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BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
June 30, 2017

BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017
(Continued)

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BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berkeley Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Berkeley Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Berkeley Unified School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 15, the General Fund Budgetary Comparison Schedule, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 53 to 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of Berkeley Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Berkeley Unified School District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2017

BERKELEY UNIFIED SCHOOL DISTRICT

2020 Bonar Street, Berkeley, California 94702

www.berkeley.k12.ca.us

Management's Discussion & Analysis

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

Financial Reports

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

Overview of the Financial Statements

This annual report consists of three parts—Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. This overview section is the Management's Discussion and Analysis and highlights the structure and contents of each of the statements.

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

		Fund Statements		
Type of Statements	District-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• statement of net position	• balance sheet	• statement of net position	• statement of fiduciary net position
	• statement of activities	• statement of revenues, expenditures & changes in fund balances	• statement of revenues, expenses & change in fund net position • statement of cash flows	• statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

District-wide Statements

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

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

The District ended the year with a Net Position of $9,983,787, which is an increase of $1,793,670 over prior year.

Statement of Net Position

	Governmental Activities		
ASSETS	2016	2017	Change 2016-17
Current and other assets	$ 125,968,029	$ 128,074,600	
Capital assets	316,255,417	328,775,596	
Total assets	442,223,446	456,850,196	3%
DEFERRED OUTFLOWS			
Deferred outflow of resources - pensions	11,095,951	27,390,136	
Deferred loss from refunding of debt	2,052,536	3,496,192	
	13,148,487	30,886,328	135%
LIABILITIES			
Long-term debt outstanding	285,411,681	298,564,713	
Net pension liability	114,822,000	136,649,000	
Other liabilities	34,522,135	34,173,024	
Total liabilities	434,755,816	469,386,737	8%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pensions	12,426,000	8,366,000	-33%
NET POSITION			
Invested in capital assets, net of related debt	88,742,162	99,902,231	
Restricted	31,060,283	25,818,997	
Unrestricted	(111,612,328)	(115,737,441)	
Total net position	$ 8,190,117	$ 9,983,787	22%

Statement of Activities

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

Governmental Activities

	2016	2017
REVENUES		
Program Revenues:		
Charges for Services	$ 862,766	$ 797,574
Operating Grants	28,483,958	32,392,038
General Revenues		
Property Taxes	97,713,877	88,989,261
Federal and State Aid	49,974,797	46,740,032
Other	2,866,669	8,254,034
Total Revenues	179,902,067	177,172,939
EXPENSES		
Instruction	96,801,738	96,285,981
Instruction Related Services	21,049,020	22,681,700
Pupil Services	15,273,749	15,808,910
Ancillary Services	289,609	267,181
Community Services	176,238	176,173
General Administration	13,042,338	13,382,625
Plant Services	16,201,336	17,014,771
Enterprise Services	251,889	142,774
Interest	11,474,538	9,619,154
Other and Other Outgo	822	-
Total Expenses	174,561,277	175,379,269
Increase in Net Position	5,340,790	1,793,670
Net Position - Beginning	2,849,327	8,190,117
Net Position - Ending	$ 8,190,117	$ 9,983,787

Capital Assets

At year-end, the District's capital assets had a net increase of $12.5 million over the prior year. This represents a 4.0% increase over last year's total capital assets, and was primarily due to completion of construction projects in progress.

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

	Governmental Activities 2016	Governmental Activities 2017	Percentage Change 2016-17
Land	$ 6,908,949	$ 6,908,949	
Improvement of sites	12,156,363	12,976,881	
Buildings	275,255,500	291,393,166	
Equipment	712,204	1,197,022	
Work in Process	21,222,401	16,299,578	
Total	$ 316,255,417	$ 328,775,596	4.0%

Land is accounted for at purchase value, not market value, and is not depreciated. Many of our school sites have low values for today's market because the District acquired the land many decades ago. We have determined the value of school buildings to be the depreciated cost of modernization unless the building is less than 25 years old. The increase in the value of Buildings and Improvement of Sites was primarily due to completion of several projects districtwide including modernization projects at John Muir, Cragmont, Willard Middle School, LeConte, Malcolm X and Longfellow cafeteria. Roofing projects at Thousand Oaks, Longfellow and Berkeley High School. Landscaping projects at Washington and Rosa Parks. Once these projects are completed, these costs are transferred to Improvement of Sites or Building assets.

District Indebtedness

At year-end, the District has $435.2 million of long-term debt, which includes an additional $136.6 million comprising of the District's portion of the net pension liability. Of total long-term debt, $274.8 million is for General Obligation Bonds secured by property tax increases voted on by local residents. General Obligation Bonds are a long-term obligation issued in order to borrow up-front funds for bond measures until property tax proceeds are received from Berkeley residents.

	Governmental Activities 2016	Governmental Activities 2017	Percentage Change 2016-17
Compensated absences	$ 1,243,552	$ 1,624,473	
General obligation bonds	263,690,000	274,760,000	
Premiums on General Obligation Bonds	11,462,326	12,891,810	
Net pension liability	114,822,000	136,649,000	
Post-employment medical benefits	9,015,803	9,288,430	
Total	$ 400,233,681	$ 435,213,713	8.7%

Post-Employment Medical Benefits represent the annual unfunded portion that has not yet been reserved for future payments. The accumulated liability balance of $9.3 million for post-employment medical benefits is based on an actuarial study. Compensated Absences represent the amount of liability the District owes for vacation that has been earned but not yet taken or paid out.

Fund 20 – Special Reserve Fund for Postemployment Benefits

In FY 2014-15, the District established Fund 20 for funds the District has set aside for the future cost of Post-Employment benefits, and transferred $1.2 million to this fund. The ending fund balance as of June 30, 2017 is $6.9 million. For financial reporting purposes, the District's Fund 20 is included within the District's General Fund.

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*— The District's General Operating, Special Revenue and Capital Projects Funds are included in the governmental funds. Special Revenue Funds include the Adult Education, Child Development, Cafeteria, Pupil Transportation Equipment and Special Reserve Funds. The Capital Projects Funds include the Building and County School Facilities Funds. The District also has the Bond Interest and Redemption Fund for purposes of debt service. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services the District funds by making a contribution based on a percentage of payroll expenditures are reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's Self Insurance Fund used to account for the District's Workers' Compensation program transactions is a proprietary fund.

- *Fiduciary funds*—The District is the trustee, or *fiduciary,* for assets that belong to others, such as the Warrant Pass-Through fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a statement of Changes in Fiduciary Net Position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

Financial Condition of the General Fund

The District's Unaudited Actuals demonstrate the District is fiscally solvent and has met the 3% reserve required by the State of California. The State of California requires all districts reserve 3% of their total expenditures (including transfers out) for economic uncertainties. The District's 3% state reserve requirement of $4.4 million is partially maintained in the Special Reserve for Other Than Capital Outlay Projects Fund, which is included with the General Fund for financial reporting purposes. As of June 30, 2017, the District ended the year with $4.0 million in excess of the 3% state reserve requirement in its Unrestricted General fund, after Commitments of $.4 million and Assignments of $4.5 million.

The Districts Parcel Tax for Schools Excellence Program, BSEP, is approaching the end of the Measure in FY 2017-18. The Board approved a Commitment of $2 million in FY 2015-16 for BSEP program support in FY 2016-17, the remaining commitment is at $0.4 million for FY 2017-18.

The Assignment of $4.5 million was for supplemental grant LCAP reserves in the amount of $1.0 million and $3.5 million reserve for the parcel tax funds.

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

The following table summarizes General Fund financial statements:

	General Fund 2016	General Fund 2017	Percentage Change 2016-17
Total Revenues	$ 143,648,996	$ 143,739,781	0.1%
Total Expenditures	137,814,205	146,401,027	6.2%
Other financing sources (uses), net	(442,951)	(1,075,365)	-142.8%
Change in fund balance	$ 5,391,840	$ (3,736,611)	-169.3%

The change in fund balance by (-$3.7) million in FY 2016-17 is due to increased expenditures of $8.6 million and an increase in other financing sources of $0.6 million over FY 2015-16.

Salary expenditures increased $5.3 million primarily due to the negotiated 3% salary increase; benefits increased $2.3 million due to STRS and PERS increases and there was an increase of $1.0 million in books and supplies over FY 2015-16. Finally, other financing sources increased over prior year due to shortfalls in the Food Services fund in the amount of $0.3 million and Child Development fund in the amount of $0.3 million.

