2022	31,319
2023	31,319
2024-2027	102,001
Total	258,596
Less: Amount representing interest	52,839
Present Value of Net Minimum Lease Payments	\$ 205,757

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment.

12. OPERATING LEASES

The District has entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days' written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2019	\$ 29,052
2020	27,876
2021	27,876
2022	17,431
Total	\$ 102,235

The District will receive no sublease rental revenues nor pay for any contingent rentals for this equipment. Rent expenditures were \$29,640 for the year ended June 30, 2018.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13. NOTES PAYABLE

In September 2013, the District was selected to receive a loan under the provisions of *California Education Code*, Section 17456, totaling \$1,065,000 to be used toward solar panel construction. The loan bears interest at 1.5%. As of June 30, 2018, the principal balance outstanding was \$899,622.

In December 2018, the District was selected to receive a loan under *California Education Code*, Section 17456, totaling \$1,247,000 to be used toward solar panel construction and energy efficient improvements. The loan bears interest at 0.5%. The provisions of the loan require the District to deposit \$68,585 annually for 20 years beginning December 14, 2018, into a sinking fund, to repay the loan due December 14, 2037. As of June 30, 2018, the principal balance outstanding was \$1,247,000.

The amount of interest cost incurred during the year ended June 30, 2018, was \$17,444, all of which was charged to expenses.

The notes payable mature through December 2037 as follows:

Year Ending June 30	Principal		Interest		Total
2019	\$	61,846	\$	19,383	\$ 81,229
2020		62,779		18,450	81,229
2021		63,726		17,503	81,229
2022		64,687		16,541	81,228
2023		65,663		15,566	81,229
2024-2028		343,473		62,668	406,141
2029-2033		237,448		37,456	274,904
2034-2038		1,247,000		31,175	1,278,175
Total	\$	2,146,622	\$	218,742	\$ 2,365,364

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

14. CERTIFICATES OF PARTICIPATION

In February 2018, the District issued certificates of participation (COP) in the amount of \$2,855,000, at a discount of \$52,528, with interest rates ranging from 2.00% to 3.25%. As of June 30, 2018, the principal balance outstanding was \$2,855,000. The amount of interest cost incurred during the year ended June 30, 2018, was \$31,032, all of which was charged to expenses.

The certificates mature through 2039 as follows:

Year Ending June 30	Principal		Interest		Total
2019	\$	-	\$	75,760	\$ 75,760
2020		-		77,044	77,044
2021		120,000		75,844	195,844
2022		125,000		73,394	198,394
2023		125,000		70,894	195,894
2024-2028		670,000		314,363	984,363
2029-2033		750,000		225,700	975,700
2034-2038		875,000		102,522	977,522
2039		190,000		3,086	193,086
Total	\$	2,855,000	\$	1,018,607	\$ 3,873,607

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

15. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt:

Year Ended June 30, 2018	Beginning Balance - as Previously Reported	Cumulative Effect of Change in Accounting Principles	Beginning Balance - as Restated	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities							
Compensated absences	\$ 21,622	\$ -	\$ 21,622	\$ 20,430	\$ -	\$ 42,052	\$ -
General obligation bonds	794,302	-	794,302	-	121,496	672,806	113,623
Capitalized interest	1,378,773	-	1,378,773	109,082	208,504	1,279,351	216,908
Capital leases	224,564	-	224,564	-	18,807	205,757	20,309
Notes payable	960,549	-	960,549	1,247,000	60,927	2,146,622	61,846
Certificates of participation	-	-	-	2,855,000	-	2,855,000	-
COP issue discount	-	-	-	(52,828)	(1,505)	(51,323)	(3,612)
Early retirement incentives	-	-	-	217,138	-	217,138	26,031
Total OPEB liability (asset)	(31,651)	377,903	346,252	16,941	-	363,193	-
Net pension liability	7,538,868	-	7,538,868	1,223,189	-	8,762,057	-
Total	\$ 10,887,027	\$ 377,903	\$ 11,264,930	\$ 5,635,952	\$ 408,229	\$ 16,492,653	\$ 435,105

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

16. FUND BALANCES COMPONENTS

Fund balances are composed of the following:

June 30, 2018	General Fund	Other Governmental Funds
Nonspendable		
Reserved for:		
Revolving cash	\$ 2,000	\$ 230
Inventories	-	4,683
Prepaid expenditures	23,746	-
Total Nonspendable	\$ 25,746	\$ 4,913
Restricted		
Restricted for:		
Capital projects	\$ 2,668,320	\$ 554,389
Debt service	-	351,876
Federal and state categoricals	647,423	4,124
Total Restricted	\$ 3,315,743	\$ 910,389
Assigned		
Assigned for:		
Disaster services	\$ 50,472	\$ -
Mandated costs	337,302	-
Donations	14,259	-
Deferred maintenance	150,850	-
Forest reserve	65,454	-
Utilities	20,922	-
CalSTRS Golden Handshakes	85,000	-
Capital projects	-	192,704
Total Assigned	\$ 724,259	\$ 192,704
Unassigned		
Designated for economic uncertainties	\$ 919,564	\$ -

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Northern California Regional Liability Excess Fund (ReLiEF), Schools Excess Liability Fund (SELF), Schools Insurance Group, Northern Alliance (SIGNAL); School Insurance Group, Northern Alliance II (SIGNAL II); and Self-Insured Schools of California Health and Welfare Benefits Program (SISC III). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and provide property, liability, workers' compensation, health care, and excess liability coverage for their members. Each JPA is governed by a board consisting of representatives from the members. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the boards. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

18. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

Construction Project Commitment

Construction project commitments are as follows:

	Remaining Construction Commitment
June 30, 2018	
Shade structures	\$ 19,100
Classroom foundation repairs	7,942
Cafeteria repairs	24,000
Energy upgrades	226,729
Total	\$ 277,771

On November 13, 2018, the District entered into an agreement totaling \$275,000 for improvements to the library and staff lounge.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

19. RISK MANAGEMENT

The District is exposed to various risks, including loss or damage to property, general liability, and injuries to employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. No significant reductions in insurance coverage from the prior year have been made. As described above, the District participates in risk pools under joint powers agreements for property, liability, workers' compensation, health care, and excess liability coverage.

20. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of CalSTRS, and classified employees are members of CalPERS.

Summary

Net pension liability, deferred outflows or resources, deferred inflows of resources, and pension expense are reported as follows:

June 30, 2018	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS State Teachers' Retirement Plan	\$ 5,548,800	\$ 1,556,487	\$ 244,594	\$ 583,081
CalPERS School Employer Pool	3,213,257	1,049,703	64,976	620,326
Total	\$ 8,762,057	\$ 2,606,190	\$ 309,570	\$ 1,203,407

Net pension liability, deferred outflows of resources, and deferred inflows of resources are reported in the accompanying statement of net position; pension expense is reported in the accompanying statement of activities.

California State Teachers' Retirement System

Plan Description Certificated employees of the District participate in STRP, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. Benefit provisions are established by state statute, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available financial reports that can be obtained at www.calstrs.com.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Benefits Provided STRP provides retirement, disability, and survivor benefits to beneficiaries. The defined benefit program provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. The program has two benefit formulas:

- **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% 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 retirement after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.
- **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% 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% at age 65 or older.

Contributions Required member, employer, and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Active plan members of the CalSTRS 2% at 60 formula are required to contribute 10.25% of their salary. Active plan members of the CalSTRS 2% at 62 formula are required to contribute 9.205% of their salary. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. State Teachers' Retirement Law also requires the state to contribute 9.328% of the members' creditable earnings from the fiscal year ending in the prior calendar year. The District's contributions to CalSTRS for the fiscal year ended June 30, 2018, were \$495,726.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension 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:

June 30, 2018

District's proportionate share of the net pension liability	\$	5,548,800
State's proportionate share of the net pension liability associated with the District		2,062,489
Total	\$	7,611,289

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The District's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the state, actuarially determined. At June 30, 2018, the District's proportion was 0.006%.

For the year ended June 30, 2018, the District recognized pension expense of \$59,279 and revenue of \$59,279 for support provided by the state. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 20,520	\$ 96,800
Net difference between projected and actual earnings on pension plan investments	-	147,794
Change in assumptions	1,027,954	-
Changes in proportion and differences between District contributions and proportionate share of contributions	12,287	-
District contributions subsequent to the measurement date	495,726	-
Total	\$ 1,556,487	\$ 244,594

The \$495,726 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2019	\$ 32,728
2020	248,548
2021	169,003
2022	24,302
2023	166,841
Thereafter	174,745
Total	\$ 816,167

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalSTRS was determined using the following actuarial assumptions and applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.10%
Interest on accounts	4.50%
Wage growth	3.50%
Consumer price inflation	2.75%
Post-retirement benefit increases	2.00% simple

CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2010, through June 30, 2015.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Asset Class		
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%
Total	100%	

Discount Rate The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers were made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assumes that contributions, benefit payments, and administrative expenses occurred 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%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
June 30, 2018			
District's proportionate share of the net pension liability	\$ 8,147,400	\$ 5,548,800	\$ 3,439,860

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalSTRS' separately issued *Comprehensive Annual Financial Report* (CAFR).

California Public Employees' Retirement System

Plan Description Classified employees of the District participate in the School Employer Pool (the Plan) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by state statute, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available financial report that can be obtained at www.calpers.ca.gov.

Benefits Provided The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefits are based on members' years of service, age, final compensation, and benefit formula. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions Member contribution rates are defined by law. Employer contribution rates are determined by periodic actuarial valuations. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. Active plan members that met the definition of a new member under the Public Employees' Pension Reform Act are required to contribute 6.50% of their salary. Classic employees are required to contribute 7.00% of their salary. The required employer contribution rate for the 2017-18 fiscal year was 15.531%. The District's contributions to CalPERS for the fiscal year ended June 30, 2018, were \$284,926.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2018, the District reported a net pension liability of \$3,213,257 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2018, the District's proportion was 0.01346%.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

For the year ended June 30, 2018, the District recognized pension expense of \$620,326. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 115,118	\$ -
Net difference between projected and actual earnings on pension plan investments	105,773	-
Change in assumptions	469,347	37,832
Changes in proportion and differences between District contributions and proportionate share of contributions	74,539	27,144
District contributions subsequent to the measurement date	284,926	-
Total	\$ 1,049,703	\$ 64,976

The \$284,926 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2019	\$ 226,896
2020	322,453
2021	212,666
2022	(62,214)
Total	\$ 699,801

Actuarial Assumptions The total pension liability in the June 30, 2015, actuarial valuation for CalPERS was determined using the following actuarial assumptions applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries, Scale BB.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 1997, through June 30, 2011.

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 pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ years) using a building-block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The tables below reflect long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

	Assumed Asset Allocation	Real Rate of Return	
		Years 1 - 10	Years 11+
Asset Class			
Global equity	47%	4.90%	5.38%
Fixed income	19%	0.80%	2.27%
Inflation assets	6%	0.60%	1.39%
Private equity	12%	6.60%	6.63%
Real estate	11%	2.80%	5.21%
Infrastructure and forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

Discount Rate The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods recently adopted by the CalPERS Board in 2013 were used. Projections of expected benefit payments and contributions were performed to determine if the 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.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(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%, as well as the District's proportionate share of the net pension liability if it was calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

June 30, 2018	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	\$ 4,727,731	\$ 3,213,257	\$ 1,956,874

Pension Plan Fiduciary Net Position Detailed information about the pension plan's fiduciary net position is available in CalPERS' separately issued CAFR.

21. EARLY RETIREMENT INCENTIVE PROGRAM

The District has adopted an early retirement incentive program, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the CalSTRS and retire during a period of not more than 120 days, or less than 60 days, from the date of the formal action taken by the District.

Retiree Information

Two employees retired in exchange for the additional two years of service credit.

