

ORLAND UNIFIED SCHOOL DISTRICT

AUDIT REPORT

June 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**ORLAND UNIFIED SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2017**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Orland Unified School District
Orland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orland Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Orland 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.

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State Board of Accountancy*

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 Orland 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in 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 the Orland Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of Orland 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 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 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 Orland Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 12, 2017

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

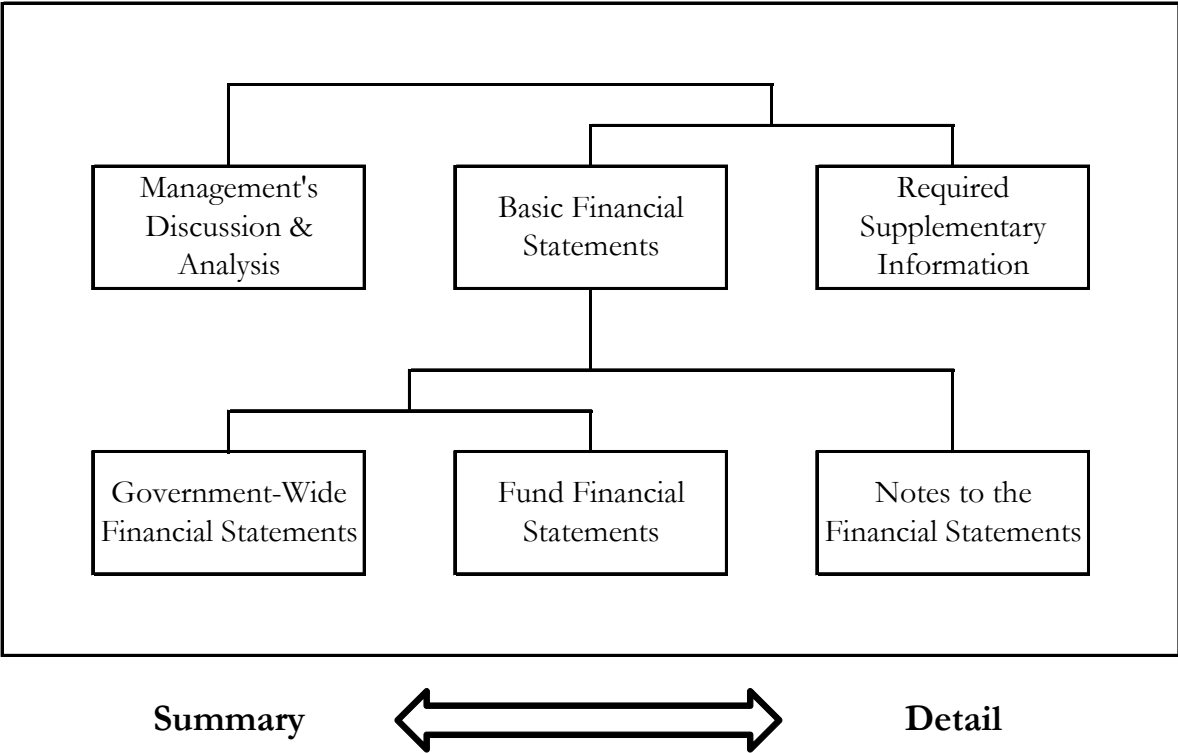
Our discussion and analysis of Orland Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position was \$(4,484,465) at June 30, 2017. This was a decrease of \$369,848 from the prior year.
- Overall revenues were \$27,843,790 which were exceeded by expenses of \$28,213,638.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** 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.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$(4,484,465) at June 30, 2017, as reflected in the table below. Of this amount, a deficit \$16,781,256 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2017	2016	Net Change
ASSETS			
Current and other assets	\$ 8,965,174	\$ 8,011,348	\$ 953,826
Capital assets	29,999,550	30,635,444	(635,894)
Total Assets	38,964,724	38,646,792	317,932
DEFERRED OUTFLOWS OF RESOURCES	4,846,696	2,053,076	2,793,620
LIABILITIES			
Current liabilities	2,419,345	2,232,742	186,603
Long-term liabilities	45,067,902	40,698,649	4,369,253
Total Liabilities	47,487,247	42,931,391	4,555,856
DEFERRED INFLOWS OF RESOURCES	808,638	1,883,094	(1,074,456)
NET POSITION			
Net investment in capital assets	10,174,993	10,108,765	66,228
Restricted	2,121,798	2,139,168	(17,370)
Unrestricted	(16,781,256)	(16,362,550)	(418,706)
Total Net Position	\$ (4,484,465)	\$ (4,114,617)	\$ (369,848)

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges slightly, so you can see our total revenues, expenses, and special items for the year.

	Governmental Activities		
	2017	2016	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 132,576	\$ 154,516	\$ (21,940)
Operating grants and contributions	4,636,355	3,596,435	1,039,920
General revenues			
Property taxes	5,885,110	5,657,050	228,060
Unrestricted federal and state aid	16,749,866	16,885,749	(135,883)
Other	439,883	345,157	94,726
Total Revenues	27,843,790	26,638,907	1,204,883
EXPENSES			
Instruction	16,407,955	14,312,198	2,095,757
Instruction-related services	2,771,923	2,501,063	270,860
Pupil services	2,809,842	2,455,613	354,229
General administration	1,615,870	1,550,705	65,165
Plant services	2,208,390	1,970,330	238,060
Ancillary and community services	200,995	217,796	(16,801)
Debt service	1,069,809	1,267,805	(197,996)
Other Outgo	1,128,854	974,015	154,839
Total Expenses	28,213,638	25,249,525	2,964,113
Change in net position	(369,848)	1,389,382	(1,759,230)
Net Position - Beginning	(4,114,617)	(5,503,999)	1,389,382
Net Position - Ending	\$ (4,484,465)	\$ (4,114,617)	\$ (369,848)

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The net cost of services for all our governmental activities this year was \$23,444,707 (refer to the table below). The amount that our taxpayers ultimately financed for these activities through taxes was only \$5,885,110 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

	Net Cost of Services	
	2017	2016
Instruction	\$ 13,448,153	\$ 12,184,449
Instruction-related services	2,620,013	2,419,363
Pupil services	1,439,725	1,200,116
General administration	1,551,918	1,507,531
Plant services	2,198,590	1,970,330
Ancillary and community services	192,528	214,382
Debt service	1,069,809	1,267,805
Transfers to other agencies	923,971	734,598
Total Expenses	\$ 23,444,707	\$ 21,498,574

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$4,467,653, which is more than last year's ending fund balance of \$4,036,427. The District's General Fund had \$353,628 more in operating revenues than expenditures for the year ended June 30, 2017. The District's Bond Interest & Redemption Fund had \$142,155 more in operating revenues than expenditures for the year ended June 30, 2017.