Cost of General Fund Operations (Funds 01-08)

At year-end, the General Fund's total cost of operations was $146.4 million. Total District expenditures were $8.6 million more than the previous year due mainly to an increase in salaries and benefits and increase in STRS and PERS rates. There was a 26.1% increase in books and supplies and increase in capital outlay by $.52 million over last year due to one-time expenditures.

	General Fund 2016	General Fund 2017	Percentage Change 2016-17
Certificated salaries	$ 58,950,280	$ 62,078,708	5.3%
Classified salaries	24,652,492	26,777,000	8.6%
Employee benefits	27,235,575	29,595,334	8.7%
Books and supplies	3,758,267	4,737,498	26.1%
Contract services and operating expenditures	23,028,794	22,507,932	-2.3%
Capital outlay	187,975	704,555	274.8%
Other outgo	822	-	-100.0%
Total	$ 137,814,205	$ 146,401,027	6.2%

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

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

	Final Budget 2017	Actual 2017	Percentage Variance
Revenues			
Local Control Funding Formula	$ 83,737,866	$ 83,718,846	
Federal Revenues	4,361,327	3,060,518	
State Revenues	12,035,514	10,533,042	
Local Revenues	44,864,846	46,427,375	
Total Revenues	$ 144,999,553	$ 143,739,781	-0.87%
Expenditures			
Salaries & Benefits	121,198,346	118,451,042	
Books & Supplies	7,413,014	4,737,498	
Services & Other Operating	23,615,429	22,507,932	
Capital Outlay Other Outgo	769,971	704,555	
Total Expenditures	$ 152,996,760	$ 146,401,027	-4.31%

Revenues were only slightly less than budgeted. However, total expenditures were $6.6 million less than budgeted due partly to unexpended program funding that was assigned in ending fund balance, and significant savings in books and supplies, services and other operating expenditures due to unspent balances in restricted programs and the parcel tax funds.

Cost of General Fund Operations (Fund 01 - Unrestricted)

At year-end, the District's cost of operations in the Unrestricted General Fund 01 was $93.1 million. Total District expenditures were $7.8 million more than the previous year primarily due to increase in salaries and benefits as a result of a salary increase in FY 2016-17, and an increase in STRS and PERS retirement rates. A summary of the cost of operations is as follows:

	Fund 01- Unrestricted General Fund 2016	2017	Percentage Change 2016-17
Certificated salaries	$ 45,672,076	$ 49,139,681	7.6%
Classified salaries	12,688,852	14,075,518	10.9%
Employee benefits	15,871,092	18,191,019	14.6%
Books and supplies	1,773,068	1,958,460	10.5%
Contract services and operating expenditures	9,211,183	9,254,982	0.5%
Capital outlay	87,900	502,299	471.4%
Total	$ 85,304,171	$ 93,121,959	9.2%

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

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

	Final Budget 2017	Actual 2017	Percentage Variance
Revenues			
LCFF Funding	$ 83,262,945	$ 83,183,758	
State Revenues	3,707,923	3,844,571	
Local Revenues	2,273,944	2,511,332	
Total Revenues	$ 89,244,812	$ 89,539,661	0.3%
Expenditures			
Salaries & Benefits	81,604,114	81,406,218	
Books & Supplies	2,324,123	1,958,460	
Services & Other Operating	9,521,008	9,254,982	
Capital Outlay	496,213	502,299	
Total Expenditures	$ 93,945,458	$ 93,121,959	-0.9%

Total budgeted revenues were $0.3 million less than actual revenues received due to change in State and Local Revenues. Total expenditures were $0.8 million less than budgeted due to savings generated from budget reductions and unexpended funds. Unexpended funds were assigned in the fund balance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET'S AND RATES

As of October 31, 2017, the District's Unrestricted General Fund is projected to deficit spend by $2.4 million and has a projected undesignated ending fund balance of $1 million. The deficit includes $3.3 million in planned one-time expenditures, and one-time unrestricted revenues in the amount of $1.4 million. Without one-time revenue and expenditures, there would be a projected deficit of $.6 million.

The designated fund balance includes $1 million in carryover funds assigned for supplemental grant funds for targeted students, $.8 million for negotiated 1% bonus for 2018-19, $.1 million for the revolving fund, and $.2 million in additional funds projected to meet the 3% reserve held in Fund 17.

Projected cost for Special Education in the Adopted Budget totaled $23 million which was consistent with prior year trends. When the District closed the books for 2016-17, actual costs for Special Education totaled $24.5 million, which is $1.5 million more than the Adopted Budget. Early indications from Special Education program staff indicate the program is projected to spend at the same level as the prior year. As a result, the General Fund's contribution to the Special Education program has been increased by $1.5 million at First Interim to be consistent with prior year spending. Staff estimates that $.5 million of the additional contribution is on-going based on planned cost savings measures to be implemented in the out years.

Other Significant Changes for Budgeted Revenues and Expenditures

The District's budgeted revenue generated from LCFF for 2017-18 include $79.3 million in base grant (general fund) revenue and $5.2 million in supplemental grant (general fund LCAP) revenue. The budget assumptions used for projecting revenue are based on the Governor's Enacted Budget. The LCFF includes an increase in base grant revenue of $.2 million and supplemental grant revenue remains unchanged since budget adoption. However, the impact of increasing pension cost exceeds any increase in revenue. The Governor's Enacted Budget included one-time discretionary funds in the amount of $1.4 million. This amount is earmarked for a negotiated one-time bonus for unit members employed for the 2018-19 school year. Pension costs have increased substantially over the last several years and are scheduled to continue to increase by an estimated $1.3 million a year at least through 2020-21.

The District's enrollment is projected to increase by 129 over the prior year. In the Adopted Budget, the District projected an increase in enrollment of 63 students and a corresponding increase in ADA of 60 students. The First Interim Budget includes an additional increase in enrollment of 66 students, and a conservative estimate of 30 additional students in ADA. These numbers will be finalized when certified data is received for enrollment and attendance. The budgeted expenditures incorporate all of the budget priorities and reductions for 2017-18 that were approved by the Board on May 3, 2017, as well as increases at First Interim for $.4 million in one-time expenditures, and $.2 million in on-going expenditures. One-time expenditures at First Interim include $.1 million for legal and consulting services for Title IX, fiscal services and Special Education, staffing costs for WASC and hourly IAs for Special Education, and $.1 million for utilities. On-going costs include additional transportation cost for Berkeley High School Athletics and increased utilities cost. The First Interim Budget includes a negotiated 1% bonus for 2017-18, and a 1% bonus and 1% ongoing salary increase for 2018-19.

The Adopted budget included a contribution to the Food Services Program of $882,542. The contribution is needed partly as a result of the significant drop in revenue for the universal breakfast program which was impacted by lack of accurate reporting of meals served. Early indications reflect improvement in revenue projections for the universal breakfast program.

Budget Reductions

The Board approved $1.8 million in cuts for 2018-19. The District's Superintendent's Budget Advisory Committee (SBAC), which reviews and provides input on proposed reductions is meeting monthly. Based on the staff's recommendations and the committee's input, the Superintendent will make recommendations to the Board for approval of specific budget reductions for 2018-19. Additional cuts of $1 million may be required for 2019-20 to significantly balance the budget, if there is no improvement in the financial outlook for the District.

Multi-Year Projections
Based on the District's Multi-Year Projections, the District is projected to have an undesignated fund balance of $.8 million for FY 2018-19. The District is projecting to deficit spend by $2.3 million. The District's pension costs are increasing about $1.3 million annually and are absorbing any increase in revenue and contributing to the structural deficit. The structural deficit is also impacted by increasing Special Education costs. Based on these projections of deficit spending, the District has implemented board approved budget reductions in the amount of $1.8 million in 2018-19. The SBAC, which reviews and provides input on proposed reductions, has held meetings throughout the spring and is continuing to meet to determine budget reductions. Based on the staff's recommendations and the committee's input, the Superintendent will make recommendations to the Board for approval of budget reductions.

For FY 2019-20, the District is projected to have an undesignated fund balance of $.3 million. The District is projecting additional reductions in 2019-20 to balance the Budget. Due to STRS and PERS increasing pension cost, the District's pension costs are increasing $1.2 to $1.3 million annually and are absorbing a substantial amount of the increase in revenue and increasing the structural deficit. The structural deficit is also impacted by increasing Special Education costs. Expenditures for FY 2019-20 include elimination of one-time savings relating to a portion Regional Occupational Programs (ROP) being funded by Career Technical Education (CTE) grant since the ROP grant funding will sunset after 2018-19, and do not include negotiated salary increases. Again, based on these projections of deficit spending, the District will face balancing the budget, which will result in significant reductions in 2019-20.