Position Vacated	Age	Service Credit	Retired Employee		Replacement Employee	
			Salary	Benefits	Salary	Benefits
Teacher	63	28	\$ 77,613	\$ 28,653	\$ 43,484	\$ 25,316
Teacher	57	30	\$ 78,737	\$ 29,120	\$ 70,016	\$ 30,945

Additional Costs

As a result of this early retirement incentive program, the District expects to incur \$128,749 in additional costs. The breakdown in additional costs is presented below:

June 30, 2018	
Retirement costs	\$ 98,169
Postemployment health care benefit costs	30,000
Administrative costs	580
Total	\$ 128,749

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

22. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Benefits Provided

The District provides postemployment health care benefits to qualifying employees through a single-employer defined benefit health care plan administered by the District. The District provides postemployment health care benefits to certificated employees after completing at least 20 consecutive years of full-time credentialed service in the District. Retirees are subject to a limit on district-paid premiums of \$2,500 per year, and a total of \$25,000 over a maximum benefit period of ten years. District-paid benefits end at age 65. A further provision offers District contributions of up to \$12,500 per year for a maximum of ten years, but not beyond age 65, for certificated retirees who have at least 30 years of full-time credentialed service to the District and who accept such benefits in lieu of a CalSTRS Golden Handshake.

Employees Covered

Employees covered by the benefit terms of the plan consisted of:

June 30, 2018

Inactive plan members or beneficiaries currently receiving benefit payments	-
Active plan members	51
Total	51

Contributions

The District's agreement with employees is for monthly contributions for members who meet the eligibility criteria of their collective bargaining agreement and who retire during the term of the contract. The contribution requirements of plan members and the District are established and may be amended by the District's Board of Trustees through the collective bargaining process. The members receiving benefits contributions vary depending on the level of coverage selected. It is the District's policy to fund the obligation on a pay-as-you-go basis. For the fiscal year ended June 30, 2018, the District did not have any retirees receiving benefits and no premium payments were made.

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Total OPEB Liability

The District's total OPEB liability for the plan is measured as the total OPEB liability, less the plan's fiduciary net position. The total OPEB liability of the plan is measured as of June 30, 2018, using an annual actuarial valuation as of July 1, 2017, rolled forward to June 30, 2018, using standard update procedures. The June 30, 2018, total OPEB liability was based on the actuarial methods and assumptions as shown below.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2017
Actuarial cost method	Entry age, level percent of pay
Actuarial assumptions:	
Discount rate	3.90% ⁽¹⁾
Salary increases	3.00%
Consumer price inflation	2.25%
Healthcare cost trend rate	7.00% ⁽²⁾

(1) Net of investment expenses, but gross of administrative expenses.

(2) For fiscal year 2018, decreasing 1.00% annually to an ultimate rate of 5.00% in fiscal year 2020.

Mortality rates were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, projected using a generational projection based on 100% of scale MP-2016 for years 2014 through 2029, 50% of MP-2016 for years 2030 through 2049, and 20% of MP-2016 for 2050 and thereafter.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.90%. The discount rate is based on the Bond Buyer 20-Bond General Obligation Index.

Upper Lake Unified School District
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Changes in the Total OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Year Ended June 30, 2018

Total OPEB Liability	
Service cost	\$ 15,883
Interest	13,011
Difference between expected and actual experience	(1,449)
Changes of assumptions	(10,504)
Net Change in Total OPEB Liability	16,941
Total OPEB Liability - Beginning of Year	346,252
Total OPEB Liability - End of Year	\$ 363,193
Covered-employee payroll	\$ 3,540,996
District's total OPEB liability as a percentage of covered-employee payroll	10.26%

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

The following presents the District's total OPEB liability calculated using the discount rate of 3.90%, as well as the District's total OPEB liability if it was calculated using a discount rate that is one percentage point lower (2.90%) or one percentage point higher (4.90%) than the current rate:

	1% Decrease (2.90%)	Current Discount Rate (3.90%)	1% Increase (4.90%)
June 30, 2018			
Total OPEB liability	\$ 399,380	\$ 363,193	\$ 330,332

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

The following presents the District's total OPEB liability calculated using the healthcare cost trend rate of 7.00%, as well as the District's total OPEB liability if it was calculated using a healthcare trend rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Health Cost Trend Rates (7.00%)	1% Increase (8.00%)
June 30, 2018			
Total OPEB liability	\$ 344,697	\$ 363,193	\$ 385,129

Upper Lake Unified School District

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$27,699. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,304
Change in assumptions	-	9,454
Total	\$ -	\$ 10,758

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

Year Ending June 30

2019	\$ 1,195
2020	1,195
2021	1,195
2022	1,195
2023	1,195
Thereafter	4,783
Total	\$ 10,758

23. SUBSEQUENT EVENT

On December 20, 2018, the District issued the Election of 2018, Series A general obligation bonds totaling \$5,500,000, at a premium of \$227,583. The issuance consisted of serial and term current interest bonds with interest rates ranging from 1.81% to 4.16%. The bonds mature through August 1, 2056.

24. FUTURE GASB IMPLEMENTATION

In June 2017, GASB issued Statement No. 87, *Leases*. This statement improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2020, will have on the District's financial statements, if any.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings, and Direct Placements*. This statement improves the information disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The District's management has not yet determined the impact that the implementation of this standard, which is required on July 1, 2018, will have on the District's financial statements, if any.

Required Supplementary Information

Upper Lake Unified School District
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year Ended June 30, 2018	Budgeted Amounts		Actual Amounts GAAP Basis	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 2,129,412	\$ 2,202,518	\$ 2,202,519	\$ 1
Local control funding formula sources	5,729,372	5,660,853	5,549,657	(111,196)
Other state revenue	394,160	1,043,206	1,104,236	61,030
Federal revenue	773,447	617,045	617,045	-
Other local revenue	488,465	536,202	536,203	1
Total Revenues	9,514,856	10,059,824	10,009,660	(50,164)
Expenditures				
Certificated salaries	3,500,228	3,619,521	3,622,213	(2,692)
Classified salaries	1,567,683	1,647,430	1,647,426	4
Employee benefits	2,545,699	2,800,468	2,898,424	(97,956)
Books and supplies	472,517	521,011	520,957	54
Services and other operating	1,262,222	1,793,377	1,793,317	60
Capital outlay	101,000	986,131	986,130	1
Other outgo	(31,126)	73,133	73,133	-
Debt service:				
Principal	80,165	79,734	79,734	-
Interest and other charges	26,148	26,579	26,579	-
Total Expenditures	9,524,536	11,547,384	11,647,913	(100,529)
Excess (Deficiency) of Revenues Over Expenditures	(9,680)	(1,487,560)	(1,638,253)	(150,693)
Other Financing Sources (Uses)				
Interfund transfers in				
Interfund transfers out	(253,995)	(172,252)	(172,252)	-
Other sources	-	1,247,000	1,247,000	-
Proceeds from certificates of participation	-	2,855,000	2,855,000	-
Total Other Financing Sources (Uses)	(253,995)	3,929,748	3,929,748	-
Net Change in Fund Balances	(263,675)	2,442,188	2,291,495	(150,693)
Fund Balances - Beginning of Year	2,693,817	2,693,817	2,693,817	-
Fund Balances - End of Year	\$ 2,430,142	\$ 5,136,005	\$ 4,985,312	\$ (150,693)