CURRENT YEAR BUDGET 2016-17

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval following the First Interim and Second Interim reporting period to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17, the District had invested \$29,999,550 in capital assets, net of accumulated depreciation.

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
CAPITAL ASSETS			
Land	\$ 444,595	\$ 444,595	\$ -
Land improvements	2,040,297	1,994,399	45,898
Buildings & improvements	40,673,154	40,466,789	206,365
Furniture & equipment	2,835,635	2,573,227	262,408
Accumulated depreciation	(15,994,131)	(14,843,566)	(1,150,565)
Total Capital Assets	\$ 29,999,550	\$ 30,635,444	\$ (635,894)

Long-Term Liabilities

At year-end, the District had \$44,170,749 in long-term liabilities, an increase of \$4,379,570 from last year – as shown in the table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	<u>Net Change</u>
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 18,359,493	\$ 18,093,718	\$ 265,775
Total certificates of participation	4,490,889	4,600,020	(109,131)
Capital leases	-	310,583	(310,583)
Compensated absences	142,357	130,583	11,774
Net OPEB obligation	2,385,987	2,206,877	179,110
Net pension liability	19,239,585	14,885,700	4,353,885
Less: current portion of long-term debt	(447,562)	(436,302)	(11,260)
Total Long-term Liabilities	\$ 44,170,749	\$ 39,791,179	\$ 4,379,570

**ORLAND UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2017. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2017-18 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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, contact Orland Unified School District, 903 South Street; Orland, California 95963.

ORLAND UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 7,987,874
Accounts receivable	961,734
Inventory	15,566
Capital assets, not depreciated	444,595
Capital assets, net of accumulated depreciation	29,554,955
Total Assets	38,964,724
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	4,314,267
Deferred amount on refunding	532,429
Total Deferred Outflows of Resources	4,846,696
LIABILITIES	
Accrued liabilities	1,560,094
Unearned revenue	411,689
Claims liabilities	897,153
Long-term liabilities, current portion	447,562
Long-term liabilities, non-current portion	44,170,749
Total Liabilities	47,487,247
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	808,638
Total Deferred Inflows of Resources	808,638
NET POSITION	
Net investment in capital assets	10,174,993
Restricted:	
Capital projects	112,367
Debt service	1,299,616
Educational programs	472,019
All others	237,796
Unrestricted	(16,781,256)
Total Net Position	\$ (4,484,465)

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

ORLAND UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 16,407,955	\$ -	\$ 2,959,802	\$ (13,448,153)
Instruction-related services				
Instructional supervision and administration	221,665	-	21,350	(200,315)
Instructional library, media, and technology	793,913	-	13,794	(780,119)
School site administration	1,756,345	-	116,766	(1,639,579)
Pupil services				
Home-to-school transportation	545,665	-	-	(545,665)
Food services	1,236,120	132,576	1,087,045	(16,499)
All other pupil services	1,028,057	-	150,496	(877,561)
General administration				
Centralized data processing	342,743	-	-	(342,743)
All other general administration	1,273,127	-	63,952	(1,209,175)
Plant services	2,208,390	-	9,800	(2,198,590)
Ancillary services	200,995	-	8,467	(192,528)
Interest on long-term debt	1,069,809	-	-	(1,069,809)
Other Outgo	1,128,854	-	204,883	(923,971)
Total Governmental Activities	\$ 28,213,638	\$ 132,576	\$ 4,636,355	(23,444,707)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				5,116,375
Property taxes, levied for debt service				768,735
Federal and state aid not restricted for specific purposes				16,749,866
Interest and investment earnings				29,310
Interagency revenues				131,545
Miscellaneous				279,028
Subtotal, General Revenue				23,074,859
CHANGE IN NET POSITION				(369,848)
Net Position - Beginning				(4,114,617)
Net Position - Ending				\$ (4,484,465)

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

ORLAND UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 3,418,430	\$ 1,398,010	\$ 866,976	\$ 5,683,416
Accounts receivable	490,276	4,148	143,488	637,912
Stores inventory	-	-	15,566	15,566
Total Assets	\$ 3,908,706	\$ 1,402,158	\$ 1,026,030	\$ 6,336,894
LIABILITIES				
Accrued liabilities	\$ 1,448,763	\$ -	\$ 8,789	\$ 1,457,552
Unearned revenue	365,407	-	46,282	411,689
Total Liabilities	1,814,170	-	55,071	1,869,241
FUND BALANCES				
Nonspendable	4,000	-	15,566	19,566
Restricted	472,019	1,402,158	350,191	2,224,368
Committed	-	-	428,247	428,247
Assigned	864,434	-	176,955	1,041,389
Unassigned	754,083	-	-	754,083
Total Fund Balances	2,094,536	1,402,158	970,959	4,467,653
Total Liabilities and Fund Balances	\$ 3,908,706	\$ 1,402,158	\$ 1,026,030	\$ 6,336,894

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

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

Total Fund Balance - Governmental Funds \$ 4,467,653

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

Capital assets:

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

Capital assets	\$ 45,993,681	
Accumulated depreciation	(15,994,131)	29,999,550

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

532,429

Unmatured interest on long-term debt:

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

(102,542)

Long-term liabilities:

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

Total general obligation bonds	\$ 18,359,493	
Total certificates of participation	4,490,889	
Compensated absences	142,357	
Net OPEB obligation	2,385,987	
Net pension liability	19,239,585	(44,618,311)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 4,314,267	
Deferred inflows of resources related to pensions	(808,638)	3,505,629

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

1,731,127

Total Net Position - Governmental Activities \$ (4,484,465)

