

TWIN RIDGES ELEMENTARY
SCHOOL DISTRICT
COUNTY OF NEVADA
NEVADA CITY, CALIFORNIA
ANNUAL FINANCIAL REPORT
JUNE 30, 2018

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2018

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TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2018

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Twin Ridges Elementary School District
Nevada City, California

I have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Twin Ridges Elementary School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Twin Ridges Elementary 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Twin Ridges Elementary School District, as of June 30, 2018, and the respective changes in financial position 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 management's discussion and analysis on pages 3 through 12, budgetary comparison information on page 50 and accounting by employer for pensions on pages 51 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Twin Ridges Elementary School District's basic financial statements. The introductory, financial and statistical information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory, financial and statistical information listed as supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the financial and statistical information listed as 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*, I have also issued my report dated December 13, 2018, on my consideration of Twin Ridges Elementary School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 Twin Ridges Elementary School District's internal control over financial reporting and compliance.



MICHELLE M. HANSON
Certified Public Accountant

December 13, 2018

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The discussion and analysis of Twin Ridges Elementary School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

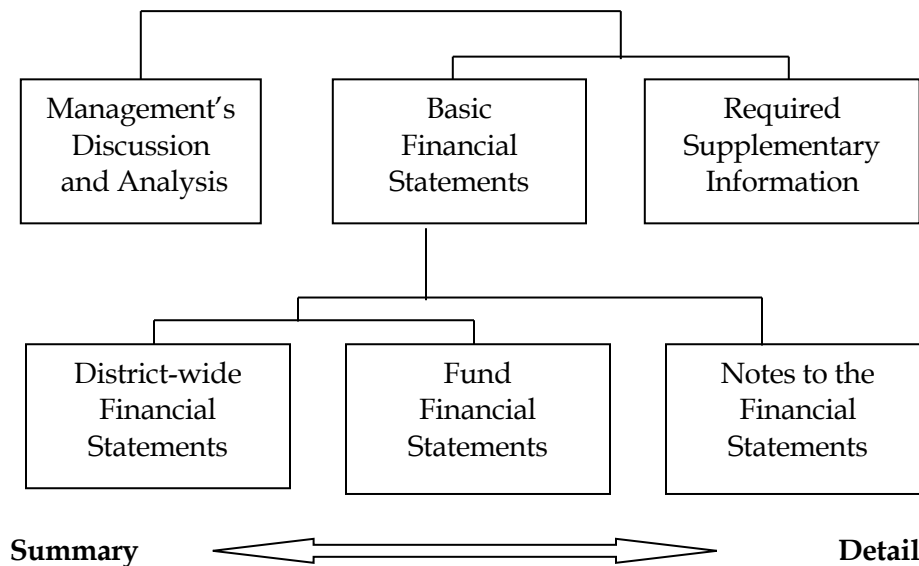
- The District continues to provide a quality educational program to its students within the constraints of decreased funding due to difficult economic times and no significant changes in student enrollment.
- Total fund balances decreased by \$45 thousand.
- The District experienced a net decrease to total net position of \$246 thousand.
- 2017-2018 LCFF calculation shows Twin Ridges going back to the basic aid status. In 2016-2017 the LCFF funding calculation showed us receiving a small amount of state aid, changing our status for the one year from basic aid to state aid. This resulted in a one-time increase in 2016-2017 revenue of \$304,915 which we did not receive in 2017-2018.
- The District remains in positive financial status due to healthy reserves and no outstanding debt other than the District's proportionate share of unfunded STRS and PERS liabilities.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the Twin Ridges Elementary School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Components of the Financial Section



The first two statements are *district-wide financial statements*, the Statement of Net Position and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the budget for the District's general fund is included.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section (Concluded)

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2017-2018?"

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ **Governmental Funds**

Most of the District's activities are reported in governmental funds. The only major governmental fund of the District is the General Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ **Fiduciary Funds**

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The District's net position was \$5.4 million at June 30, 2018. This is a net decrease of \$246 thousand from 2016-2017 net position of \$5.6 million. The changes in net position between 2016-2017 and 2017-2018 have been identified below. (See Table 1)