Reserves
County offices continue to reinforce the need for reserves in excess of the minimum reserve for economic uncertainty. The required reserve for economic uncertainty represents only about a few weeks of payroll for most districts. The Government Finance Officers Association recommends reserves, at minimum, equal to two months of average general fund operating expenditures, or about 17%. School funding in California remains highly dependent on growth in general fund, and large year-over-year revenue increases are likely behind us. Future revenues may be inadequate to cover increases in largely uncontrolled expenditures (increasing employer pension rates, step and column, medical premiums, inflation, special education, etc.). If an economic downturn or other unforeseen circumstances occur, a prudent reserve affords districts and their governing board's time to thoughtfully identify and implement budget adjustments over time. Inadequate reserves force districts to react quickly, often causing significant disruption, sometimes unnecessarily, to student programs and employees, or worse.

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

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

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

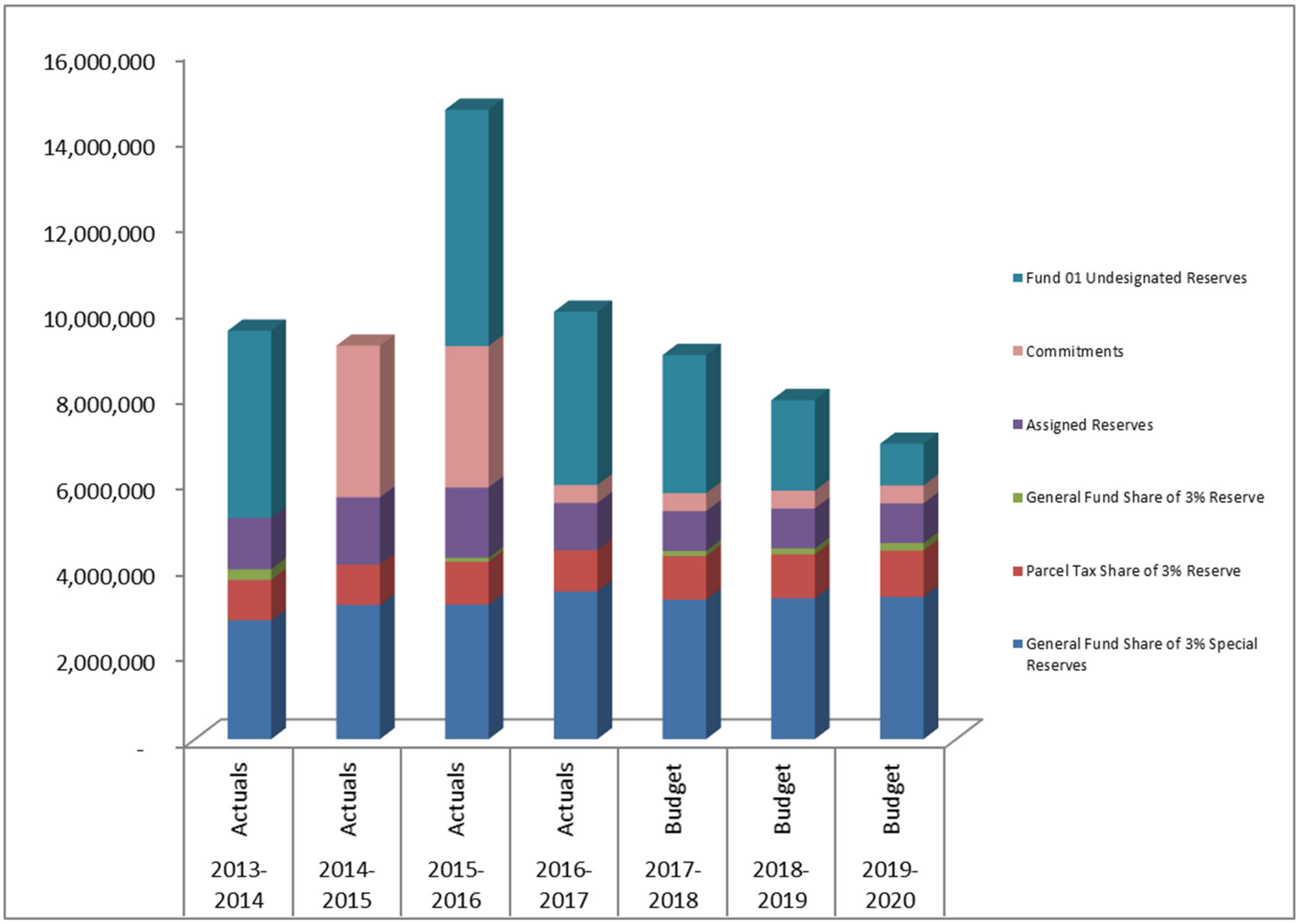
- It is projected that the District's 3-year multiyear budget will be deemed to be qualified or negative by the County Office of Education
- It is projected that the District may need to make mid-year layoffs
- It is projected that the District's combined state and federal revenue is reduced in the middle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

Summary

The Governor continues to emphasize general fund revenue growth in the current and budget years, yet if it occurs, will be increasingly dependent upon volatile capital gains collections. Accordingly, additional caution is necessary in negotiating multiple year agreements. STRS and PERS employer costs are projected to absorb significant portions of Local Control Funding Formula (LCFF) revenue growth that Districts may receive. Districts with flat or declining enrollment need to be especially mindful, as expenses may grow more rapidly than revenues. It is imperative the District stays well informed, and consider the impact of proposed and potential changes, both fiscal and programmatic, and adapt accordingly. As funding for education flattens, the Alameda County Office of Education (ACOE) is cautioning Districts to have contingency plans. Increases in both retirement and special education expenses, a greater focus on targeted LCAP spending, and minimal funding through Prop. 98 can quickly impact a district's financial status.

Components of Ending Fund Balance

The following chart reflects the components of ending fund balances for 2013-14 to 2019-20 for Funds 01-08, and shows the decline in ending fund balance in the out years.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	$ 117,293,120
Receivables	10,690,107
Stores inventory	91,373
Non-depreciable capital assets (Note 4)	23,208,527
Depreciable capital assets, net of accumulated depreciation (Note 4)	305,567,069
Total assets	456,850,196
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow of resources - pensions (Notes 7 and 8)	27,390,136
Deferred loss from refunding of debt	3,496,192
Total deferred outflows of resources	30,886,328
LIABILITIES	
Accounts payable	23,154,732
Unpaid claims and claim adjustment expenses (Note 10)	9,124,000
Unearned revenue	1,894,292
Long-term liabilities (Note 5):	
Due within one year	15,335,830
Due after one year	419,877,883
Total liabilities	469,386,737
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 7 and 8)	8,366,000
NET POSITION	
Net investment in capital assets	99,902,231
Restricted:	
Legally restricted programs	4,041,740
Capital projects	1,601
Debt service	21,775,656
Unrestricted	(115,737,441)
Total net position	$ 9,983,787

See accompanying notes to financial statements.

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities:					
Instruction	$ 96,285,981	$ 311,153	$ 18,001,733	$ -	$ (77,973,095)
Instruction-related services:					
Supervision of instruction	11,696,966	31,507	2,280,824	-	(9,384,635)
Instructional library, media and technology	2,494,004	-	96,032	-	(2,397,972)
School site administration	8,490,730	-	1,306,252	-	(7,184,478)
Pupil services:					
Home-to-school transportation	4,044,748	-	3,085	-	(4,041,663)
Food services	3,608,002	392,539	1,793,925	-	(1,421,538)
All other pupil services	8,156,160	-	1,123,618	-	(7,032,542)
General administration:					
Data processing	2,068,488	-	-	-	(2,068,488)
All other general administration	11,314,137	48,541	1,096,122	-	(10,169,474)
Plant services	17,014,771	13,834	617,625	-	(16,383,312)
Ancillary services	267,181	-	727	-	(266,454)
Community services	176,173	-	3	-	(176,170)
Enterprise services	142,774	-	-	-	(142,774)
Interest on long-term liabilities	9,619,154	-	-	-	(9,619,154)
Other outgo	-	-	6,072,092	-	6,072,092
Total governmental activities	$ 175,379,269	$ 797,574	$ 32,392,038	$ -	(142,189,657)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					40,852,744
Taxes levied for debt service					16,483,422
Taxes levied for other specific purposes					31,653,095
Federal and state aid not restricted to specific purposes					46,740,032
Interest and investment earnings					2,939,399
Interagency revenues					153,551
Miscellaneous					3,255,603
Special and extraordinary items					1,905,481
Total general revenues					143,983,327
Change in net position					1,793,670
Net position, July 1, 2016					8,190,117
Net position, June 30, 2017					$ 9,983,787