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

**ORLAND UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 20,998,697	\$ -	\$ -	\$ 20,998,697
Federal sources	1,212,037	-	1,007,572	2,219,609
Other state sources	1,715,172	9,613	72,086	1,796,871
Other local sources	789,055	765,265	350,103	1,904,423
Total Revenues	24,714,961	774,878	1,429,761	26,919,600
EXPENDITURES				
Current				
Instruction	14,779,118	-	-	14,779,118
Instruction-related services				
Instructional supervision and administration	196,600	-	-	196,600
Instructional library, media, and technology	862,030	-	-	862,030
School site administration	1,578,169	-	-	1,578,169
Pupil services				
Home-to-school transportation	574,157	-	-	574,157
Food services	-	-	1,168,460	1,168,460
All other pupil services	915,286	-	-	915,286
General administration				
Centralized data processing	387,760	-	-	387,760
All other general administration	1,166,371	-	-	1,166,371
Plant services	2,084,119	-	-	2,084,119
Facilities acquisition and maintenance	255,629	-	-	255,629
Ancillary services	190,784	-	-	190,784
Transfers to other agencies	1,125,548	-	-	1,125,548
Debt service				
Principal	105,000	289,844	310,583	705,427
Interest and other	140,762	342,879	15,275	498,916
Total Expenditures	24,361,333	632,723	1,494,318	26,488,374
NET CHANGE IN FUND BALANCE	353,628	142,155	(64,557)	431,226
Fund Balance - Beginning	1,740,908	1,260,003	1,035,516	4,036,427
Fund Balance - Ending	\$ 2,094,536	\$ 1,402,158	\$ 970,959	\$ 4,467,653

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

**ORLAND UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balances - Governmental Funds \$ 431,226

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 514,671	
Depreciation expense:	(1,150,565)	(635,894)

Debt service:

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

715,583

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(24,201)

Unmatured interest on long-term debt:

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

1,490

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(582,539)

(continued on following page)

**ORLAND UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2017**

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (11,774)

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (179,110)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (461,608)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 20,895

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 356,084

Change in Net Position of Governmental Activities \$ (369,848)

ORLAND UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
	<u> </u>
ASSETS	
Current assets	
Cash and investments	\$ 2,304,458
Accounts receivable	323,822
Total current assets	<u>2,628,280</u>
Total Assets	<u>2,628,280</u>
LIABILITIES	
Non-current liabilities	897,153
Total Liabilities	<u>897,153</u>
NET POSITION	
Restricted	1,731,127
Total Net Position	<u>\$ 1,731,127</u>

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

ORLAND UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 3,849,558
Other local revenues	182,384
Total operating revenues	<u>4,031,942</u>
OPERATING EXPENSE	
Professional services	<u>3,682,639</u>
Total operating expenses	<u>3,682,639</u>
Operating income/(loss)	<u>349,303</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	<u>6,781</u>
Total non-operating revenues/(expenses)	<u>6,781</u>
CHANGE IN NET POSITION	356,084
Net Position - Beginning	<u>1,375,043</u>
Net Position - Ending	<u>\$ 1,731,127</u>

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

**ORLAND UNIFIED SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2017**

	Governmental Activities
	Internal Service Fund
Cash flows from operating activities	
Cash received from user charges	\$ 4,071,719
Cash payments for payroll, insurance, and operating costs	(3,692,956)
Net cash provided by (used for) operating activities	<u>378,763</u>
Cash flows from investing activities	
Interest received	6,781
Net cash provided by (used for) investing activities	<u>6,781</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>385,544</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	1,918,914
End of year	<u>\$ 2,304,458</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ 349,303
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	39,777
Increase (decrease) in claims liabilities	(10,317)
Net cash provided by (used for) operating activities	<u>\$ 378,763</u>

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

ORLAND UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>Agency Fund</u> <u>Student Body</u> <u>Fund</u>
ASSETS	
Cash and investments	\$ 134,553
Total Assets	\$ 134,553
LIABILITIES	
Due to student groups	\$ 134,553
Total Liabilities	\$ 134,553

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

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Orland Unified School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

C. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

C. Basis of Presentation (*continued*)

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

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non - Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the District (*Education Code Sections 17582 and 17583*).

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

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

C. Basis of Presentation (*continued*)

Proprietary Funds

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Government-Wide, Proprietary, and Fiduciary Financial Statements (continued)

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

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

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

D. Basis of Accounting – Measurement Focus (*continued*)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-15 years
Vehicles	8 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because 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 when the employee retires.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

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 defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

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

Fund Balance (*continued*)

Restricted - 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.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. 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. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - 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. 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.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

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

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

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

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

J. New Accounting Pronouncements (*continued*)

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard’s primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard’s primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 80 for the year ended June 30, 2017.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard’s primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Fiduciary Funds
Investment in county treasury	\$ 5,678,416	\$ -	\$ 5,678,416	\$ -
Cash on hand and in banks	1,000	2,304,458	2,305,458	134,553
Cash in revolving fund	4,000	-	4,000	-
Total cash and investments	\$ 5,683,416	\$ 2,304,458	\$ 7,987,874	\$ 134,553

B. Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Glenn County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
U. S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$5,677,633 and an amortized book value of \$5,678,416.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2017, the pooled investments in the County Treasury were not rated.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Glenn County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2017 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 5,677,633
Total fair market value of investments	\$ 5,677,633

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 282,415	\$ -	\$ 117,790	\$ -	\$ 400,205
State Government					
Categorical aid	-	-	8,270	-	8,270
Lottery	98,278	-	-	-	98,278
Local Government					
Other local sources	109,583	4,148	17,428	323,822	454,981
Total	\$ 490,276	\$ 4,148	\$ 143,488	\$ 323,822	\$ 961,734

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 444,595	\$ -	\$ -	\$ 444,595
Total Capital Assets not Being Depreciated	444,595	-	-	444,595
Capital assets being depreciated				
Land improvements	1,994,399	45,898	-	2,040,297
Buildings & improvements	40,466,789	206,365	-	40,673,154
Furniture & equipment	2,573,227	262,408	-	2,835,635
Total Capital Assets Being Depreciated	45,034,415	514,671	-	45,549,086
Less Accumulated Depreciation				
Land improvements	1,079,423	77,385	-	1,156,808
Buildings & improvements	11,616,120	964,227	-	12,580,347
Furniture & equipment	2,148,023	108,953	-	2,256,976
Total Accumulated Depreciation	14,843,566	1,150,565	-	15,994,131
Governmental Activities				
Capital Assets, net	\$ 30,635,444	\$ (635,894)	\$ -	\$ 29,999,550

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental activities as follows:

Governmental Activities	
Instruction	\$ 747,851
Instructional supervision and administration	7,839
Instructional library, media, and technology	31,576
School site administration	78,202
Home-to-school transportation	25,808
Food services	49,624
All other pupil services	33,385
Centralized data processing	19,397
All other general administration	55,146
Plant services	91,734
Ancillary services	10,003
Total depreciation expense	\$ 1,150,565

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consisted of the following:

	Non-Major			Total
	General Fund	Governmental Funds	District-Wide	Governmental Activities
Payroll	\$ 971,320	\$ 3,302	\$ -	\$ 974,622
Vendors payable	477,443	5,487	-	482,930
Unmatured interest	-	-	102,542	102,542
Total	\$ 1,448,763	\$ 8,789	\$ 102,542	\$ 1,560,094

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 6 – UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 73,445	\$ -	\$ 73,445
State categorical sources	291,962	-	291,962
Local sources	-	46,282	46,282
Total	\$ 365,407	\$ 46,282	\$ 411,689

NOTE 7 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 17,853,769	\$ 582,539	\$ 300,000	\$ 18,136,308	\$ 316,667
Unamortized premium	243,151	-	16,878	226,273	16,878
Unamortized discount	(3,202)	-	(114)	(3,088)	(114)
Total general obligation bonds	18,093,718	582,539	316,764	18,359,493	333,431
Certificates of participation	4,505,000	-	105,000	4,400,000	110,000
Unamortized premium	95,020	-	4,131	90,889	4,131
Total certificates of participation	4,600,020	-	109,131	4,490,889	114,131
Capital leases	310,583	-	310,583	-	-
Compensated absences	130,583	11,774	-	142,357	-
Net OPEB obligation	2,206,877	179,110	-	2,385,987	-
Net pension liability	14,885,700	4,353,885	-	19,239,585	-
Total	\$ 40,227,481	\$ 5,127,308	\$ 736,478	\$ 44,618,311	\$ 447,562

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments on certificates of participation are made in the General Fund.
- Payments for capital lease obligations are made in the Capital Facilities Fund.
- Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT (continued)

A. General Obligation Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2016	Additions	Deductions	Outstanding June 30, 2017
Election 2008, Series A	June 4, 2008	August 1, 2031	3.00% - 5.00%	\$8,000,000	\$ 7,295,000	\$ -	\$ 165,000	\$ 7,130,000
Election 2008, Series B	March 27, 2012	August 1, 2051	1.03% - 6.00%	8,034,047	9,434,948	528,886	125,000	9,838,834
Election 2008, Series C	March 7, 2013	August 1, 2043	3.00% - 5.55%	1,020,024	1,123,821	53,653	10,000	1,167,474
					<u>\$ 17,853,769</u>	<u>\$ 582,539</u>	<u>\$ 300,000</u>	<u>\$ 18,136,308</u>

Election of 2008

In an election held February 5, 2008, the voters authorized the District to issue and sale \$21,900,000 of principal amount of general obligation bonds. These bonds were issued for the purpose of financing the acquisition, construction, furnishing and equipping of District facilities and pay certain costs of issuance associated with the bonds. There were three issuances under this election:

- Series A, which was issued on June 4, 2008 for \$8,000,000, bears interest rates ranging from 3.00% to 5.00%. The original issuance consisted of \$3,055,000 of current interest bonds and \$4,945,000 of current interest term bonds. Interest on the bonds accrues from the date of issuance and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2009. The principal balance outstanding at June 30, 2017 amounted to \$7,130,000.
- Series B, which was issued on March 27, 2012 for \$8,034,047, bears interest rates ranging from 1.03% to 6.00%. The bonds were issued to finance the acquisition, construction, furnishing and equipping of District facilities, pay certain outstanding bond anticipation notes of the District at maturity, advance refund certain outstanding certificates of participation of the District, and pay certain costs of issuance. The original issuance consisted of \$2,553,978 of capital appreciation bonds and \$5,480,069 of convertible capital appreciation bonds. The capital appreciation bonds and the convertible capital appreciation bonds, initially, accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2012. From and after their conversion date, the convertible capital appreciation bonds will become current interest bonds upon which interest is payable on February 1 and August 1 of each year through maturity. The principal balance outstanding at June 30, 2017 amounted to \$9,838,834, which includes accreted interest.
- Series C, which was issued on March 7, 2013 for \$1,020,024, bears interest rates ranging from 3.00% to 5.55%. The bonds were issued to finance and refinance the acquisition, construction, furnishing and equipping of District facilities and to pay certain costs of issuance. The original issuance consisted of \$160,000 of current interest term bonds and \$860,024 of convertible capital appreciation term bonds. Interest on the current interest term bonds is payable on February 1 and August 1 of each year, commencing August 1, 2013. The convertible capital appreciation term bonds, initially, accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2013. The principal balance outstanding at June 30, 2017 amounted to \$1,167,474, which includes accreted interest.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT (continued)

B. Debt Service Requirements to Maturity – Bonds

The bonds mature through 2052 as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 316,667	\$ 334,410	\$ 651,077
2019	344,627	333,300	677,927
2020	376,536	329,445	705,981
2021	411,222	325,059	736,281
2022	446,041	321,066	767,107
2023 - 2027	2,858,860	1,509,837	4,368,697
2028 - 2032	4,241,930	1,219,451	5,461,381
2033 - 2037	867,392	1,693,436	2,560,828
2038 - 2042	1,078,480	2,320,069	3,398,549
2043 - 2047	1,786,094	3,841,002	5,627,096
2048 - 2052	2,915,091	6,076,286	8,991,377
Accretion	2,493,368	(2,493,368)	-
Total	\$ 18,136,308	\$ 15,809,993	\$ 33,946,301

C. Certificates of Participation (COPs)

On December 7, 2010, the District issued \$6,100,000 certificates of participation with interest rates ranging from 3.00% to 6.00%. The certificates were issued for the purpose of assisting the District in new construction and other capital enhancements. On March 27, 2012, the District issued Election 2008, Series B bonds to partially refund certain outstanding certificates. The certificates were early refunded with the 2016 Refunding Certificates.