See the accompanying notes to this budgetary comparison schedule.

Upper Lake Unified School District
NOTES TO THE BUDGETARY COMPARISON SCHEDULE

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's Governing Board annually adopts a budget for the General Fund of the District. The budget is presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule of the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budget as amended. Unexpended appropriations on the annual budget lapse at the end of each fiscal year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations by the following amounts:

June 30, 2018	General Fund
Certificated salaries	\$ 2,692
Employee benefits	\$ 97,956

These excess expenditures were funded by beginning fund balance.

Upper Lake Unified School District

SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Year Ended June 30, 2018

Total OPEB Liability		
Service cost	\$	15,883
Interest		13,011
Difference between expected and actual experience		(1,449)
Changes of assumptions		(10,504)
Net Change In Total OPEB Liability		16,941
Total OPEB Liability - Beginning of Year		346,252
Total OPEB Liability - End of Year		\$ 363,193
Covered-employee payroll	\$	3,540,996
District's total OPEB liability as a percentage of covered-employee payroll		10.26%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018		2017		2016		2015
District's proportion of the net pension liability (asset)	0.006%		0.006%		0.006%		0.006%
District's proportionate share of the net pension liability (asset)	\$	5,548,800	\$	4,852,860	\$	4,039,440	\$ 3,506,220
State's proportionate share of the net pension liability (asset) associated with the District		2,062,489		1,760,618		1,397,363	1,320,092
Total	\$	7,611,289	\$	6,613,478	\$	5,436,803	\$ 4,826,312
District's covered-employee payroll	\$	3,347,957	\$	3,150,559	\$	2,870,585	\$ 2,760,624
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		165.74%		154.03%		140.72%	127.01%
Plan fiduciary net position as a percentage of the total pension liability		69.00%		70.00%		74.00%	77.00%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Years Ended June 30	2018		2017		2016		2015
Contractually required contribution	\$	495,726	\$	421,173	\$	338,056	\$ 254,908
Contributions in relation to the contractually required contribution		(495,726)		(421,173)		(338,056)	(254,908)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$ -
District's covered-employee payroll	\$	3,347,957	\$	3,150,559	\$	2,870,585	\$ 2,760,624
Contributions as a percentage of covered-employee payroll		14.81%		13.37%		11.78%	9.23%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2018		2017		2016		2015
District's proportion of the net pension liability (asset)	0.01346%		0.01360%		0.01300%		0.01300%
District's proportionate share of the net pension liability (asset)	\$	3,213,257	\$	2,686,008	\$	1,930,953	\$ 1,419,054
District's covered-employee payroll	\$	1,553,420	\$	1,531,400	\$	1,450,820	\$ 1,320,675
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	206.85%		175.40%		133.09%		107.45%
Plan fiduciary net position as a percentage of the total pension liability	71.90%		73.90%		79.40%		83.50%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

SCHEDULE OF DISTRICT'S CONTRIBUTIONS – CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Years Ended June 30	2018		2017		2016		2015
Contractually required contribution	\$	284,926	\$	215,739	\$	181,425	\$ 170,776
Contributions in relation to the contractually required contribution		(284,926)		(215,739)		(181,425)	(170,776)
Contribution Deficiency (Excess)	\$	-	\$	-	\$	-	\$ -
District's covered-employee payroll	\$	1,553,420	\$	1,531,400	\$	1,450,820	\$ 1,320,675
Contributions as a percentage of covered-employee payroll		18.34%		14.09%		12.50%	12.93%

See the accompanying notes to the required supplementary information.

Upper Lake Unified School District

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF CHANGES IN DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Changes in Benefit Terms

There were no significant changes in benefit terms during the measurement period ended June 30, 2018.

Changes in Assumptions

During fiscal year 2017-18, the discount rate used was increased from 3.60% to 3.90%. The average expected remaining service lives used at June 30, 2017, was reduced from 10.5342 to 10.0000 for the measurement date of June 30, 2018.

2. CHANGES OF BENEFIT TERMS

California State Teachers' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

California Public Employees' Retirement System

There were no significant changes of benefit terms during the measurement period ended June 30, 2017.

3. CHANGES OF ASSUMPTIONS

California State Teachers' Retirement System

During fiscal year 2016-17, California State Teachers' Retirement System (CalSTRS) completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the net pension liability (NPL) of the State Teachers' Retirement Plan changed, including the price inflation, wage growth, discount rate, and the mortality tables used in the actuarial valuation of the NPL. The change in assumptions were as follows:

June 30	2017	2016
Assumption		
Consumer price index	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

Upper Lake Unified School District

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

CalSTRS changed its mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. 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.

California Public Employees' Retirement System

During fiscal year 2016-17, the financial reporting discount rate for the Schools Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (PERF B) was lowered from 7.65% to 7.15%.

OTHER SUPPLEMENTARY INFORMATION SECTION

Upper Lake Unified School District

LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE

June 30, 2018

The Upper Lake Unified School District is located in Lake County and was established July 1, 2016. The new District was created from the merging of Upper Lake Union High School District and Upper Lake Union Elementary School District. There were no changes in the boundaries of the District during the current year. The District operates one elementary school, one middle school, one high school, one community day school, one continuation high school, and an adult education program.