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and investments:					
Cash in County Treasury	$ 32,607,247	$ 30,999,902	$ 20,128,845	$ 500,749	$ 84,236,743
Cash on hand and in banks	41,180	-	-	1,031,508	1,072,688
Cash in revolving fund	100,000	-	-	-	100,000
Cash with fiscal agent	135,000	-	26,144,115	-	26,279,115
Receivables	7,118,784	51,103	26,332	1,057,796	8,254,015
Due from other funds	3,093,720	-	-	816,482	3,910,202
Stores inventory	-	-	-	91,373	91,373
Total assets	$ 43,095,931	$ 31,051,005	$ 46,299,292	$ 3,497,908	$ 123,944,136
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 17,016,026	$ 353,752	$ -	$ 1,482,717	$ 18,852,495
Unearned revenue	1,893,543	-	-	749	1,894,292
Due to other funds	1,059,978	-	-	665,808	1,725,786
Total liabilities	19,969,547	353,752	-	2,149,274	22,472,573
Fund balances:					
Nonspendable	100,000	-	-	91,373	191,373
Restricted	2,756,071	30,697,253	46,299,292	1,257,261	81,009,877
Assigned	11,834,980	-	-	-	11,834,980
Unassigned	8,435,333	-	-	-	8,435,333
Total fund balances	23,126,384	30,697,253	46,299,292	1,348,634	101,471,563
Total liabilities and fund balances	$ 43,095,931	$ 31,051,005	$ 46,299,292	$ 3,497,908	$ 123,944,136

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - Governmental Funds		$ 101,471,563
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $456,634,042 and the accumulated depreciation is $127,858,446 (Note 4).		328,775,596
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2017 consisted of (Note 5):		
General Obligation Bonds	$ (274,760,000)	
Unamortized premiums	(12,891,810)	
Net pension liability (Notes 7 and 8)	(136,649,000)	
Other postemployment benefits (Note 9)	(9,288,430)	
Compensated absences	(1,624,473)	
		(435,213,713)
Losses on the refunding of debt are recognized as expenditure in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding debt.		3,496,192
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 7 and 8).		
Deferred outflows of resources relating to pensions	$ 27,390,136	
Deferred inflows of resources relating to pensions	(8,366,000)	
		19,024,136
The Self-Insurance Fund is used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the Self-Insurance Fund is presumed to operate for the benefit of governmental activities, assets and liabilities of the Self-Insurance Fund are reported with governmental activities in the statement of net position.		(3,463,871)
In governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(4,106,116)
Total net position - governmental activities		$ 9,983,787

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
Revenues:					
Local Control Funding Formula (LCFF):					
State apportionment	$ 45,189,623	$ -	$ -	$ -	$ 45,189,623
Local sources	38,529,223	-	-	-	38,529,223
Total LCFF	83,718,846	-	-	-	83,718,846
Federal sources	3,060,518	-	1,074,075	3,297,507	7,432,100
Other state sources	10,533,042	1,400	157,019	6,552,154	17,243,615
Other local sources	46,427,375	1,017,388	16,898,192	2,477,805	66,820,760
Total revenues	143,739,781	1,018,788	18,129,286	12,327,466	175,215,321
Expenditures:					
Current:					
Certificated salaries	62,078,708	-	-	4,337,519	66,416,227
Classified salaries	26,777,000	306,472	-	3,960,935	31,044,407
Employee benefits	29,595,334	98,862	-	2,643,433	32,337,629
Books and supplies	4,737,498	643,940	-	1,417,584	6,799,022
Contract services and operating expenditures	22,507,932	179,854	-	956,387	23,644,173
Capital outlay	704,555	14,678,942	-	7,295	15,390,792
Debt service:					
Principal retirement	-	-	12,895,000	-	12,895,000
Interest	-	-	10,780,680	-	10,780,680
Total expenditures	146,401,027	15,908,070	23,675,680	13,323,153	199,307,930
Deficiency of revenues under expenditures	(2,661,246)	(14,889,282)	(5,546,394)	(995,687)	(24,092,609)
Other financing (uses) sources:					
Transfers in	708,460	-	-	1,540,329	2,248,789
Transfers out	(1,783,825)	-	-	(708,460)	(2,492,285)
Proceeds from issuance of long-term liabilities	-	-	23,965,000	-	23,965,000
Debt issuance premium	-	-	2,500,144	-	2,500,144
Total other financing (uses) sources	(1,075,365)	-	26,465,144	831,869	26,221,648
Net change in fund balances	(3,736,611)	(14,889,282)	20,918,750	(163,818)	2,129,039
Fund balances, July 1, 2016	26,862,995	45,586,535	25,380,542	1,512,452	99,342,524
Fund balances, June 30, 2017	$ 23,126,384	$ 30,697,253	$ 46,299,292	$ 1,348,634	$ 101,471,563

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Net change in fund balances - Total Governmental Funds	$ 2,129,039
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	16,619,920
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(4,099,741)
Proceeds from debt are recognized as other financing sources in the governmental funds, but increases the long-term liabilities in the statement of net position (Note 5).	(23,965,000)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 5).	12,895,000
In governmental funds, premiums on debt issuance is recognized as revenue. In government-wide statements, premiums are reported as adjustments to the related debt (Note 5).	(1,429,484)
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was:	(1,472,815)
In the statement of activities, expenses related to post-retirement employee benefits and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Notes 5 and 9).	(653,548)
In governmental funds, losses incurred through the refunding of debt are recognized as expenditure in the period incurred. In the government-wide statements, they are deferred and amortized over the shortened life of the refunded or refunding debt. The amount deferred as a result of the current year refunding was $1,799,265 and the current year amortization was $355,609.	1,443,656
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.	552,691
The Self-Insurance Fund is used to conduct certain activities for the benefit of governmental activities for which costs are charged to other funds on a full cost-recovery basis. Self-Insurance Fund activities are reported with governmental activities in the statement of activities.	(226,048)
Change in net position of governmental activities	$ 1,793,670

See accompanying notes to financial statements.

ASSETS	
Cash and investments:	
Cash in County Treasury	$ 5,160,699
Cash with Fiscal Agent	443,875
Receivables	8,180
Due from other funds	243,496
Total current assets	5,856,250
LIABILITIES	
Current liabilities:	
Accounts payable	196,121
Self-insurance claims liability	9,124,000
Total liabilities	9,320,121
NET POSITION	
Unrestricted	$ (3,463,871)

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2017

Operating revenues:	
In-district contributions	$ 2,022,858
Operating expenses:	
Classified salaries	205,772
Employee benefits	72,468
Books and supplies	22,615
Claims and claims adjustment expense	2,227,989
Total operating expenses	2,528,844
Operating loss	(505,986)
Non-operating revenues:	
Interest income	36,442
Loss before transfers	(469,544)
Transfers from other funds	243,496
Change in net position	(226,048)
Net position, July 1, 2016	(3,237,823)
Net position, June 30, 2017	$ (3,463,871)

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from user charges	$ 2,066,852
Cash paid to employees for services	(278,240)
Cash paid for insurance claims	(2,281,989)
Cash paid for books and supplies	(22,615)
Net cash used in operating activities	(515,992)
Cash flows provided by non-capital financing activities:	
Transfer from other funds	243,496
Cash flows provided by investing activities:	
Interest income	36,442
Change in cash and investments	(236,054)
Cash and investments, July 1, 2016	5,840,628
Cash and investments, June 30, 2017	$ 5,604,574
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (505,986)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in receivables	(3,799)
Increase in accounts payable	47,793
Increase in claims liabilities	(54,000)
Total adjustments	(10,006)
Net cash used in operating activities	$ (515,992)

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2017

	Agency Funds
ASSETS	
Cash and investments (Note 2):	
Cash in County Treasury	$ 4,425,591
Cash on hand and in banks	386,166
Receivables	1,513,498
Total assets	$ 6,325,255
LIABILITIES	
Due to statutory agencies	3,511,177
Due to other funds	2,427,912
Due to student groups	386,166
Total liabilities	$ 6,325,255

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - Major Funds

General Fund:

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

Building Fund:

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

Bond Interest and Redemption Fund:

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

B - Other Funds

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

The County School Facilities Fund is a capital projects fund used to account for resources used for new school facilities construction, modernization projects, facility hardship grants, and for acquisition of capital facilities of the District.