In April 2016, the District issued \$4,505,000 in Certificates of Participation to refund on a current basis all outstanding 2010 Certificates of Participation amounting to \$4,815,000. This refunding reduced total debt service payments by \$2,871,456 and resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,900,965. As of June 30, 2016, the principal balance outstanding on the defeased debt had been redeemed in full.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT (continued)

D. Debt Service Requirements to Maturity – COPs

The 2016 refunding certificates of participation mature through 2040 as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 110,000	\$ 136,665	\$ 246,665
2019	120,000	130,915	250,915
2020	125,000	124,790	249,790
2021	135,000	118,290	253,290
2022	145,000	111,290	256,290
2023 - 2027	825,000	477,150	1,302,150
2028 - 2032	965,000	371,920	1,336,920
2033 - 2037	1,165,000	216,434	1,381,434
2038 - 2040	810,000	38,594	848,594
Total	\$ 4,400,000	\$ 1,726,048	\$ 6,126,048

E. Capital Leases

On August 21, 2005, The District entered into a capital lease agreement with U.S. Bank sponsored by California School Board Association Finance Corporation to refurbish playground surface and equipment. The remaining obligation under the capital lease was paid in full by June 30, 2017.

F. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2017 amounted to \$142,357. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Other Postemployment Benefits

The District follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District's annual required contribution for the year ended June 30, 2017, was \$631,590 with net interest and other adjustments of \$572 for a net annual OPEB cost of \$632,162. Contributions made by the District during the year were \$453,052, which resulted in an increase to net OPEB obligation of \$179,110. The ending OPEB balance at June 30, 2017 was \$2,385,987. See Note 9 for additional information regarding the OPEB obligation and the postemployment benefit plan.

H. Net Pension Liability

The District's beginning net pension liability was \$14,885,700 and increased by \$4,353,885 during the year ended June 30, 2017. The ending net pension liability at June 30, 2017 was \$19,239,585. See Note 10 for additional information regarding the net pension liability.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2017:

	General Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	\$ 4,000	\$ -	\$ -	\$ 4,000
Stores inventory	-	-	15,566	15,566
Total non-spendable	4,000	-	15,566	19,566
Restricted				
Educational programs	472,019	-	-	472,019
Capital projects	-	-	112,395	112,395
Debt service	-	1,402,158	-	1,402,158
All others	-	-	237,796	237,796
Total restricted	472,019	1,402,158	350,191	2,224,368
Committed				
Deferred maintenance	-	-	428,247	428,247
Total committed	-	-	428,247	428,247
Assigned				
Roofing labor	100,000	-	-	100,000
Contingency summer projects	124,453	-	-	124,453
Secondary book adoption	200,000	-	-	200,000
Non-spendable MAA	20,779	-	-	20,779
FV Marquis	16,607	-	-	16,607
Student furniture	46,000	-	-	46,000
OHS pole vault equipment	15,000	-	-	15,000
Student instructional materials	33,451	-	-	33,451
Teachers salaries only	31,152	-	-	31,152
Technology	276,992	-	-	276,992
Equipment plan	-	-	176,955	176,955
Total assigned	864,434	-	176,955	1,041,389
Unassigned				
Reserve for economic uncertainties	714,641	-	-	714,641
Remaining unassigned	39,442	-	-	39,442
Total unassigned	754,083	-	-	754,083
Total	\$ 2,094,536	\$ 1,402,158	\$ 970,959	\$ 4,467,653

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses. See the General Fund trends schedule for additional information regarding the District's reserves.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

Orland Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental, and vision insurance benefits to eligible retirees. The District implemented Governmental Accounting Standards Board Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans, in 2008-09.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	30
Active plan members	217
Total*	<u>247</u>
 Number of participating employers	 1

*As of July 1, 2016 actuarial study

The District provides postemployment health care benefits to all employees who have rendered at least 10 years of service with the District, and who have attained age 55.

B. Funding Policy

The District will pay the medical insurance premium for qualified retired employees until the earlier of the death of the retiree, the retiree reaches the age of 65, or the retiree becomes Medicare eligible. Expenditures for the retiree health care benefits are recognized as the District pays the premiums. During the fiscal year ended June 30, 2017, expenditures of \$453,052 were recognized for postemployment health care.

As of June 30, 2017, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual 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 Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (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 to the Plan:

Annual required contribution	\$	631,590
Interest on net OPEB obligation		88,275
Adjustment to annual required contribution		(87,703)
Annual OPEB cost (expense)		<u>632,162</u>
Contributions made		(453,052)
Increase (decrease) in net OPEB obligation		179,110
Net OPEB obligation, beginning of the year		<u>2,206,877</u>
Net OPEB obligation, end of the year	\$	<u>2,385,987</u>

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

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2017	\$ 632,162	72%	\$ 2,385,987
2016	\$ 657,521	62%	\$ 2,206,877
2015	\$ 662,256	60%	\$ 1,954,613

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 7,107,074	\$ 7,107,074	0%	\$ 11,368,943	63%

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (*continued*)

D. Funded Status and Funding Progress (*continued*)

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, investment returns, 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, presented as required supplementary information following the notes to financial statements, 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.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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.

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2016
Actuarial Cost Method	Entry Age, Level Percent of Pay
Amortization Method	30-year level percent of pay, open period
Actuarial Assumptions:	
Salary increases	3.0%
Discount rate	4.0%
Health care trend rate	5.0% - 8.0%
Inflation rate	4.0%

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 14,345,844	\$ 2,754,757	\$ 478,838	\$ 1,442,107
PERS Pension	4,893,741	1,559,510	329,800	588,640
Total	\$ 19,239,585	\$ 4,314,267	\$ 808,638	\$ 2,030,747

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits provided

The CalSTRS defined benefit plan 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

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.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Benefits provided (continued)

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.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2017, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$1,127,078 for the year ended June 30, 2017.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$539,958 to CalSTRS.

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	\$ 14,345,844
State's proportionate share of the net pension liability associated with the District	8,168,035
Total	\$ 22,513,879

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 applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District’s proportion was 0.018 percent, which was an increase of 0.0008 percent from its proportion measured as of June 30, 2015.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$1,442,107. In addition, the District recognized pension expense and revenue of \$1,457,367 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 1,140,487	\$ -
Differences between expected and actual experience	-	349,951
Changes in proportion and differences between District contributions and proportionate share of contributions	487,192	128,887
District contributions subsequent to the measurement date	1,127,078	-
	<u>\$ 2,754,757</u>	<u>\$ 478,838</u>

The \$1,127,078 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 106,081	\$ 89,645
2019	106,081	89,645
2020	744,168	89,645
2021	508,953	89,645
2022	81,199	89,647
2023	81,197	30,611
	<u>\$ 1,627,679</u>	<u>\$ 478,838</u>

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

* Net of investment expenses, but gross of administrative expenses.