**Comparative Statement of Net Position
Table 1**

	Governmental Activities	
	2018	2017
ASSETS		
Cash and investments	\$ 5,096,349	\$ 5,027,057
Receivables	54,348	42,626
Prepaid expenditures	916	
Capital assets	1,643,673	1,772,977
Total assets	6,795,286	6,842,660
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows on pensions	526,182	351,852
LIABILITIES		
Accounts payable and other current liabilities	192,037	65,161
Unearned revenue	612	612
Long-term liabilities	1,569,722	1,398,269
Total liabilities	1,762,371	1,464,042
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows on pensions	206,224	131,871
NET POSITION		
Net investment in capital assets	1,643,673	1,781,371
Restricted	342,748	173,705
Unrestricted	3,366,452	3,643,523
Total net position	\$ 5,352,873	\$ 5,598,599

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net position decreased \$246 thousand this fiscal year compared to a decrease of \$86 thousand for 2016-2017. Another way to look at the change in net position is to compare revenues and expenditures for the two fiscal years. As you can see in Table 2 below, revenues for the two years differ by \$121 thousand, decreasing in 2017-2018. Expenditures in 2017-2018 are \$39 thousand more than those in 2016-2017. Table 2 shows a comparison between 2016-2017 and 2017-2018 and the overall change in net position between the two fiscal years.

Comparative Statement of Change in Net Position
Table 2

	Governmental Activities	
	2018	2017
REVENUES		
Program revenues	\$ 352,156	\$ 349,097
General revenues		
Taxes levied for general purposes	1,099,921	1,083,294
Federal and State aid not restricted to specific purposes	169,184	391,487
Interest and investment earnings	58,926	2,599
Miscellaneous	99,628	74,565
Total revenues	<u>1,779,815</u>	<u>1,901,042</u>
EXPENSES		
Instruction	838,083	831,312
Instruction related services	174,421	180,935
Pupil support services	257,766	234,870
General administration	248,056	304,178
Plant services	331,901	247,658
Other	175,314	188,045
Total expenses	<u>2,025,541</u>	<u>1,986,998</u>
Decrease in net position	<u>\$ (245,726)</u>	<u>\$ (85,956)</u>

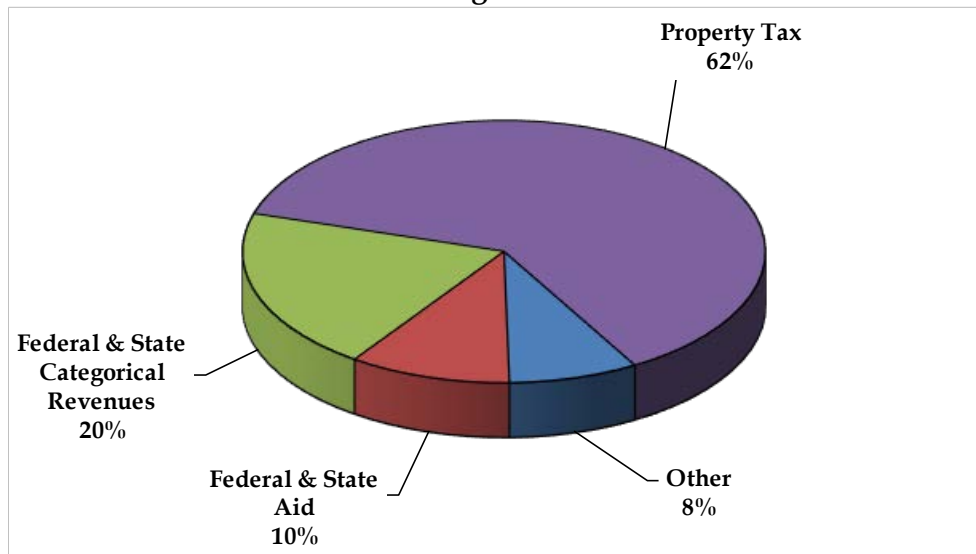
TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)

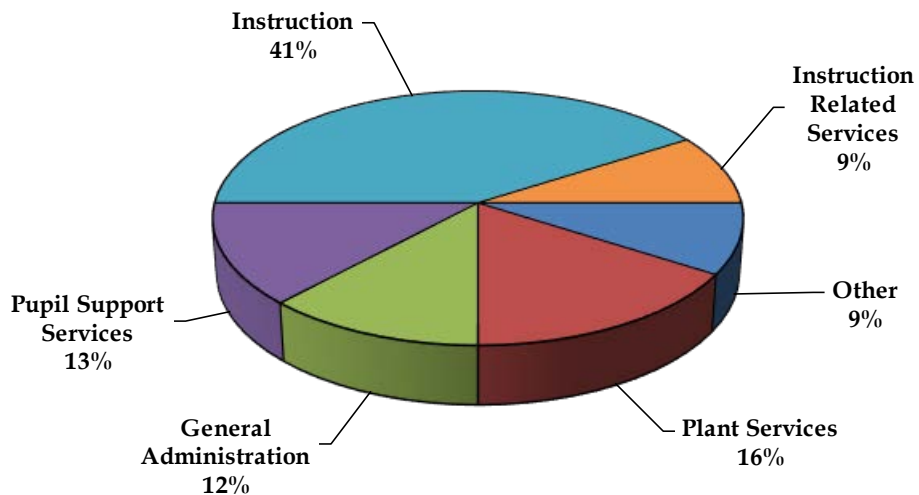
Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$2.0 million. (See Figure 2 below) Federal and State aid not restricted to specific purposes of \$169 thousand, Federal and State Categoricals of \$350 thousand and Property Taxes of \$1.1 million represent the major portions of revenue to fund this year's governmental activities. (See Figure 1 below)