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Receivables: Receivables are made up principally of amounts due from the State of California. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2017.

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

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

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

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the net pension liability.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The following is a summary of pension amounts in aggregate:

	STRP	PERF B	Total
Deferred outflows of resources	$ 15,500,797	$ 11,889,339	$ 27,390,136
Deferred inflows of resources	$ 5,697,000	$ 2,669,000	$ 8,366,000
Net pension liability	$ 95,395,000	$ 41,254,000	$136,649,000
Pension expense	$ 13,078,864	$ 4,425,812	$ 17,504,676

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

Compensated Absences: Compensated absences in the amount of $1,624,473 is recorded as a liability of the District. The liability is for earned but unused benefits.

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

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

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

Net Position: Net position is displayed in three components:

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

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

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Trustees is required to remove any commitment from any fund balance. At June 30, 2017, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. While the Board of Trustees has empowered members of management to suggest individual amounts to be assigned, as of June 30, 2017 no formal designation of assignment authority has occurred and the Board of Trustees retains ultimate authority for assigning fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E - Unassigned Fund Balance:

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

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

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2017, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

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

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

(Continued)

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2017 consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Activities
Pooled funds:				
Cash in County Treasury	$ 84,236,743	$ 5,160,699	$ 89,397,442	$ 4,425,591
Deposits:				
Cash in revolving fund	100,000	-	100,000	-
Cash on hand and in banks	1,072,688	-	1,072,688	386,166
Cash with Fiscal Agent	26,279,115	443,875	26,722,990	-
Total cash and investments	$ 111,688,546	$ 5,604,574	$ 117,293,120	$ 4,811,757

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

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2017, the carrying amount of the District's accounts was $1,558,854 and the bank balance was $1,462,403. $554,161 of the bank balance was FDIC insured and $908,242 remained uninsured but fully collateralized.

Cash with Fiscal Agent: Cash with Fiscal Agent in the General Fund and Self-Insurance Fund represent a security deposit held by a third party. Cash with Fiscal Agent in the Bond Interest and Redemption Fund consists of proceeds from the issuance of General Obligation crossover refunding bonds held for the repayment of refunded bonds on the crossover refunding date.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, the District had no significant interest rate risk related to cash and investments held.

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

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2017, the District had no concentration of credit risk.

(Continued)

NOTE 3 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables: Interfund receivable and payable balances at June 30, 2017 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	$ 3,093,720	$ 1,059,978
Non-Major Funds:		
Adult Education	100,000	186,845
Child Development	319,745	323,482
Cafeteria	396,737	155,481
Proprietary Fund:		
Self-Insurance	243,496	-
Agency Fund:		
Warrant/Pass-Through	-	2,427,912
Totals	$ 4,153,698	$ 4,153,698

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

Transfers for the 2016-2017 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund to provide operational support for the program.	$ 100,000
Transfer from the General Fund to the Child Development Fund to provide operational support for the program.	440,329
Transfer from the General Fund to the Cafeteria Fund for Meals for the needy due to LCFF and to cover an operational shortfall in the fund.	1,000,000
Transfer from the General Fund to the Self-Insurance Fund to provide required reserves for property and liability insurance.	243,496
Transfer from the Adult Education Fund to the General Fund for indirect cost support.	186,845
Transfer from the Child Development Fund to the General Fund for indirect cost support.	316,662
Transfer from the Cafeteria Fund to the General Fund for indirect cost support.	204,953
	$ 2,492,285

(Continued)

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2017, is shown below:

	Balance July 1, 2016	Additions	Transfers and Deletions	Balance June 30, 2017
Non-depreciable:				
Land	$ 6,908,949	$ -	$ -	$ 6,908,949
Work-in-process	21,222,401	16,024,791	(20,947,614)	16,299,578
Depreciable:				
Improvement of sites	20,029,511	-	1,237,451	21,266,962
Buildings	380,759,599	-	19,710,163	400,469,762
Equipment	11,093,662	595,129	-	11,688,791
Totals, at cost	440,014,122	16,619,920	-	456,634,042
Less accumulated depreciation:				
Improvement of sites	(7,873,148)	(416,933)	-	(8,290,081)
Buildings	(105,504,099)	(3,572,497)	-	(109,076,596)
Equipment	(10,381,458)	(110,311)	-	(10,491,769)
Total accumulated depreciation	(123,758,705)	(4,099,741)	-	(127,858,446)
Capital assets, net	$ 316,255,417	$ 12,520,179	$ -	$ 328,775,596

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 2,433,063
Supervision of instruction	196,781
Instructional library, media and technology	58,134
School site administration	232,482
Home-to-school transportation	117,697
Food services	105,152
All other pupil services	148,071
Ancillary services	7,450
Community services	6,429
Enterprise activities	80,189
All other general administration	240,442
Centralized data processing	38,990
Plant services	434,861
Total depreciation expense	$ 4,099,741

(Continued)

NOTE 5 - LONG-TERM LIABILITIES

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

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

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

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

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

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

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

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

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

(Continued)

NOTE 5 - LONG-TERM LIABILITIES (Continued)

In May 2016, the District issued 2016 General Obligation Refunding Bonds totaling $17,905,000. The proceeds were used to refund, on a current basis, a portion of the outstanding balance of the Election of 2000, Series 2007 Bonds. At June 30, 2017, the refunded Series 2007 Bonds were fully repaid. The 2016 General Obligation Refunding Bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through August 1, 2031.

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

Although the 2017 General Obligation Refunding Bonds resulted in the recognition of an accounting loss of $1,799,265, for the year ended June 30, 2017, the District in effect reduced its aggregate debt service payments by $1.5 million over the next 15 years and obtained an economic gain of $3.1 million.

Calculation of the difference in cash flow requirements and economic gain are as follows:

Old debt service cash flows	$ 36,597,763
New debt service cash flows	35,055,297
Cash flow difference	$ 1,542,466
Present value of old debt service cash flows	$ 27,244,292
Present value of new debt service cash flows	24,123,905
Economic gain	$ 3,120,387

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

Issue Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Bonds Issued	Bonds Redeemed	Bonds Outstanding June 30, 2017
06/28/07	08/01/16	4.75 - 5.00%	$ 24,500,000	$ 870,000	$ -	$ 870,000	$ -
05/26/09	08/01/33	3.375 - 5.00%	17,774,222	17,270,000	-	615,000	16,655,000
11/10/09	08/01/20	2.00 - 5.00%	25,440,000	10,960,000	-	3,410,000	7,550,000
05/10/11	05/01/26	3.50 - 5.00%	25,000,000	25,000,000	-	1,605,000	23,395,000
05/10/11	08/01/35	5.00 - 5.375%	10,000,000	10,000,000	-	-	10,000,000
09/29/11	08/01/27	2.00 - 5.00%	55,625,000	39,075,000	-	2,645,000	36,430,000
02/05/13	08/01/29	2.00 - 4.00%	19,590,000	17,595,000	-	1,060,000	16,535,000
05/13/13	08/01/52	3.00 - 4.125%	40,000,000	40,000,000	-	-	40,000,000
06/27/13	08/01/24	3.00 - 4.00%	13,000,000	11,350,000	-	-	11,350,000
06/11/15	08/01/45	3.375 - 5.00%	50,000,000	50,000,000	-	-	50,000,000
07/09/15	08/01/24	2.00 - 5.00%	23,665,000	23,665,000	-	2,515,000	21,150,000
05/19/16	08/01/31	2.00 - 5.00%	17,905,000	17,905,000	-	175,000	17,730,000
04/25/17	08/01/35	3.375 - 5.00%	23,965,000	-	23,965,000	-	23,965,000
			$ 346,464,222	$ 263,690,000	$ 23,965,000	$ 12,895,000	$ 274,760,000

NOTE 5 - LONG-TERM LIABILITIES (Continued)

General Obligation Bonds mature as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 14,250,000	$ 10,041,427	$ 24,291,427
2019	14,440,000	10,468,575	24,908,575
2020	15,485,000	9,777,033	25,262,033
2021	14,840,000	9,042,738	23,882,738
2022	15,115,000	8,413,000	23,528,000
2023-2027	66,360,000	33,080,095	99,440,095
2028-2032	49,390,000	21,479,703	70,869,703
2033-2037	31,560,000	16,015,966	47,575,966
2038-2042	19,525,000	8,925,769	28,450,769
2043-2047	20,295,000	4,662,037	24,957,037
2048-2052	10,985,000	1,693,209	12,678,209
2053	2,515,000	51,872	2,566,872
	$ 274,760,000	$ 133,651,424	$ 408,411,424

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2017, is shown below:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
General Obligation Bonds	$ 263,690,000	$ 23,965,000	$ 12,895,000	$ 274,760,000	$ 14,250,000
Unamortized Premiums	11,462,326	2,500,143	1,070,659	12,891,810	1,085,830
Net pension liability (Notes 7 and 8)	114,822,000	21,827,000	-	136,649,000	-
Other postemployment benefits (Note 9)	9,015,803	2,694,863	2,422,236	9,288,430	-
Compensated absences	1,243,552	403,339	22,418	1,624,473	-
	$ 400,233,681	$ 51,390,345	$ 16,410,313	$ 435,213,713	$ 15,335,830

Payments on the General Obligation Bonds were made from the Bond Interest and Redemption Funds. Payments on other postemployment benefits and compensated absences are made from the fund for which the related employee worked.