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.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return	9%	2.90%
Cash/Liquidity	2%	-1.00%
	<u>100%</u>	

* 20-year geometric average

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (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 increases per AB 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 Plan’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	\$ 20,646,904	\$ 14,345,844	\$ 9,112,549

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits provided

The benefits for the defined benefit plan 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 of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017 was 13.888% of annual payroll. Contributions to the plan from the District were \$442,061 for the 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 \$4,893,741 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 applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.025 percent, which was an increase of 0.0013 percent from its proportion measured as of June 30, 2015.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2017, the District recognized pension expense of \$588,640. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 759,351	\$ -
Differences between expected and actual experience	210,478	-
Changes in assumptions	-	147,028
Changes in proportion and differences between District contributions and proportionate share of contributions	147,620	182,772
District contributions subsequent to the measurement date	442,061	-
	<u>\$ 1,559,510</u>	<u>\$ 329,800</u>

The \$442,061 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2018	\$ 254,812	\$ 169,670
2019	247,614	160,130
2020	416,839	-
2021	198,184	-
	<u>\$ 1,117,449</u>	<u>\$ 329,800</u>

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The 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.

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, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. 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 funds’ 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 for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

ORLAND UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 10 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions (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. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Assets	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period
 ** An expected inflation of 3.0% used for this period

Discount rate

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

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	\$ 7,301,489	\$ 4,893,741	\$ 2,888,817

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2017

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

C. Construction Commitments

As of June 30, 2017, the District had no commitments with respect to unfinished capital projects.

NOTE 12 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of two joint powers authorities (JPAs). The first is the Golden State Risk Management Authority (GRSMA) and the other is the Schools Excess Liability Fund (SELF). The JPAs arrange for and provide property and liability insurance for member districts. The relationship is such that the JPAs are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these financial statements. Audited financial statements are available from the respective entities.

NOTE 13 – DEFERRED AMOUNT ON REFUNDING

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2017, the deferred amount on refunding was \$532,429.

NOTE 14 – CLAIMS LIABILITY

The District is self-insured for Workers' Compensation. At June 30, 2017, the District maintained a reserve of \$897,153 to pay future claims. At June 30, 2017, the District had \$2,628,280 in assets available to pay claims.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**ORLAND UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 20,678,158	\$ 20,901,812	\$ 20,998,697	\$ 96,885
Federal sources	1,000,821	1,217,571	1,212,037	(5,534)
Other state sources	1,188,337	1,252,500	1,175,214	(77,286)
Other local sources	778,053	816,955	787,558	(29,397)
Total Revenues	23,645,369	24,188,838	24,173,506	(15,332)
EXPENDITURES				
Certificated salaries	9,276,038	9,317,875	9,190,637	127,238
Classified salaries	2,923,640	3,027,764	3,065,069	(37,305)
Employee benefits	5,930,119	5,959,104	5,634,276	324,828
Books and supplies	1,425,605	1,839,585	1,797,726	41,859
Services and other operating expenditures	2,353,148	2,470,971	2,143,006	327,965
Capital outlay	613,902	609,257	619,351	(10,094)
Other outgo				
Excluding transfers of indirect costs	1,300,442	1,300,442	1,371,310	(70,868)
Total Expenditures	23,822,894	24,524,998	23,821,375	703,623
NET CHANGE IN FUND BALANCE	(177,525)	(336,160)	352,131	688,291
Fund Balance - Beginning	1,465,413	1,465,413	1,465,413	-
Fund Balance - Ending	\$ 1,287,888	\$ 1,129,253	\$ 1,817,544	\$ 688,291

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$539,958 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ -	\$ 7,107,074	\$ 7,107,074	0%	\$ 11,368,943	63%
July 1, 2014	\$ -	\$ 5,655,678	\$ 5,655,678	0%	\$ 10,668,195	53%
July 1, 2010	\$ -	\$ 4,982,145	\$ 4,982,145	0%	\$ 10,447,959	48%

See accompanying note to required supplementary information.

ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.018%	0.017%	0.017%
District's proportionate share of the net pension liability	\$ 14,345,844	\$ 11,425,691	\$ 10,070,764
State's proportionate share of the net pension liability associated with the District	8,168,035	6,042,915	6,081,162
Total	<u>\$ 22,513,879</u>	<u>\$ 17,468,606</u>	<u>\$ 16,151,926</u>
District's covered payroll	\$ 9,196,875	\$ 8,870,514	\$ 7,962,241
District's proportionate share of the net pension liability as a percentage of its covered payroll	156.0%	128.8%	126.5%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	74.0%	76.5%

See accompanying note to required supplementary information.

ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
- CALPERS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.025%	0.023%	0.024%
District's proportionate share of the net pension liability	\$ 4,893,741	\$ 3,460,009	\$ 2,716,079
District's covered payroll	\$ 3,204,599	\$ 2,968,285	\$ 2,281,588
District's proportionate share of the net pension liability as a percentage of its covered payroll	152.7%	116.6%	119.0%
Plan fiduciary net position as a percentage of the total pension liability	73.9%	79.4%	83.4%

See accompanying note to required supplementary information.

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 1,127,078	\$ 947,764	\$ 707,045
Contributions in relation to the contractually required contribution*	(1,127,078)	(947,764)	(707,045)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 9,196,875	\$ 8,870,514	\$ 7,962,241
Contributions as a percentage of covered payroll	12.26%	10.68%	8.88%

*Amounts do not include on behalf contributions

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 442,061	\$ 350,938	\$ 305,896
Contributions in relation to the contractually required contribution	(442,061)	(350,938)	(305,896)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,204,599	\$ 2,968,285	\$ 2,281,588
Contributions as a percentage of covered payroll	13.79%	11.82%	13.41%

See accompanying note to required supplementary information.

**ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-payroll.

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, the District incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 3,027,764	\$ 3,065,069	\$ 37,305
Capital outlay	\$ 609,257	\$ 619,351	\$ 10,094
Other outgo			
Excluding transfers of indirect costs	\$ 1,300,442	\$ 1,371,310	\$ 70,868

**SUPPLEMENTARY
INFORMATION**

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low -Income and Neglected	84.010	14329	\$ 626,327
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	23,819
Title II, Part A, Teacher Quality	84.367	14341	100,278
Title III			
Title III, English Learner Student Program	84.365	14346	53,726
Title III, Immigrant Education Program	84.365	15146	2,225
Subtotal Title III			<u>55,951</u>
Title VI, Part B, Rural & Low Income School Program	84.358B	14356	47,411
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	336,911
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	21,337
Total U. S. Department of Education			<u>1,212,034</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	230,155
National School Lunch Program	10.555	13391	658,971
USDA Commodities	10.555	*	76,917
Meal Supplements	10.555	*	28,176
Summer Food Service Program for Children	10.559	13004	13,353
Subtotal Child Nutrition Cluster			<u>1,007,572</u>
Total U. S. Department of Agriculture			<u>1,007,572</u>
U. S. DEPARTMENT OF THE INTERIOR:			
<i>Direct Funding:</i>			
U.S. Wildlife Reserve Funds	15.673	*	3
Total U. S. Department of the Interior			<u>3</u>
Total Federal Expenditures			<u>\$ 2,219,609</u>

* - Pass-Through Entity Identifying Number not available or not applicable

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2017**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	624.87	625.38
Total TK/K through Third	624.87	625.38
Fourth through Sixth		
Regular ADA	474.02	473.65
Total Fourth through Sixth	474.02	473.65
Seventh through Eighth		
Regular ADA	287.93	287.28
Community Day School	2.57	3.39
Total Seventh through Eighth	290.50	290.67
Ninth through Twelfth		
Regular ADA	715.45	710.49
Community Day School	0.25	0.32
Total Ninth through Twelfth	715.70	710.81
TOTAL SCHOOL DISTRICT	2,105.09	2,100.51

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirement	2016-17		Status
		Actual Minutes	Number of Days	
Kindergarten	36,000	49,260	180	Complied
Grade 1	50,400	51,420	180	Complied
Grade 2	50,400	51,420	180	Complied
Grade 3	50,400	52,062	180	Complied
Grade 4	54,000	54,112	180	Complied
Grade 5	54,000	54,112	180	Complied
Grade 6	54,000	54,160	180	Complied
Grade 7	54,000	54,160	180	Complied
Grade 8	54,000	54,160	180	Complied
Grade 9	64,800	64,850	180	Complied
Grade 10	64,800	64,850	180	Complied
Grade 11	64,800	64,850	180	Complied
Grade 12	64,800	64,850	180	Complied

**ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	2018 (Budget)	2017	2016	2015
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 24,531,104	\$ 24,173,506	\$ 24,112,364	\$ 20,001,053
Expenditures And Other Financing Uses	24,828,973	23,821,375	23,568,331	19,732,082
Net change in Fund Balance	\$ (297,869)	\$ 352,131	\$ 544,033	\$ 268,971
Ending Fund Balance	\$ 1,519,675	\$ 1,817,544	\$ 1,465,413	\$ 904,837
Available Reserves*	\$ 783,713	\$ 754,083	\$ 1,034,044	\$ 640,700
Available Reserves As A Percentage Of Outgo	3.16%	3.17%	4.39%	3.25%
Long-term Debt	\$ 44,170,749	\$ 44,618,311	\$ 40,227,481	\$ 38,032,346
Average Daily Attendance At P-2	2,091	2,105	2,106	2,166

The General Fund balance has increased by \$912,707 over the past two years. The fiscal year 2017-18 budget projects a decrease of \$297,869. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by \$6,585,965 over the past two years.

Average daily attendance has decreased by 61 ADA over the past two years. A decrease of 14 ADA is anticipated during the 2017-18 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Other Than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54. On behalf payments of \$539,958 are also not included in the actual revenues and expenditures reported in this schedule.

**ORLAND UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2017, annual financial and budget report fund balance	\$ 1,817,544	\$ 276,992
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	276,992	(276,992)
Net adjustments and reclassifications	276,992	(276,992)
June 30, 2017, audited financial statement fund balance	\$ 2,094,536	\$ -

ORLAND UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2017

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
ASSETS						
Cash and investments	\$ 328,032	\$ 426,845	\$ 27	\$ 111,431	\$ 641	\$ 866,976
Accounts receivable	141,779	1,402	1	304	2	143,488
Stores inventory	15,566	-	-	-	-	15,566
Total Assets	\$ 485,377	\$ 428,247	\$ 28	\$ 111,735	\$ 643	\$ 1,026,030
LIABILITIES						
Accrued liabilities	\$ 8,778	\$ -	\$ -	\$ 11	\$ -	\$ 8,789
Unearned revenue	46,282	-	-	-	-	46,282
Total Liabilities	55,060	-	-	11	-	55,071
FUND BALANCES						
Non-spendable	15,566	-	-	-	-	15,566
Restricted	237,796	-	28	111,724	643	350,191
Committed	-	428,247	-	-	-	428,247
Assigned	176,955	-	-	-	-	176,955
Total Fund Balances	430,317	428,247	28	111,724	643	970,959
Total Liabilities and Fund Balance	\$ 485,377	\$ 428,247	\$ 28	\$ 111,735	\$ 643	\$ 1,026,030

See accompanying note to supplementary information.

**ORLAND UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2017**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds
REVENUES						
Federal sources	\$ 1,007,572	\$ -	\$ -	\$ -	\$ -	\$ 1,007,572
Other state sources	72,086	-	-	-	-	72,086
Other local sources	141,354	2,295	1	206,449	4	350,103
Total Revenues	1,221,012	2,295	1	206,449	4	1,429,761
EXPENDITURES						
Current						
Pupil services						
Food services	1,168,460	-	-	-	-	1,168,460
Debt service						
Principal	-	-	-	310,583	-	310,583
Interest and other	-	-	-	15,275	-	15,275
Total Expenditures	1,168,460	-	-	325,858	-	1,494,318
NET CHANGE IN FUND BALANCE	52,552	2,295	1	(119,409)	4	(64,557)
Fund Balance - Beginning	377,765	425,952	27	231,133	639	1,035,516
Fund Balance - Ending	\$ 430,317	\$ 428,247	\$ 28	\$ 111,724	\$ 643	\$ 970,959

See accompanying note to supplementary information.

**ORLAND UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2017**

Orland Unified School District is located in Glenn County, California. The District was established in 1918. There were no changes in the boundaries of the District during the current year. The District is currently operating two elementary schools, one intermediate school, one high school, one continuation high school, one community day school, and one independent study program.