GOVERNING BOARD

Name	Office	Term Expires
Diane Plante	President	2018
Mel O'Meara	Vice President	2018
Don Meri	Clerk	2018
Keith Austin	Member	2018
Claudine Pedroncelli	Member	2018

ADMINISTRATION

Giovanni Annous, Ed.D.
Superintendent

Sue Milhaupt
Business Manager

Upper Lake Unified School District

SCHEDULE OF CHARTER SCHOOLS

Year Ended June 30, 2018

The District is not the sponsoring local educational agency for any charter schools.

See the accompanying note to the other supplementary information.

Upper Lake Unified School District
SCHEDULE OF AVERAGE DAILY ATTENDANCE
June 30, 2018

	Originally Reported		Final	
	Second Period Report	Annual Report	Second Period Report	Annual Report
ELEMENTARY				
Regular ADA*				
Transitional kindergarten/ kindergarten through grade 3	225	226	225	226
Grades 4 through 6	165	166	165	166
Grades 7 through 8	104	105	104	105
ELEMENTARY TOTALS	494	497	494	497
HIGH SCHOOL				
Regular ADA**				
Grades 9 through 12	267	261	256	254
Community Day School				
Grades 9 through 12	5	5	-	-
HIGH SCHOOL TOTALS	272	266	256	254
ADA Totals	766	763	750	751

* Includes opportunity classes, home and hospital, and special day class.

** Includes opportunity classes, home and hospital, special day class, and continuation education.

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

SCHEDULE OF INSTRUCTIONAL TIME

Year Ended June 30, 2018

	Minutes Requirement	2017-18 Actual Minutes	Traditional Calendar Days	Multitrack Calendar Days	Status
Kindergarten	36,000	57,060	180	N/A	Complied
Grade 1	50,400	54,360	180	N/A	Complied
Grade 2	50,400	54,360	180	N/A	Complied
Grade 3	50,400	54,360	180	N/A	Complied
Grade 4	54,000	54,360	180	N/A	Complied
Grade 5	54,000	54,360	180	N/A	Complied
Grade 6	54,000	58,140	180	N/A	Complied
Grade 7	54,000	58,140	180	N/A	Complied
Grade 8	54,000	58,140	180	N/A	Complied
Grade 9	64,800	65,475	180	N/A	Complied
Grade 10	64,800	65,475	180	N/A	Complied
Grade 11	64,800	65,475	180	N/A	Complied
Grade 12	64,800	65,475	180	N/A	Complied

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

Years Ended June 30	(Budget) 2019		2018	2017
General Fund				
Revenues and other financial sources	\$	9,860,643	\$ 14,111,660	\$ 9,804,456
Expenditures		10,822,386	11,647,913	9,681,925
Other uses and transfers out		144,507	172,252	274,944
Total Outgo		10,966,893	11,820,165	9,956,869
Change in Fund Balance		(1,106,250)	2,291,495	(152,413)
Ending Fund Balance	\$	3,879,062	\$ 4,985,312	\$ 2,693,817
Available reserves	\$	432,895	\$ 919,564	\$ 895,319
Designated for economic uncertainties	\$	432,895	\$ 919,564	\$ 794,672
Undesignated fund balance	\$	-	\$ -	\$ 100,647
Available reserves as a percentage of total outgo		4%	8%	9%
Total long-term debt	\$	16,153,840	\$ 16,492,653	\$ 11,264,930
Average daily attendance at P-2		760	750	753

* As restated for implementation of GASB Statement No. 75, as amended by GASB Statement No. 85.

The 2016-17 year was the District's first year of operations. On July 1, 2016, the District was established by the merger of Upper Lake Union High School District and Upper Lake Union Elementary School District. Due to lack of comparability, prior-year financial information for 2016 has not been presented.

The General Fund balance increased by \$2,291,495 over the past two years. The fiscal year 2018-19 budget projects a decrease of \$1,106,250 (23.2%). For a district this size, the state recommends available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit in one of the past two years and anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term debt increased by \$5,227,723 during 2017-18 to \$16,275,515.

Average daily attendance decreased by three over the past year. Additional growth in ADA of ten is anticipated during fiscal year 2018-19.

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

Year Ended June 30, 2018

	General Fund
Annual Financial and Budget Report Fund Balance	\$ 5,133,646
Adjustments Increasing (Decreasing) the Fund Balance	
Understatement of accounts payable	(98,169)
Understatement of due from other governments	61,031
Understatement of due to other governments	(111,196)
Net Adjustments	(148,334)
Audited Financial Statements Fund Balance	\$ 4,985,312

See the accompanying notes to the other supplementary information.

Upper Lake Unified School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
FEDERAL PROGRAMS			
U.S. Department of Education			
Passed Through California Department of Education			
NCLB - Title 1, Part A, Basic Grants	84.010	14329	\$ 288,716
Vocational Programs - Vocational and Applied Secondary, Section 131	84.048	14894	5,476
NCLB - Title II, Part A, Improving Teacher Quality	84.367	14341	80,982
NCLB - Title VI, Part B, Rural and Low Income School	84.358	14356	11,504
Direct Program			
Impact Aid - Title VIII	84.041		14,708
Subtotal			401,386
Special Education Cluster			
Special Education - IDEA Basic Local Assistance	84.027	13379	161,686
Special Education - IDEA Preschool	84.173	13430	1,671
Special Education - IDEA Preschool Local Entitlement	84.027	13682	4,291
Total Special Education Cluster			167,648
Total U.S. Department of Education			569,034
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
School Breakfast	10.553	13390	96,638
National School Lunch	10.555	13391	227,429
Nonmonetary Assistance			
Food Donation	10.555		25,288
Total Child Nutrition Cluster			349,355
Child and Adult Care Food	10.558	13393	23,637
Passed Through Lake County Office of Education			
Schools and Roads - Grants to Counties	10.666	10044	4,904
Total U.S. Department of Agriculture			377,896
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 946,930

See the accompanying note to the other supplementary information.

Upper Lake Unified School District

NOTE TO THE OTHER SUPPLEMENTARY INFORMATION

PURPOSE OF SCHEDULES

Schedule of Charter Schools

This schedule lists all charter schools sponsored by the District and indicates whether or not the charter school is included in the audit of the District.