(Continued)

NOTE 6 - FUND BALANCES

Fund balances, by category, at June 30, 2017 consisted of the following:

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	$ 100,000	$ -	$ -	$ -	$ 100,000
Stores inventory	-	-	-	91,373	91,373
Subtotal nonspendable	100,000	-	-	91,373	191,373
Restricted:					
Legally restricted programs	2,756,071	-	-	1,194,296	3,950,367
Capital projects	-	30,697,253	-	1,601	30,698,854
Debt service	-	-	46,299,292	61,364	46,360,656
Subtotal restricted	2,756,071	30,697,253	46,299,292	1,257,261	81,009,877
Assigned:					
Post-employment benefits	6,901,247	-	-	-	6,901,247
Accrual for 3% bonus	3,933,733	-	-	-	3,933,733
LCAP supplemental grant	1,000,000	-	-	-	1,000,000
Subtotal assigned	11,834,980	-	-	-	11,834,980
Unassigned:					
Designated for economic uncertainty	4,402,141	-	-	-	4,402,141
Undesignated	4,033,192	-	-	-	4,033,192
Subtotal unassigned	8,435,333	-	-	-	8,435,333
Total fund balances	$ 23,126,384	$ 30,697,253	$ 46,299,292	$ 1,348,634	$ 101,471,563

(Continued)

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

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

CalSTRS 2% at 62

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

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

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

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

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

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2016-17.

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

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 12.58 percent of applicable member earnings.

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

The CalSTRS employer contribution rate increases effective for fiscal year 2016-17 through fiscal year 2045-46 are summarized in the table below:

Effective Date	Prior Rate	Increase	Total
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed $7,916,797 to the plan for the fiscal year ended June 30, 2017.

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

State - 8.828 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2046-2047. The CalSTRS state contribution rates effective for fiscal year 2016-17 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 4.811 percent on July 1, 2017, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding(1)	Total State Appropriation to DB Program
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017	2.017%	4.811%(2)	2.50%	9.328%
July 01, 2018 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(3)	2.50%	4.517%(3)

(1) This rate does not include the $72 million reduction in accordance with Education Code Section 22954.
(2) During its April 2017 meeting, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2017.
(3) The CalSTRS board has limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	$ 95,395,000
State's proportionate share of the net pension liability associated with the District	54,312,000
Total	$ 149,707,000

(Continued)

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

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, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2016, the District's proportion was 0.118 percent, which was an decrease of 0.005 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $13,078,864 and revenue of $4,400,726 for support provided by the State. At June 30, 2017, 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	$ -	$ 2,327,000
Net differences between projected and actual earnings on investments	7,584,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	3,370,000
Contributions made subsequent to measurement date	7,916,797	-
Total	$ 15,500,797	$ 5,697,000

$7,916,797 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2018	$ (876,167)
2019	$ (876,167)
2020	$ 3,532,832
2021	$ 1,858,166
2022	$ (986,334)
2023	$ (765,330)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

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

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis and June 30, 2015 Actuarial Program Valuations for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

* 20-year geometric average

(Continued)

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

Discount Rate: The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. 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 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$137,295,000	$ 95,395,000	$ 60,595,000

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

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

General Information about the Public Employer's Retirement Fund B

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

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2016.pdf.

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

(Continued)

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2017 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2016-17.

Employers - The employer contribution rate was 13.888 percent of applicable member earnings.

The District contributed $3,714,339 to the plan for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of $41,254,000 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, 2015. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2016, the District's proportion was 0.209 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $4,425,812. At June 30, 2017, 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	$ 1,774,000	$ -
Changes of assumptions	-	1,239,000
Net differences between projected and actual earnings on investments	6,401,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	1,430,000
Contributions made subsequent to measurement date	3,714,339	-
Total	$ 11,889,339	$ 2,669,000

(Continued)

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

$3,714,339 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2017	$ 154,133
2018	$ 768,133
2019	$ 2,913,134
2020	$ 1,670,600

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2016 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

(Continued)

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

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

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return
Global Equity	51%	5.25%
Global Debt Securities	20	0.99
Inflation Assets	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	1	(0.55)

* 10-year geometric average

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

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

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 61,552,000	$ 41,254,000	$ 24,353,000

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description: The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Berkeley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. The plan does not issue separate financial statements.

Funding Policy: The contribution requirements of plan members of the District are established and may be amended by the District and the California Teachers Association (CTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CTA, CSEA and the unrepresented groups. During the fiscal year ended June 30, 2017, the District contributed $2,422,236 to the plan.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 2,598,745
Interest on net OPEB obligation	428,251
Adjustment to annual required contribution	(332,133)
Annual OPEB cost (expense)	2,694,863
Contributions made	(2,422,236)
Increase in net OPEB obligation	272,627
Net OPEB obligation - beginning of year	9,015,803
Net OPEB obligation - end of year	$ 9,288,430

(Continued)

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 2,442,230	81.6%	$ 3,511,486
June 30, 2016	$ 6,343,270	13.2%	$ 9,015,803
June 30, 2017	$ 2,694,863	26.2%	$ 9,288,430

As of June 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $16.9 million. The covered payroll (annual payroll of active employees covered by the Plan) was $80.3 million, and the ratio of the UAAL to the covered payroll was 21.1 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as Required Supplementary Information, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, an annual healthcare cost trend rate of 4.0 percent, and a payroll increase of 2.75 percent, annually. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 25 years.

(Continued)

NOTE 10 - RISK MANAGEMENT

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

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

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

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

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

(Continued)

NOTE 10 - RISK MANAGEMENT (Continued)

Unpaid Claims Liabilities: The Self-Insurance Fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses, developed through both the workers compensation and property and liability programs. The self insurance program was initiated in January 1, 2004. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2015 to June 30, 2017:

Self-Insurance Programs	
Liability balance, July 1, 2015	$ 3,832,367
Claims and changes in estimates	10,691,266
Claims payments	(5,345,633)
Liability balance, June 30, 2016	9,178,000
Claims and changes in estimates	2,170,822
Claims payments	(2,224,822)
Liability balance, June 30, 2017	$ 9,124,000

NOTE 11 - JOINT POWERS AUTHORITIES

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

The following is a summary of financial information for SELF and ASCIP at June 30, 2016 (the most recent information available):

	SELF	ASCIP
Total assets	$ 138,820,266	$ 407,081,077
Deferred outflows of resources	$ 266,414	$ 1,224,143
Total liabilities	$ 117,306,926	$ 222,632,775
Deferred inflows of resources	$ 245,133	$ 857,574
Total net position	$ 21,534,621	$ 184,814,871
Total revenues	$ 13,898,598	$ 271,770,851
Total expenditures	$ 24,553,606	$ 244,523,681
Change in net position	$ (10,655,008)	$ 27,247,170

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

(Continued)