Sources of Revenue for the 2017-2018 Fiscal Year
Figure 1



Expenses for the 2017-2018 Fiscal Year
Figure 2



TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$4.96 million a decrease of \$45 thousand from the previous fiscal year's combined ending balance of \$5.0 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget at first and second interim. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments during the interim financial reporting processes
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The District's final budget projected to end the year with a decrease of \$370 thousand in the General Fund ending balance.

The District ended the year with \$4.7 million in the General Fund ending balance, of which \$1.4 million is considered the available reserve. The State recommends a minimum ending available reserve of 5% of total expenditures and other outgo (\$93 thousand) or \$66 thousand, whichever is greater. The District's available reserve for 2017-2018 was 77.3%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2017-2018 fiscal year, the District had invested \$4.2 million in a broad range of capital assets, including school buildings, site improvements, vehicles, and equipment (\$1.6 million net of depreciation). Capital assets are depreciated over a set number of years based on the life of the capital asset.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Capital Assets (Concluded)

**Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2018 and 2017
Table 3**

	2018	2017	Difference Increase (Decrease)
Land	\$ 80,850	\$ 102,850	\$ (22,000)
Site Improvements	560,530	604,468	(43,938)
Buildings	832,803	971,162	(138,359)
Machinery and Equipment	59,860	68,520	(8,660)
Work in Process	109,630	25,977	83,653
	\$ 1,643,673	\$ 1,772,977	\$ (129,304)

The District continued work on the improvements funded by the DROPS grant and recognized depreciation expense.

Long-Term Debt

At June 30, 2018, the District had \$1.6 million in long-term debt outstanding.

**Comparative Schedule of Outstanding Debt
June 30, 2018 and 2017
Table 4**

	2018	2017
Net Pension Liability	\$ 1,569,722	\$ 1,398,269

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Local Control Funding Formula (LCFF) is aimed at correcting historical inequities while decreasing previous constraints on restricted program expenses. The formula is intended to make funding more transparent and simple. With the flexibility also come new requirements for accountability.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONCLUDED)

The Local Control Accountability Plan (LCAP) is mandated and must be aligned and adopted with the District's budget. The LCAP is expected to describe how the District intends to meet annual goals for all pupils, with specific activities to address state and local priorities identified during the LCAP development process.

As a basic aid district, property taxes are the largest unknown for the District. Under the current LCFF funding structure, basic aid districts will continue to retain local property tax revenues and continue to see their funding rise as property tax revenues increase. However, this may not always be the case for our District as we pay out excess taxes to two charter schools for the District's students that attend those schools. This payout may actually put the District's funding below the LCFF calculation, which is an unknown as to whether we will receive back fill from the state and drop out of basic aid. The answer to this question may be resolved by P-2 of each school year. In 2017-2018 we ended the year in basic aid and so we will be required to pay out the In-Lieu taxes in 2018-2019. It looks as though we will continue to qualify as basic aid through 2019-2020, but we will never be sure until P-2 of each year is calculated using all the factors.