GOVERNING BOARD

Member	Office	Term Expires
Erika Fuentes	President	2018
Michelle Allen	Clerk	2018
Jeff Aguiar	Member	2020
Ed Changus	Member	2020
Suzi Kochems	Member	2020

DISTRICT ADMINISTRATORS

Ken Geisick
Superintendent

Karen Gosting
Chief Business Official

ORLAND UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Governmental Funds

These statements provide information on the District's non-major governmental funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**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**

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Orland Unified School District
Orland, 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 Orland Unified School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Orland Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control over Financial Reporting

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

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State Board of Accountancy*

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 Orland 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



San Diego, California
December 12, 2017

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

Independent Auditors' Report

Governing Board
Orland Unified School District
Orland, California

Report on Compliance for Each Major Federal Program

We have audited Orland 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 Orland Unified School District's major federal programs for the year ended June 30, 2017. Orland Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orland 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 Orland 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 Orland Unified School District's compliance.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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Opinion on Each Major Federal Program

In our opinion, Orland 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.

Report on Internal Control Over Compliance

Management of Orland 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 Orland 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 Orland 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.

Christy White Associates

San Diego, California
December 12, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Orland Unified School District
Orland, California

Report on State Compliance

We have audited Orland Unified School District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of Orland Unified School District's state programs for the fiscal year ended June 30, 2017, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orland Unified School District's state 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Orland 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 the requirements referred to above. However, our audit does not provide a legal determination of Orland Unified School District's compliance with those requirements.

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Opinion on State Compliance

In our opinion, Orland Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2017.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Orland Unified School District's compliance with the state laws and regulations applicable to the following items:

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No

(Continued on the next page)

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Not Applicable
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	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

No procedures were performed for California Clean Energy Jobs Act as there were no expenditures for the year ended June 30, 2017.

Christy White Associates

San Diego, California
December 12, 2017

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**ORLAND UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

ORLAND UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

20000
30000
60000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control
Miscellaneous

There were no financial statement findings for the year ended June 30, 2017.

ORLAND UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2017.

**ORLAND UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2017.

ORLAND UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-1: ASSOCIATED STUDENT BODY (ASB) FUNDS (30000)

Criteria: Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations and minutes of council meetings reduces the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual & Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition: Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

Mill Street Elementary

Bank Reconciliations

- Bank reconciliations were not completed after April 2016.

C.K. Price Middle School

Cash Disbursements

- One (1) of ten disbursements tested did not have proper approval of District representative.

Cause: Insufficient controls over student body activities.

Effect: The potential for irregularities in accounting to go undetected.

Perspective: Testing was performed at a sample of the District's student body accounts.

Recommendation: It is recommended that bank reconciliations are completed on a timely basis for all ASB accounts. All organized ASB's should have purchase requisitions the have all required signatures prior to the purchase of goods or services. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

District Response: The District administration will have a one on one discussion with the site principals and ASB clerks regarding the importance of sound internal control. In addition we will implement a monthly check in process as well as schedule additional ASB training for all principals and clerks. The District purchased an ASB accounting program for all sites this last year and will require all sites to use the program as intended and will provide a copy of the latest version of the FCMAT ASB manual to each site.

Current Status: Implemented.

**ORLAND UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2016-2 INDEPENDENT STUDY RATIO (10000)

Criteria: Under Education Code Section 51745.6(a)(1), the ratio of average daily attendance for independent study pupils 18 years of age or less to school district full-time equivalent certificated employees responsible for independent study, calculated as specified by the department, shall not exceed the equivalent ratio of average daily attendance to full-time equivalent certificated employees providing instruction in other educational programs operated by the school district, unless a new higher or lower average daily attendance ratio for all other educational programs offered is negotiated in a collective bargaining agreement or a memorandum of understanding is entered into that indicates an existing collective bargaining agreement contains an alternative average daily attendance ratio.

Condition: Through testing of the independent study, it was noted that independent study ADA exceeded the allowable threshold. The calculated ratio of program ADA to classroom teacher FTE for the District totaled 21.69, and the calculated ratio of independent study student ADA to teacher FTE for independent study at P-2 totaled 26.61, giving rise to an excess of 4.92 ADA. The District has 1 teacher FTE for independent study.

Cause: Clerical oversight.

Perspective/Context: Auditor tested the independent study ratio for the District.

Effect: Non-compliance with Education Code.

Questioned Costs: The District would have to reduce their independent study P-2 ADA in grade span 9-12 by 4.92 ADA in order to be in compliance. Based on current year adjusted base grant funding per pupil of \$8,801 taken from the School District LCFF Target Entitlement report, the estimated questioned cost is \$43,301.

Recommendation: We recommend that the District revise the P-2 Attendance Report in order to be in compliance with Education Code.

District Response: The District added an additional Independent Study Teacher in the 16/17 school year which remedies the ratio issue. P2 will be revised as recommended.

Current Status: Implemented.

ORLAND UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

FINDING #2016-3 INDEPENDENT STUDY (10000)

Criteria: For attendance generated through independent study, all independent study written agreements need to contain the signatures of the pupil, pupil's parent, and a certificated employee affixed prior to the commencement of the independent study (Education Code Section 51747(c)(8)).

Condition: Through our testing of independent study at C.K. Price Middle School, we noted the following compliance deficiencies:

- 1 out of 5 contracts selected for testing was missing supervising teacher signature, parent signature, and student signature
- 2 out of 5 contracts selected for testing were missing supervising teacher signature and student signature
- 2 out of 5 contracts were missing supervising teacher signature

Cause: Procedures were not fully followed to obtain all required elements of the independent study agreement and correctly record independent study contracts in the attendance system.

Perspective: The error found was within the short-term independent study program only and minor overall.

Effect: Possible loss of apportionment funding for days of attendance related to deficient independent study contracts.

ADA Impact: 48 attendance days were overstated as tested in grade span 7-8. Given 141 days in the P2 reporting period, the ADA impact is an overstatement of 0.34. Given a grade span 7-8 LCFF adjusted base amount of \$7,403, the estimated questioned cost to the District is \$2,517.

Recommendation: We recommend that the District revise the Second Period attendance report and implement internal control procedures to ensure that independent study contracts are being filled out with all necessary information required by Education Code Section 51747 and completed prior to the beginning of the contract.

District Response: As recommended the district will revisit the independent study procedures and revise P2 accordingly.

Current Status: Implemented.