NOTE 12 - CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2017

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	$ 48,264,989	$ 44,624,190	$ 45,189,623	$ 565,433
Local sources	35,561,622	39,113,676	38,529,223	(584,453)
Total LCFF	83,826,611	83,737,866	83,718,846	(19,020)
Federal sources	3,941,559	4,361,327	3,060,518	(1,300,809)
Other state sources	11,766,208	12,035,514	10,533,042	(1,502,472)
Other local sources	41,543,886	44,864,846	46,427,375	1,562,529
Total revenues	141,078,264	144,999,553	143,739,781	(1,259,772)
Expenditures:				
Current:				
Certificated salaries	63,278,761	63,403,458	62,078,708	1,324,750
Classified salaries	26,925,608	26,365,941	26,777,000	(411,059)
Employee benefits	33,086,749	31,428,947	29,595,334	1,833,613
Books and supplies	4,573,860	7,413,014	4,737,498	2,675,516
Contract services and operating expenditures	19,283,351	23,615,429	22,507,932	1,107,497
Other outgo	24,682	24,682	-	24,682
Capital outlay	227,766	745,289	704,555	40,734
Total expenditures	147,400,777	152,996,760	146,401,027	6,595,733
Deficiency of revenues under expenditures	(6,322,513)	(7,997,207)	(2,661,246)	5,335,961
Other financing uses:				
Transfers in	756,646	704,414	708,460	4,046
Transfers out	(1,138,442)	(1,505,900)	(1,783,825)	(277,925)
Total other financing uses	(381,796)	(801,486)	(1,075,365)	(273,879)
Net change in fund balance	(6,704,309)	(8,798,693)	(3,736,611)	5,062,082
Fund balance, July 1, 2016	26,862,995	26,862,995	26,862,995	-
Fund balance, June 30, 2017	$ 20,158,686	$ 18,064,302	$ 23,126,384	$ 5,062,082

See note to required supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
For the Year Ended June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
May 1, 2009	$ -	$ 16,344,627	$ 16,344,627	0%	$ 77,894,196	20.9%
May 1, 2011	$ -	$ 16,535,848	$ 16,535,848	0%	$ 70,124,826	23.6%
June 1, 2013	$ -	$ 16,396,275	$ 16,396,275	0%	$ 82,302,826	19.9%
June 1, 2015	$ -	$ 16,929,694	$ 16,929,694	0%	$ 80,292,099	21.1%

See note to required supplementary information.

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.123%	0.123%	0.118%
District's proportionate share of the net pension liability	$ 71,617,000	$ 82,985,000	$ 95,395,000
District's proportionate share of the net pension liability associated with the District	43,246,000	43,890,000	54,312,000
Total Pension Liability	$ 114,863,000	$ 126,875,000	$ 149,707,000
District's covered payroll	$ 54,586,000	$ 57,212,000	$ 58,780,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

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

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All years prior to 2015 are not available.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2017

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.215%	0.216%	0.209%
District's proportionate share of the net pension liability	$ 24,434,000	$ 31,837,000	$ 41,254,000
District's covered payroll	$ 22,594,000	$ 23,912,000	$ 25,060,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	108.14%	133.14%	164.62%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%

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

All years prior to 2015 are not available.

See note to required supplementary information.

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017
Contractually required contribution	$ 5,080,410	$ 6,307,138	$ 7,916,797
Contributions in relation to the contractually required contribution	5,080,410	6,307,138	7,916,797
Contribution deficiency (excess)	-	-	-
District's covered payroll	$ 57,212,000	$ 58,780,000	$ 62,932,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%

All years prior to 2015 are not available.

(Continued)

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017
Contractually required contribution	$ 2,814,653	$ 2,968,813	$ 3,714,339
Contributions in relation to the contractually required contribution	2,814,653	2,968,813	3,714,339
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 23,912,000	$ 25,060,000	$ 26,745,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%

All years prior to 2015 are not available.

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

Excess of expenditures over appropriations for the year ended June 30, 2017 were as follows:

Fund	Excess Expenditures
General Fund:	
Classified salaries	$ 411,059

These excesses are not in accordance with Education Code 42600.

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

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

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

D – Schedule of the District's Contributions

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

E – Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65, and 7.65 percent percent in the June 30, 2013, 2014, and 2015 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR FUNDS
June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Pupil Trans-portation Equipment Fund	County School Facilities Fund	Tax Override Fund	Total
ASSETS							
Cash and investments:							
Cash in County Treasury	$ 428,441	$ -	$ -	$ 9,345	$ 1,599	$ 61,364	$ 500,749
Cash on hand and in banks	544,183	433,818	53,507	-	-	-	1,031,508
Receivables	360,418	198,070	499,291	15	2	-	1,057,796
Due from other funds	100,000	319,745	396,737	-	-	-	816,482
Stores inventory	-	-	91,373	-	-	-	91,373
Total assets	$ 1,433,042	$ 951,633	$ 1,040,908	$ 9,360	$ 1,601	$ 61,364	$ 3,497,908
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 227,646	$ 591,244	$ 663,827	$ -	$ -	$ -	$ 1,482,717
Unearned revenue	749	-	-	-	-	-	749
Due to other funds	186,845	323,482	155,481	-	-	-	665,808
Total liabilities	415,240	914,726	819,308	-	-	-	2,149,274
Fund balances:							
Nonspendable	-	-	91,373	-	-	-	91,373
Restricted	1,017,802	36,907	130,227	9,360	1,601	61,364	1,257,261
Total fund balances	1,017,802	36,907	221,600	9,360	1,601	61,364	1,348,634
Total liabilities and fund balances	$ 1,433,042	$ 951,633	$ 1,040,908	$ 9,360	$ 1,601	$ 61,364	$ 3,497,908

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2017

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Pupil Trans-portation Equipment Fund	County School Facilities Fund	Tax Override Fund	Total
Revenues:							
Federal sources	$ 947,778	$ 824,932	$ 1,524,797	$ -	$ -	$ -	$ 3,297,507
Other state sources	3,081,147	3,394,473	76,534	-	-	-	6,552,154
Other local sources	326,838	1,157,033	993,859	64	11	-	2,477,805
Total revenues	4,355,763	5,376,438	2,595,190	64	11	-	12,327,466
Expenditures:							
Current:							
Certificated salaries	2,242,991	2,094,528	-	-	-	-	4,337,519
Classified salaries	693,562	1,570,076	1,697,297	-	-	-	3,960,935
Employee benefits	704,754	1,304,744	633,935	-	-	-	2,643,433
Books and supplies	102,774	95,540	1,219,270	-	-	-	1,417,584
Contract services and operating expenditures	270,441	562,468	123,478	-	-	-	956,387
Capital outlay	7,295	-	-	-	-	-	7,295
Total expenditures	4,021,817	5,627,356	3,673,980	-	-	-	13,323,153
Excess (deficiency) of revenues over(under) expenditures	333,946	(250,918)	(1,078,790)	64	11	-	(995,687)
Other financing (uses) sources:							
Transfers in	100,000	440,329	1,000,000	-	-	-	1,540,329
Transfers out	(186,845)	(316,662)	(204,953)	-	-	-	(708,460)
Total other financing (uses) sources	(86,845)	123,667	795,047	-	-	-	831,869
Net change in fund balances	247,101	(127,251)	(283,743)	64	11	-	(163,818)
Fund balances, July 1, 2016	770,701	164,158	505,343	9,296	1,590	61,364	1,512,452
Fund balances, June 30, 2017	$ 1,017,802	$ 36,907	$ 221,600	$ 9,360	$ 1,601	$ 61,364	$ 1,348,634

BERKELEY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN
FIDUCIARY ASSETS AND LIABILITIES
STUDENT BODY FUNDS
For the Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Student Body Funds				
Berkeley High School				
Assets:				
Cash on hand and in banks	$ 281,316	$ 397,732	$ 346,779	$ 332,269
Liabilities:				
Due to student groups	$ 281,316	$ 397,732	$ 346,779	$ 332,269
Longfellow Middle School				
Assets:				
Cash on hand and in banks	$ 17,562	$ 86,243	$ 87,890	$ 15,915
Liabilities:				
Due to student groups	$ 17,562	$ 86,243	$ 87,890	$ 15,915
Martin Luther King, Jr. Middle School				
Assets:				
Cash on hand and in banks	$ 19,163	$ 17,263	$ 21,424	$ 15,002
Liabilities:				
Due to student groups	$ 19,163	$ 17,263	$ 21,424	$ 15,002
Willard Middle School				
Assets:				
Cash on hand and in banks	$ 17,506	$ 34,409	$ 28,935	$ 22,980
Liabilities:				
Due to student groups	$ 17,506	$ 34,409	$ 28,935	$ 22,980
Total Student Body Funds				
Assets:				
Cash on hand and in banks	$ 335,547	$ 535,647	$ 485,028	$ 386,166
Liabilities:				
Due to student groups	$ 335,547	$ 535,647	$ 485,028	$ 386,166