Future predictions and uncertainties with property tax revenue, enrollment fluctuations, charter school pay out, and aging District facilities require management to plan carefully and prudently to provide the necessary resources to meet student's needs and continue to keep and continue to keep pace with inflation increases over the next several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact, James Berardi at (530) 265-9052 ext. 207 or Deborah Messervey at (530) 265-9052 ext. 208.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash (Note 2)	\$ 2,325,889
Investments (Note 2)	2,770,460
Accounts Receivable (Note 3)	54,348
Prepaid Expenses (Note 1H)	916
Capital Assets, Net of Depreciation (Note 5)	<u>1,643,673</u>
Total Assets	<u>6,795,286</u>
DEFERRED OUTFLOWS OF RESOURCES (NOTE 1G)	
Deferred Outflows on Pensions (Note 7)	<u>526,182</u>
LIABILITIES	
Accounts Payable and Other Current Liabilities	192,037
Unearned Revenue (Note 1G)	612
Long-term Liabilities (Note 6)	
Due After One Year	<u>1,569,722</u>
Total Liabilities	<u>1,762,371</u>
DEFERRED INFLOWS OF RESOURCES (NOTE 1G)	
Deferred Inflows on Pensions (Note 7)	<u>206,224</u>
NET POSITION	
Net Investment in Capital Assets	1,643,673
Restricted For:	
Capital Projects	291,440
Education Programs	35,434
Other Purposes (Expendable)	15,874
Unrestricted	<u>3,366,452</u>
Total Net Position	<u>\$ 5,352,873</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
<u>Governmental Activities</u>				Governmental Activities
Instruction	\$ 838,083		\$ 162,320	\$ (675,763)
Instruction-Related Services:				
Instructional Library, Media and Technology	17,951			(17,951)
School Site Administration	156,470		2,283	(154,187)
Pupil Services:				
Home-To-School Transportation	72,982			(72,982)
Food Services	135,684	\$ 2,571	69,971	(63,142)
All Other Pupil Services	49,100		29,434	(19,666)
General Administration:				
Data Processing	7,015			(7,015)
All Other General Administration	241,041		1,851	(239,190)
Plant Services	331,901		83,726	(248,175)
Other Outgo	51,761			(51,761)
Depreciation (unallocated)	123,553			(123,553)
Total Governmental Activities	\$ 2,025,541	\$ 2,571	\$ 349,585	(1,673,385)
General Revenues:				
Property Taxes Levied For:				
General Purposes				1,099,921
Federal and State Aid Not Restricted to Specific Purposes				169,184
Interest and Investment Earnings				58,926
Miscellaneous				99,628
Total General Revenues				1,427,659
Change (Decrease) in Net Position				(245,726)
Net Position Beginning				5,598,599
Net Position Ending				\$ 5,352,873

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash (Note 2)	\$ 2,019,049	\$ 306,840	\$ 2,325,889
Investments (Note 2)	2,770,460		2,770,460
Accounts Receivable (Note 3)	38,612	15,736	54,348
Due From Other Funds (Note 4)	15,047	596	15,643
Prepaid Expenditures (Note 1G)	916		916
Total Assets	<u>\$ 4,844,084</u>	<u>\$ 323,172</u>	<u>\$ 5,167,256</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 191,226	\$ 811	\$ 192,037
Unearned Revenue (Note 1G)	612		612
Due to Other Funds (Note 4)	596	15,047	15,643
Total Liabilities	<u>192,434</u>	<u>15,858</u>	<u>208,292</u>
Fund Balances (Note 1G):			
Nonspendable	3,916	1,000	4,916
Restricted	35,434	306,314	341,748
Committed	3,118,890		3,118,890
Assigned	58,424		58,424
Unassigned	1,434,986		1,434,986
Total Fund Balances	<u>4,651,650</u>	<u>307,314</u>	<u>4,958,964</u>
Total Liabilities and Fund Balances	<u>\$ 4,844,084</u>	<u>\$ 323,172</u>	<u>\$ 5,167,256</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balance - governmental funds \$ 4,958,964

Amounts reported for governmental activities in the statement of net position are different because:

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

Capital assets, at historical cost	\$ 4,215,123	
Accumulated depreciation	<u>(2,571,450)</u>	
Net		1,643,673

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

Net pension liability	(1,569,722)
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In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	\$ 526,182	
Deferred inflows of resources relating to pensions	<u>(206,224)</u>	
Net		<u>319,958</u>