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.

Schedule of Instructional Time

The District received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District did not meet or exceed its local control funding formula target. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *California Education Code*, Sections 46201 through 46208.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of each fund, as reported in the annual financial and budget report, to the audited financial statements.

Schedule of Expenditures of Federal Awards

This schedule includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. 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* (the Uniform Guidance).

Expenditures reported on this schedule are reported on the modified basis of accounting. Such 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 not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

OTHER REPORTS SECTION



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

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

We have audited, 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 of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Upper Lake Unified School District (the District) as of and for the year ended June 30, 2018; and the related notes to the financial statements, which collectively comprise the District's basic financial statements; and have issued our report thereon dated February 11, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies (see items 2018-001, 2018-002, and 2018-003).

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

(Continued)

Compliance and Other Matters

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

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

KCoe Team, LLP

February 11, 2019
Chico, California



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

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

Report on Compliance for Each Major Federal Program

We have audited Upper Lake Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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

(Continued)

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

(Continued)

Purpose of This Report

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.

KCoe Jam, LLP

February 11, 2019
Chico, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Upper Lake Unified School District
Upper Lake, California

Compliance

We have audited the Upper Lake Unified School District's (the District) compliance with the types of state compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, for the year ended June 30, 2018. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

June 30, 2018	Procedures Performed
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	Yes
Independent study	Yes
Continuation education	No
Instructional time	Yes
Instructional materials	Yes
Ratios of administrative employees to teachers	Yes
Classroom teacher salaries	Yes
Early retirement incentive	Yes
Gann limit calculation	Yes
School accountability report card	Yes
Juvenile court schools	Not applicable
Middle or early college high schools	Not applicable
K-3 grade span adjustment	Yes
Transportation maintenance of effort	Yes
Apprenticeship: Related and supplemental instruction	No
Educator effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before school education and safety program:	
After school	Yes
Before school	No
General requirements	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
Charter schools:	
Attendance	No
Mode of instruction	No
Nonclassroom-based instruction/independent study for charter schools	No
Determination of funding for nonclassroom-based instruction	No
Annual instructional minutes - classroom based	No
Charter school facility grant program	No

Testing was not performed for continuation education because the ADA for this program was below the level which requires testing.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

Since the District did not participate in the following programs during 2017-18, all steps related to them were not performed:

- Apprenticeship: Related and supplemental instruction
- Before school education and safety program
- Independent study-course based

Since the District did not sponsor any charter schools during 2017-18, all steps related to the following were not performed:

- Attendance
- Mode of instruction
- Nonclassroom-based instruction/independent study for charter schools
- Determination of funding for nonclassroom-based instruction
- Annual instructional minutes - classroom based
- Charter school facility grant program

Basis for Qualified Opinion on Classroom Teacher Salaries and Attendance

As described in the accompanying schedule of findings and questioned costs, the District did not comply with the requirements regarding classroom teacher salaries and attendance as described in items 2018-004 and 2018-006. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to classroom teacher salaries and attendance.

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

Qualified Opinion on Classroom Teacher Salaries and Attendance

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the District complied, in all material respects, with the state compliance requirements applicable to classroom teacher salaries and attendance.

Unmodified Opinion on Each of the Other State Programs

In our opinion, the District complied, in all material respects, with the other state compliance requirements referred to above that are applicable to the District for the year ended June 30, 2018.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

(Continued)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the state compliance requirements referred to above that are required to be reported in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, which are described in the accompanying schedule of findings and questioned costs as item 2018-005. Our opinion on state compliance is not modified with respect to these matters.

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

KCoe Isom, LLP

February 11, 2019
Chico, California

FINDINGS AND QUESTIONED COSTS SECTION

Upper Lake Unified School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

SECTION I
SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
CFDA Nos. 10.553 and 10.555 Child Nutrition Cluster	
CFDA Nos. 84.027 and 84.173 Special Education Cluster (IDEA)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Compliance over state programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for state programs:	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT

INTERNAL CONTROL (Student Body)
30000 (2018-001)

Significant Deficiency

Condition During our testing of student body accounts, we noted the following:

1. One of 25 deposits tested was not made in a timely manner;
2. One of 25 deposits tested was deposited in the wrong student body account;
3. Supporting documentation for one of 25 disbursements could not be located;
4. Two of 25 disbursements was made out of the wrong student body account; and
5. One of 25 disbursements was for an unallowable expense. Student body funds were used to purchase adult meals.

Criteria Internal control procedures should be implemented to ensure that:

1. All deposits are made on a timely basis;
2. Funds are deposited into the appropriate student body account;
3. Supporting documentation for all disbursements is maintained;
4. Disbursements are made out of the appropriate student body account; and
5. Disbursements are made for allowable student body purposes. Student body funds should be expended to promote the students' general welfare, morale, and educational experiences.

Effect Without strengthening internal controls over cash receipts and cash disbursements, student body assets may not be properly safeguarded, may be susceptible to misappropriation, and may be expended on activities that are not valid.

Cause Unknown.

Recommendation Procedures should be implemented to strengthen internal controls over student body assets and accounting records.

Response The District's administration will implement procedures during 2018-19 to comply with the recommendation.

Upper Lake Unified School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018
(Continued)

INTERNAL CONTROL (Bill Warrants)

30000 (2018-002)

Significant Deficiency

Condition During our test of internal controls over bill warrants, we noted the following:

1. Two of 40 disbursements tested were charged to an improper account distribution based on the type of expenditure.
2. One of 40 disbursements tested did not have an approved purchase order on file. Upon further investigation, we identified 140 reimbursements to this individual totaling \$48,206 that were not accompanied by a purchase order.
3. Supporting documentation for one of 40 disbursements tested could not be located.

Criteria Internal control procedures should provide reasonable assurance that:

1. Bill warrants are charged to a proper account distribution in accordance with the *California School Accounting Manual (CSAM)*.
2. Pursuant to the District's Board Policy 3300, all purchases shall be made by formal contract, purchase order (or blanket purchase order), or be accompanied by a receipt. Although the reimbursement tested was accompanied by a receipt and approved prior to disbursement, the type and volume of expenditures suggest that purchase orders are needed to ensure proper budgetary control. In addition, where possible, the District should pay expenditures directly to the vendor, rather than reimbursing an employee.
3. Supporting documentation for all disbursements is maintained.