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

GOVERNING BOARD

Name	Office	Term Expires
Ty Alper	President	2018
Josh Daniels	Vice President	2018
Beatriz Leyva-Cutler	Director/Clerk	2020
Judy Appel	Director	2018
Karen Hemphill	Director	2020

ADMINISTRATION

Donald Evans, Ed. D
Superintendent

Javetta Cleveland, CPA*
Deputy Superintendent, Business Services

Pasquale Scuderi
Assistant Superintendent, Educational Services

Evelyn Tamondong-Bradley
Assistant Superintendent, Human Resources

* Effective August 31, 2017, Ms. Cleveland resigned from the District. Ms. Pauline Follansbee replaced Ms. Cleveland as the District's Interim Deputy Superintendent, Business Services effective September 1, 2017.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2017

	Second Period Report	Annual Report
Certificate #	0CD05C76	2021CE75
Elementary:		
Transitional Kindergarten through Third	2,845	2,842
Fourth through Sixth	2,077	2,073
Seventh and Eighth	1,371	1,372
Special Education	13	13
Subtotal Elementary	6,306	6,300
Secondary:		
Ninth through Twelfth	2,828	2,807
Special Education	14	15
Continuation Education	50	49
Subtotal Secondary	2,892	2,871
District Totals	9,198	9,171

See accompanying notes to supplementary information.

Grade Level	Statutory Minutes Requirement	2016-2017 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	46,560	180	In Compliance
Grade 1	50,400	50,970	180	In Compliance
Grade 2	50,400	50,970	180	In Compliance
Grade 3	50,400	50,970	180	In Compliance
Grade 4	54,000	54,570	180	In Compliance
Grade 5	54,000	54,570	180	In Compliance
Grade 6	54,000	56,631	180	In Compliance
Grade 7	54,000	57,175	180	In Compliance
Grade 8	54,000	57,175	180	In Compliance
Grade 9	64,800	65,700	182	In Compliance
Grade 10	64,800	65,700	182	In Compliance
Grade 11	64,800	65,700	182	In Compliance
Grade 12	64,800	65,700	182	In Compliance

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
U.S. Department of Education - Passed through California Department of Education			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B	13379	$ 1,338,195
84.027	Special Education: IDEA Basic Local Assistance, Part B, Sec. 611, Early Intervening Services	10119	261,318
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B	13682	105,859
84.027A	Special Ed: IDEA Mental Health Average Daily Attendance Allocation, Part B, Sec 611	15197	108,407
84.173	Special Education: IDEA Preschool Grants, Part B, Sec. 619	13430	36,750
	Subtotal Special Education Cluster		1,850,529
	Adult Education Programs:		
84.002	Adult Education: Adult Secondary Education	13978	290,938
84.002	Adult Education: Adult Basic Education & ESL	14508	405,360
84.002	Adult Education: English Literacy & Civics Education	14109	186,583
	Subtotal Adult Education Programs		882,881
	ESEA: Title III Programs:		
84.365	ESEA: Title III, English Learner Student Program	14346	72,604
84.365	ESEA: Title III, Immigrant Education Program	15146	6,503
	Subtotal ESEA: Title III Programs		79,107
84.010	ESEA: Title I, Part A, Basic Grants Low Income and Neglected	14329	582,749
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131	14894	47,116
84.158	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	156,430
84.196	ESSA: Education for Homeless Children and Youth	14332	32,306
84.367	ESEA: Title II, Part A, Improving Teacher Quality Local Grants	14341	173,997
	Total U.S. Department of Education		3,805,115

(Continued)

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services - Passed through California Department of Education			
93.596	Child Development: Federal General Child Care and Development	13609	$ 587,387
93.243	Advancing Wellness & Resilience in Education	15289	64,630
	Medicaid Cluster:		
93.778	Medi-Cal Billing Option	10013	140,891
	Total U.S. Department of Health and Human Services		792,908
U.S. Department of Agriculture - Passed through California Department of Education			
10.558	Child Nutrition: CACFP Claims - Centers and Family Day Care	13393	237,545
	Child Nutrition Cluster:		
10.555	Child Nutrition: School Programs	14906	1,524,797
	Total U.S. Department of Agriculture		1,762,342
	Total Federal Programs		$ 6,360,365

See accompanying notes to supplementary information.

RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

	Bond Interest and Redemption Fund
Unaudited Actual ending Fund Balance, June 30, 2017	$ 26,133,534
Client proposed entry to correctly account for the District's 2017 General Obligation Refunding Bonds	20,165,758
Audited ending Fund Balance, June 30, 2017	$ 46,299,292

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

See accompanying notes to supplementary information.

General Fund	(Budget) 2018	2017	2016	2015
Revenues and other financing sources	$ 146,918,247	$ 144,448,241	$ 144,358,083	$ 136,722,770
Expenditures	145,592,240	146,401,027	137,814,205	128,530,787
Other uses and transfers out	1,358,442	1,783,825	1,152,038	3,910,857
Total outgo	146,950,682	148,184,852	138,966,243	132,441,644
Change in fund balance	$ (32,435)	$ (3,736,611)	$ 5,391,840	$ 4,281,126
Ending fund balance	$ 23,093,949	$ 23,126,384	$ 26,862,995	$ 21,471,155
Available reserves	$ 8,973,330	$ 8,435,333	$ 11,114,281	$ 7,599,568
Designated for economic uncertainties	$ 4,459,014	$ 4,402,141	$ 3,253,293	$ 4,069,823
Undesignated fund balance	$ 4,514,316	$ 4,033,192	$ 7,860,988	$ 3,529,745
Available reserves as a percentage of total outgo	6.1%	5.7%	8.0%	5.7%
All Funds				
Total long-term liabilities	$ 419,877,883	$ 435,213,713	$ 400,233,681	$ 387,883,356
Average daily attendance at P-2	9,171	9,198	9,320	9,350

The General Fund fund balance has increased by $5,936,355 over the past three fiscal years. The District projects a decrease of $32,435 for the year ending June 30, 2018. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses be maintained. For the year ended June 30, 2017, the District has met this requirement. For the purposes of calculating the District's available reserves, the ending fund balance of the Special Reserve for Other Than Capital Projects Fund is included as designated for economic uncertainties.

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during 2017-18 fiscal year.

Total long-term liabilities have increased by $47,330,357 over the past two years, primarily due to the issuance of General Obligation Bonds.

Average daily attendance has decreased by 152 over the past two years. The District anticipates a decrease of 27 ADA during the fiscal year ending June 30, 2018.

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
1254 - REALM Charter Middle School	Separate Report
1255 - REALM Charter High School	Separate Report

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Berkeley Unified School District , and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2017.

Description	CFDA Number	Amount
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		$ 7,432,100
Less:		
Medi-Cal Billing Funds spent from prior year awards	93.778	2,340
Federal interest reimbursement on Build America Bonds	*	(1,074,075)
Total Schedule of Expenditure of Federal Awards		$ 6,360,365

* There is no CDFA Number for this federal revenue.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

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

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

E - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2017-2018 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2017, the District did not adopt such a program.

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

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on Compliance with State Laws and Regulations

We have audited Berkeley Unified School District's compliance with the types of compliance requirements described in the State of California's *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2017.

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	No, see below
Mode of Instruction, for charter schools	No, see below
NonclassroomBased Instruction/Independent Study, for charter schools	No, see below
Determination of Funding for NonclassroomBased Instruction, for charter schools	No, see below
Annual Instructional Minutes ClassroomBased, for charter schools	No, see below
Charter School Facility Grant Program	No, see below

(Continued)

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

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

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

The District submitted all required immunization assessment reports to the California Department of Public Health; therefore, we did not perform any procedures related to Immunizations.

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Berkeley Unified School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Berkeley Unified School District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Berkeley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Compliance with State Laws and Regulations

In our opinion, Berkeley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2017

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

Board of Trustees
Berkeley Unified School District
Berkeley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berkeley Unified School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Berkeley Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

(Continued)

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2017

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

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on Compliance for Each Major Federal Program

We have audited Berkeley Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Berkeley Unified School District's major federal programs for the year ended June 30, 2017. Berkeley Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Berkeley Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

(Continued)

Report on Internal Control Over Compliance

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

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

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 14, 2017

FINDINGS AND RECOMMENDATIONS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Noncompliance material to financial statements noted?	______ Yes	X No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	X Yes	______ No

STATE AWARDS

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

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATUS OF PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

Finding/Recommendation	Current Status	District Explanation If Not Implemented

No matters were reported.