Total net position - governmental activities \$ 5,352,873

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Control Funding Formula Sources			
State Apportionments	\$ 339,510		\$ 339,510
Local Sources	<u>893,263</u>		<u>893,263</u>
Total Local Control Funding Formula Sources	1,232,773		1,232,773
Federal Revenue	131,424	\$ 59,651	191,075
Other State Revenue	162,067	4,321	166,388
Other Local Revenue	<u>135,358</u>	<u>15,843</u>	<u>151,201</u>
Total Revenues	<u>1,661,622</u>	<u>79,815</u>	<u>1,741,437</u>
EXPENDITURES			
Certificated Salaries	506,612		506,612
Classified Salaries	335,115	51,456	386,571
Employee Benefits	377,980	17,929	395,909
Books and Supplies	75,690	43,744	119,434
Services and Other Operating Expenditures	376,474	18,970	395,444
Capital Outlay	83,652		83,652
Other Outgo	<u>51,761</u>		<u>51,761</u>
Total Expenditures	<u>1,807,284</u>	<u>132,099</u>	<u>1,939,383</u>
Excess of Revenues Over (Under) Expenditures	<u>(145,662)</u>	<u>(52,284)</u>	<u>(197,946)</u>
Other Financing Sources (Uses):			
Operating Transfers In (Note 4)		50,000	50,000
Operating Transfers Out (Note 4)	(50,000)		(50,000)
Other Sources-Sale of Property		<u>153,000</u>	<u>153,000</u>
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>203,000</u>	<u>153,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(195,662)	150,716	(44,946)
Fund Balances - July 1, 2017	<u>4,847,312</u>	<u>156,598</u>	<u>5,003,910</u>
Fund Balances - June 30, 2018	<u>\$ 4,651,650</u>	<u>\$ 307,314</u>	<u>\$ 4,958,964</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change (decrease) in fund balances - total governmental funds \$ (44,946)

Amounts reported for governmental activities in the statement of activities are different 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 was:

	\$	83,653	
Expenditures for capital outlay			
Depreciation expense		<u>(123,553)</u>	
Net:			(39,900)

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (71,476)

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting loss is: (89,404)

Total change (decrease) in net position - governmental activities \$ (245,726)

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	<u>Agency Fund</u> <u>Student Body</u> <u>Account</u>
ASSETS	
Cash (Note 2)	<u>\$ 5,411</u>
Total Assets	<u>\$ 5,411</u>
LIABILITIES	
Due to Student Groups	<u>\$ 5,411</u>
Total Liabilities	<u>\$ 5,411</u>
Total Net Position	<u>\$ 0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For Twin Ridges Elementary School District, this includes general operations, food service and student related activities of the District. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. The District determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current asset and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus and the modified accrual basis of accounting.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the 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. For the District, "available" means collectible within the current period or within 60 days after year-end.

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 grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - exchange and non-exchange transactions (Concluded):

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 assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

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. Expenditures incurred in the unrestricted resources shall be reduced first from the committed resources, then from assigned resources and lastly, the unassigned resources.

D. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District reports the following major funds:

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The District accounted for the Special Reserve Fund for Other Than Capital Outlay Projects separately, but the fund has been included with the General Fund to comply with GASB 54.

Additionally, the District reports the following fund type:

Fiduciary Funds are agency funds used to account for assets of others for which the District acts as an agent. The District maintains a student body fund, which is used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. Agency funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund as required supplementary information in the financial statements.

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

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in commercial bank accounts are insured to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury and in an investment portfolio.

The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

The county and District is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county and District either are secured by federal depository insurance or are collateralized.

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

2. Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the period benefitted.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5 to 50 years depending on the asset class.

4. Deferred Outflows/Inflows of Resources

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

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

5. Unearned Revenue

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

6. 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 positions of the California State Teachers Retirement Plan (STRP) and the CalPERS Schools Pool Cost-Sharing Multiple Employer Plan (PERF B) and additions to/deductions from STRP and PERF B fiduciary net positions have been determined on the same basis as they are reported separately by CalSTRS and CalPERS.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

6. Pensions (Concluded)

For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over five years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

7. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. District employees either use their vacation time or are paid out the balance prior to June 30 of each year.

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, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

8. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position - This amount is all net position that did not meet the definition of "net investment in capital assets" or "restricted net position."

9. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the District's policy is to apply restricted net position first.

10. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned, based primarily on the extent to which the District is bound to honor constraints on how specific amounts are to be spent:

Nonspendable Fund Balance - Includes the portions of fund balance not appropriate for expenditures.

Restricted Fund Balance - Includes amounts subject to externally imposed and legally enforceable constraints.

Committed Fund Balance - Includes amounts subject to District constraints self-imposed by formal action of the District Governing Board.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

10. Fund Equity (Continued)

Assigned Fund Balance - Includes amounts the District intends to use for a specific purpose. Assignments may be established by the District Governing Board, or the Superintendent of the District.

Unassigned Fund Balance - Includes the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned to specific purposes.