Effect Without strengthening internal controls over bill warrants, expenses may be improperly classified for financial reporting, funds may not be properly safeguarded, and funds may not be subject to proper fiscal accountability.

Cause Unknown.

Recommendation In order to strengthen internal controls over bill warrants, we recommend that all invoices be reviewed by a supervisor for proper account distribution in accordance with the CSAM prior to processing and disbursing warrants. We also recommend that the District implement further detailed policies around purchase orders and expense reimbursements. All supporting documentation should be retained.

Response The District's administration will adopt procedures during the 2018-19 fiscal year to comply with the recommendation.

Upper Lake Unified School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

(Continued)

INTERNAL CONTROL (Revolving Cash)

30000 (2018-003)

Significant Deficiency

Condition Bank reconciliations were not prepared monthly for the revolving cash accounts of the District. In addition, we noted that as of June 30, 2018, there were six revolving cash accounts open. When the District unified in 2016-17, new unified accounts were opened for the general and cafeteria fund revolving cash, while the previous revolving accounts for the elementary and high school districts remained open.

Criteria Internal controls should be in place to provide reasonable assurance that all bank statements are properly reconciled on a monthly basis. Revolving accounts should only be in place for the unified District.

Effect Without strengthening internal controls over bank reconciliations, revolving cash may not be properly safeguarded.

Cause Unknown.

Recommendation Bank reconciliations should be properly prepared each month for all District bank accounts. In addition, the District should close out the elementary and high school district accounts and transfer these funds to the unified District's accounts, or the county treasury.

Response The District's administration will implement procedures during the 2018-19 fiscal year to comply with the recommendation.

Upper Lake Unified School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

(Continued)

SECTION III FINDINGS

FEDERAL AWARDS AUDIT

None.

Upper Lake Unified School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

(Continued)

SECTION IV FINDINGS

STATE AWARDS AUDIT

CLASSROOM TEACHER SALARIES

61000 (2018-004)

Significant Deficiency

Condition The District is not in compliance with the required minimum percentage for payment of classroom teachers' compensation under *California Education Code*, Section 41372(b). The District's percentage of current expense of education for classroom teachers' compensation was 51.37% for the fiscal year ended June 30, 2018.

Criteria *California Education Code*, Section 41732(b) requires the District to expend 55% or greater of the District's current expense of education for payment of classroom teachers' compensation.

Effect The current expense of education for the District was \$9,640,955, and classroom teachers' compensation was \$4,952,566, resulting in a deficiency of \$349,959.

Cause The cause of the noncompliance is an increasing amount of expenditures from unrestricted funds under the local control funding formula, which makes meeting the required minimum percentage for payment of classroom teachers' compensation more difficult.

Recommendation The District should implement procedures to ensure that a minimum of 55% of the current expense of education is for classroom teachers' compensation. The District should deposit the deficiency of \$349,959 with the County Superintendent of Schools. If no application for exemption is made, the District should add the deficiency of \$349,959 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Response The District's administration applied for a waiver from the County Superintendent of Schools during the fiscal year 2018-19. The waiver was granted on December 20, 2018. As the waiver was approved, the District is not required to add the deficiency of \$349,959 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Upper Lake Unified School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

(Continued)

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)

40000 (2018-005)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is one full-time equivalent (FTE) administrative employee over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41402, limits the number of administrators per hundred teachers to not exceed 0.08 for unified districts.

Effect The current administrative employee-to-teacher ratio is .11, which is equivalent to one administrative FTE over the allowable limit. This results in a penalty of \$67,260.

Cause The District utilizes a teacher that is paid through a grant which does not qualify to be included in the ratio of administration ratio calculation.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08, as specified in *California Education Code*, Section 41404. We recommend that funding totaling \$67,260 be returned to the California Department of Education.

Response The District's administration requested and received a waiver from the State Board of Education on September 21, 2017. Based on the waiver, the District is not required to return funding of \$67,260 to the California Department of Education.

Upper Lake Unified School District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018
(Continued)

ATTENDANCE

10000 (2018-006)

Significant Deficiency

Condition During testing over attendance we noted the following:

1. Contemporaneous records of attendance were not retained for the continuation education or community day school programs.
2. The community day school students' scheduled instructional time was only three hours per school day.
3. In addition, various other minor amendments were needed to agree reported amounts to the attendance system, as well as to report an increase in apportionment days from an approved Form J-13A.

Average daily attendance (ADA) reported to the California Department of Education in the Second Period Report of School District Attendance was overstated by a net amount of 15.23 ADA. The ADA reported to the California Department of Education in the Annual Report of School District Attendance was overstated by a net amount of 11.51 ADA. The ADA, by grade span, is as follows:

Grade Span	TK/K-3	4-6	7-8	9-12	Totals
Second Period Report	0.41	0.30	0.12	(16.06)	(15.23)
Annual Report	0.34	0.25	(0.37)	(11.73)	(11.51)

Criteria Pursuant to *California Education Code*, Section 44809, and *California Code of Regulations*, Title 5, Section 400-401, schools must maintain records of pupil attendance. These written records should be prepared daily and signed weekly by the teacher who instructed the students. The attendance records should be used to support the ADA reported to the California Department of Education in the Report of School District Attendance.

In addition, pursuant to *California Education Code*, Section 48663(a), the minimum instructional day for community day school is 360 minutes.

Effect Due to the overstatement of 15.23 ADA in the Second Period Report of School District Attendance, the principal apportionment for 2017-18 is overstated by \$111,196. We took the lower audited ADA figures and put them through the District's LCFF target and transition entitlement calculations using the CDE's funding exhibits. The result of our calculation is \$111,196 less than the amount shown on the CDE's funding exhibits originally-reported ADA totals. The District is required to return the funding totaling \$111,196 from the principal apportionment to the California Department of Education.