Fund Balances:

The District's fund balances at June 30, 2018 consisted of the following:

	General Fund	Other Governmental Funds	Total
Nonspendable:			
Revolving Fund	\$ 3,000	\$ 1,000	\$ 4,000
Prepaid Expenditures	916		916
Total Nonspendable Fund Balance	<u>3,916</u>	<u>1,000</u>	<u>4,916</u>
Restricted For:			
Legally Restricted Categorical Funding	35,434		35,434
Cafeteria Program Operations		14,874	14,874
Purposes Specified in Government Code Section 65970-65981		140,360	140,360
Capital Project Expenditures		151,080	151,080
Total Restricted Fund Balance	<u>35,434</u>	<u>306,314</u>	<u>341,748</u>
Committed For:			
Investments Outside County Treasury	2,952,254		2,952,254
Common Core Curriculum	30,000		30,000
Technology Upgrades	14,636		14,636
Deferred Maintenance	122,000		122,000
Total Committed Fund Balance	<u>3,118,890</u>		<u>3,118,890</u>
Assigned For:			
Curriculum	38,424		38,424
Van Purchase	20,000		20,000
Total Assigned Fund Balance	<u>58,424</u>	<u>0</u>	<u>58,424</u>
Unassigned:			
Reserve for Economic Uncertainties	940,355		940,355
Other Unassigned	494,631		494,631
Total Unassigned Fund Balance	<u>1,434,986</u>	<u>0</u>	<u>1,434,986</u>
Total Fund Balances	<u>\$ 4,651,650</u>	<u>\$ 307,314</u>	<u>\$ 4,958,964</u>

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

10. Fund Equity (Concluded)

Fund Balance Policy:

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its General Fund sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of -% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California.

Additional detailed information, along with the complete *Fund Balance Policy* can be obtained from the District.

11. Local Control Funding Formula/Property Tax

The District's local control funding formula revenue is received from a combination of local property taxes, state apportionments, and other local sources.

The County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

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

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

G. Assets, Liabilities and Equity (Concluded)

11. Local Control Funding Formula/Property Tax (Concluded)

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local control funding formula sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

H. Impact of Recently Issued Accounting Pronouncements

The GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June, 2015. This Statement's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions by establishing measurement criteria for the liability. The intent is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial statements by requiring the recognition of the entire OPEB liability and a broader measure of OPEB expense. This Statement is effective beginning in fiscal year 2017-2018. The District does not offer any benefits considered to be Other Postemployment Benefits subject to GASB Statement 75.

The GASB issued Statement 84, *Fiduciary Activities* in January, 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective beginning in fiscal year 2019-2020. The District has not yet determined the impact on the financial statements.

The GASB issued Statement 85, *Omnibus 2017* in March, 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The Statement is effective beginning in fiscal year 2017-2018. The District has implemented GASB Statement 85 for the fiscal year ended June 30, 2018.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS

A. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2018:

<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
<u>\$5,096,349</u>	<u>\$5,411</u>	<u>\$5,101,760</u>

The District had the following cash and investments at June 30, 2018:

<u>Cash</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Credit Quality Rating</u>	
Cash in Commercial Bank	\$ 5,711	\$ 5,711	Not Rated	
Cash in Revolving Fund	4,000	4,000	Not Rated	
Cash with Fiscal Agent	181,794	181,794	Not Rated	
Cash in County Treasury	2,105,279	2,139,795	Not Rated	
Total Cash	<u>2,296,784</u>	<u>2,331,300</u>		
<u>Investments</u>			<u>Moody's</u>	<u>S&P</u>
Consolidated Edison	63,120	63,120	A2	A-
EXXON Mobil Corporation	68,712	68,712	Aaa	AA+
Fannie Mae Pool	268,114	268,114	Not Rated	Not Rated
Federal Home Loan	73,861	73,861	Aaa	AA+
FHLMC Remic Series	293,440	293,440	Not Rated	Not Rated
Honeywell International Inc.	51,483	51,483	A2	A
Johnson & Johnson	47,053	47,053	Aaa	AAA
Kimberly-Clark Corporation Debenture ISIN	48,057	48,057	A2	A
Northern Trust Corporation	57,637	57,637	A2	A+
Pepsico Capital Resources, Inc.	66,891	66,891	A1	A+
Public Service Electric and Gas Company	60,417	60,417	Aa3	A
The Procter & Gamble Company	50,676	50,676	Aa3	AA-
The Walt Disney Company	67,383	67,383	A2	A+
US Bank National Association	56,477	56,477	A1	AA-
US Treasury Notes	1,419,310	1,419,311	Aaa	Not Rated
United Technologies Corporation NTS ISIN	64,210	64,210	A3	A-
Unidentified unrealized gain overstated		13,618		
Total Investments	<u>2,756,841</u>	<u>2,770,460</u>		
Total Cash and Investments	<u>\$ 5,053,625</u>	<u>\$ 5,101,760</u>		

B. Policies and Practices

The District is authorized by State statutes and in accordance with the District's Investment Policy (Policy) to invest in the following:

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

B. Policies and Practices (Continued)

- Securities issued or guaranteed by the Federal Government or its agencies
- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statues, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments. The District's investments comply with the established policy.