Without strengthening internal controls over attendance reporting and instructional time requirements, average daily attendance may not be accurately reported to the California Department of Education.

Cause A change in personnel led to inconsistent procedures over attendance and scheduling.

Upper Lake Unified School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

(Continued)

Recommendation We recommend that both the Second Period and Annual Report of School District Attendance be amended for the errors noted above. We also recommend that funding totaling \$111,196 be returned to the California Department of Education. The attendance worksheets, prepared to summarize the days of apportionment attendance, should be reviewed for accuracy prior to preparing the Report of School District Attendance. All contemporaneous records of attendance should be retained, and community day school should be held for a minimum of 360 minutes per school day.

Response The District has amended both the Second Period and Annual Report of School District Attendance. The District's administration will adopt procedures during the 2018-19 fiscal year to comply with the recommendation.

Upper Lake Unified School District

CORRECTIVE ACTION PLAN

June 30, 2018

Not applicable: there are no current-year findings related to federal awards.

INTERNAL CONTROL (Student Body)
30000 (2017-001)

Significant Deficiency

Condition During our testing over student body accounts, we noted the following:

1. One of 25 deposits tested was not made in a timely manner;
2. One of 25 deposits tested was deposited in the wrong student body account;
3. Supporting documentation for two of 25 disbursements could not be located; and
4. One of 25 disbursements was made out of the wrong student body account.

Criteria Internal control procedures should be implemented to ensure that:

1. All deposits be made on a timely basis;
2. Funds are deposited into the appropriate student body account;
3. Supporting documentation for all disbursements is maintained; and
4. Disbursements are made out of the appropriate student body account.

Effect Without strengthening internal controls over cash receipts and cash disbursements, student body assets may not be properly safeguarded, may be susceptible to misappropriations, and may be expended on activities that are not valid.

Cause Unknown.

Recommendation Procedures should be implemented to strengthen internal controls over student body assets and accounting records.

Current Status See current-year finding in the schedule of findings and questioned costs (item 2018-001).

Upper Lake Unified School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018
(Continued)

CLASSROOM TEACHER SALARIES

61000 (2017-002)

State Compliance

Condition The District is not in compliance with the required minimum percentage for payment of classroom teachers' compensation under *California Education Code*, Section 41372(b). The District's percentage of current expense of education for classroom teachers' compensation was 52.15% for the fiscal year ended June 30, 2017.

Criteria *California Education Code*, Section 41732(b) requires the District to expend 55% or greater of the District's current expense of education for payment of classroom teachers' compensation.

Effect The current expense of education for the District was \$8,765,189, and classroom teachers' compensation was \$4,570,716, resulting in a deficiency of \$249,808.

Cause The cause of the noncompliance is an increasing amount of expenditures from unrestricted funds under the local control funding formula, which makes meeting the required minimum percentage for payment of classroom teachers' compensation more difficult.

Recommendation The District should implement procedures to ensure that a minimum of 55% of the current expense of education is for classroom teachers' compensation. The District should deposit the deficiency of \$249,808 with the County Superintendent of Schools. If no application for exemption is made, the District should add the deficiency of \$249,808 to the amounts to be expended for compensation of classroom teachers during the next fiscal year.

Current Status The District requested and received a waiver from the County Superintendent of Schools. The waiver was granted on April 20, 2018.

Upper Lake Unified School District

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2018

(Continued)

STATE COMPLIANCE (Ratio of Administrative Employees to Teachers)

40000 (2017-003)

State Compliance

Condition The District is not in compliance with the administrative employee-to-teacher ratio requirement under *California Education Code*, Section 41402. The District is two full time equivalent (FTE) administrative employees over the administrative limit as calculated under *California Education Code*, Section 41401 and 41403.

Criteria *California Education Code*, Section 41402, limits the number of administrators per hundred teachers to not exceed 0.08 for unified school districts.

Effect The current administrative employee-to-teacher ratio is .12, which is equivalent to two administrative FTEs over the allowable limit. This results in a penalty of \$145,381.

Cause Unknown.

Recommendation The District should implement procedures to ensure that the administrative employee-to-teacher ratio is no greater than 0.08. As specified in *California Education Code*, Section 41404. We recommend that funding totaling \$145,381 be returned to the California Department of Education.

Current Status The District requested and received a waiver from the State Board of Education on September 21, 2017.

Upper Lake Unified School District
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018
(Continued)

ATTENDANCE

10000 (2017-004)

State Compliance

Condition Average daily attendance (ADA) reported to the California Department of Education in the Second Period Report of School District Attendance was overstated by 3.10 ADA. The ADA reported to the California Department of Education in the Annual Report of School District Attendance was overstated by 3.05 ADA. The ADA, by grade span, is as follows:

Grade Span	TK/K-3	4-6	7-8	9-12	Total
Second Period Report	-	-	-	3.10	3.10
Annual Report	-	-	-	3.05	3.05

Criteria Pursuant to *California Education Code*, Section 44809, and California Code of Regulations, Title 5, Section 400-401, schools must maintain records of pupil attendance. These written records should be prepared daily and signed weekly by the teacher who instructed the students. The attendance records should be used to support the ADA reported to the California Department of Education in the Report of School District Attendance.

Effect Due to the overstatement of 3.10 ADA in the Second Period Report of School District Attendance, the principal apportionment for 2016-17 is overstated by \$113,581. We took the lower audited ADA figures and ran them through the District's LCFF target and transition entitlement calculations using the CDE's funding exhibits. The result of our calculation is \$113,581 less than the amount shown on the CDE's funding exhibits originally-reported ADA totals. The District is required to return the funding totaling \$113,581 from the principal apportionment to the California Department of Education.

Cause The District's parameters for attendance reporting in relation to continuation education were not set up correctly in the attendance accounting software, causing the attendance reports to be incorrect.

Recommendation We recommend that both the Second Period and Annual Report of School District Attendance be amended for the errors noted above. We also recommend that funding totaling \$113,581 be returned to the California Department of Education. The attendance worksheets, prepared to summarize the days of apportionment attendance, should be reviewed for accuracy prior to preparing the Report of School District Attendance.

Current Status See current-year finding in the schedule of findings and questioned costs (item 2018-006).