Cash in Commercial Banks

Cash balances held in commercial bank accounts are insured to \$250,000 by the Federal Deposit Insurance Corporation. These amounts are held within various financial institutions. As of June 30, 2018 the carrying amount of the District's accounts was \$9,711, all of which, was insured.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its operating cash with the County Treasury as an involuntary participant of a common investment pool, which totaled \$213,874,354. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$210,424,494. Interest is deposited into participating funds. The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

Cash with Fiscal Agent

All or part of the Special Reserve Fund for Other Than Capital Outlay of the Twin Ridges Elementary School District, or any surplus monies not required for the immediate necessities of the District, may be invested as allowed by law for public funds according to an investment program approved by the Twin Ridges Elementary School District's Board of Trustees in accordance with California Education Code § 41015 and California Government Code §§ 16430, 53601-53609, and 53635. As of June 30, 2018, the carrying amount of the District's accounts was \$181,794 all of which was insured.

Investments

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

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

B. Policies and Practices (Concluded)

Investments (Concluded)

The District's investments of \$2,770,460 are valued using quoted market prices (Level 1 inputs) on a recurring basis as of June 30, 2018.

C. Risk Disclosures

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures.

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 Pool and having the pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

At June 30, 2018, the District had the following investment maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less than 1</u>	<u>1 to 4</u>	<u>More than 4</u>
County Treasury	\$ 2,105,279	\$ 713,900	\$ 1,108,640	\$ 282,739
Cash with Fiscal Agent	181,794	181,794		
Consolidated Edison	63,120	63,120		
EXXON Mobil Corporation	68,712		68,712	
Fannie Mae Pool	268,114		268,114	
Federal Home Loan	73,861		73,861	
Federal National Mortgage Association	181,795	181,795		
FHLMC Remic Series	293,440		293,440	
Honeywell International Inc.	51,483		51,483	
Johnson & Johnson	47,053	47,053		
Kimberly-Clark Corporation Debenture	48,057	48,057		
Northern Trust Corporation	57,637		57,637	
Pepsico Capital Resources, Inc.	66,891	66,891		
Public Service Electric and Gas Company	60,417		60,417	
The Procter & Gamble Company	50,676		50,676	
The Walt Disney Company	67,383	67,383		
US Bank National Association	56,477		56,477	
US Treasury Notes	1,419,310	515,621	903,689	
United Technologies Corporation NTS	64,210		64,210	
Total	\$ 5,225,709	\$ 1,885,614	\$ 3,057,356	\$ 282,739

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

C. Risk Disclosures (Concluded)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the District was not exposed to credit risk.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year-end, the District was exposed to custodial credit risk as a result of investments.

Concentration of Credit Risk - This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the District was not exposed to concentration of credit risk.

Foreign Currency Risk - This is the risk that exchange rate will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 consist of the following:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Federal Government			
Categorical Aid Programs	\$ 13,344	\$ 14,549	\$ 27,893
State Government			
Categorical Aid Programs	9,718	1,187	10,905
Lottery	3,670		3,670
Total State Government	13,388	1,187	14,575
Local Government	8,100		8,100
Miscellaneous	3,780		3,780
Total Accounts Receivable	<u>\$ 38,612</u>	<u>\$ 15,736</u>	<u>\$ 54,348</u>

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2018 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds:		
General Fund	\$ 15,047	\$ 596
Non-Major Governmental Funds:		
Cafeteria Fund	<u>596</u>	<u>15,047</u>
Total	<u>\$ 15,643</u>	<u>\$ 15,643</u>

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. As of June 30, 2018, interfund transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund		\$ 50,000
Non-Major Governmental Funds:		
Cafeteria Fund	<u>\$ 50,000</u>	
Total	<u>\$ 50,000</u>	<u>\$ 50,000</u>

The District transferred \$50,000 from the General Fund to the Cafeteria Fund to support program operations and provide positive cash flow.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, is shown below:

	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 102,850		\$ 22,000	\$ 80,850
Work in progress	25,977	\$ 83,653		109,630
Total capital assets, not being depreciated	<u>128,827</u>	<u>83,653</u>	<u>22,000</u>	<u>190,480</u>
Capital assets being depreciated:				
Buildings	2,901,382		214,679	2,686,703
Improvements of sites	1,078,449		23,264	1,055,185
Equipment	282,755			282,755
Total capital assets, being depreciated	<u>4,262,586</u>	<u>0</u>	<u>237,943</u>	<u>4,024,643</u>
Less accumulated depreciation for:				
Buildings	1,930,220	70,955	147,275	1,853,900
Improvements of sites	473,981	43,938	23,264	494,655
Equipment	214,235	8,660		222,895
Total accumulated depreciation	<u>2,618,436</u>	<u>123,553</u>	<u>170,539</u>	<u>2,571,450</u>
Total capital assets, being depreciated, net	<u>1,644,150</u>	<u>(123,553)</u>	<u>67,404</u>	<u>1,453,193</u>
Governmental activities capital assets, net	<u>\$ 1,772,977</u>	<u>\$ (39,900)</u>	<u>\$ 89,404</u>	<u>\$ 1,643,673</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Unallocated	<u>\$ 123,553</u>
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NOTE 6 - LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Net Pension Liability	<u>\$ 1,398,269</u>	<u>\$ 171,453</u>	<u>\$ 0</u>	<u>\$ 1,569,722</u>	<u>\$ 0</u>

All payments will be made from the General Fund.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under cost-sharing 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). For the fiscal year ended June 30, 2018, the Twin Ridges Elementary School District reported its proportionate share of the net pension liabilities, deferred outflows of resources, deferred inflows of resources and pension expense for each of the plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows Related to Pensions</u>	<u>Deferred Inflows Related to Pensions</u>	<u>Pension Expense</u>
CalSTRS	\$ 810,365	\$ 248,894	\$ 188,224	\$ 60,887
CalPERS	<u>759,357</u>	<u>277,288</u>	<u>18,000</u>	<u>133,527</u>
Totals	<u>\$ 1,569,722</u>	<u>\$ 526,182</u>	<u>\$ 206,224</u>	<u>\$ 194,414</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description. The Twin Ridges Elementary School District contributes to the State Teachers' Retirement Plan (STRP), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by California State Teachers' Retirement System (CalSTRS). The State of California is a Nonemployer Contributing Entity to the STRP. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the State of California is both an employer and nonemployer contributing entity to the STRP. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

Benefit. The STRP provides defined benefit program benefits under two formulas: 2% at 60 for members hired on or before December 31, 2012 and 2% at 62 for members hired after that date. Both formulas define hire as the date at which the member was hired to perform service that could be creditable to CalSTRS. The benefit under each formula is calculated as 2% per year of creditable service. The 2% at 60 formula uses final compensation to calculate the benefit. The 2% at 62 formula uses an average of the highest compensation for three consecutive years to calculate the benefit.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Contributions. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. Active plan members under the 2% at 60 formula are required to contribute 10.25% of their salary and active plan members under the 2% at 62 formula are required to contribute 9.205% for the year ended June 30, 2018. The Twin Ridges Elementary School District and the State of California are required to contribute actuarially determined rates.

The actuarial methods and assumptions used for determining the rates are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016-2017 was 12.58% and for fiscal year 2017-2018 was 14.43% of annual payroll. The required State contribution rate for fiscal year 2016-2017 the rate was 8.828% and for fiscal year 2017-2018 the rate was 9.328%. The Twin Ridges Elementary School District's contributions to CalSTRS for the fiscal years ending June 30, 2018 and 2017 were \$69,397 and \$58,021, respectively, and equal 100% of the required contributions for each year.

Contribution by District	\$ 69,397
Contribution by State	38,996
Total Contribution in 2017-2018	<u>\$ 108,393</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the District reported a liability of \$810,365 for its proportionate share of the net pension liability for the STRP. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016.

The District's proportion of the net pension liability was based on a projection of the District's and the State of California's (non-employer contributing entity) long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State of California, actuarially determined. At June 30, 2017, the District's proportion of contributions was 0.0009 percent, a decrease of 0.00014 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$60,887 which included the State's required on-behalf contribution of \$13,779. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Outflows and Inflows of Resources:		
Difference between expected and actual experience	\$ 2,997	\$ 14,134
Changes in assumptions	150,130	
Net difference between projected and actual earnings on pension plan investments		21,582
Changes in proportion and differences between District contributions and proportionate share of contributions	26,370	152,508
District contributions subsequent to measurement date of June 30, 2017	69,397	
Totals	\$ 248,894	\$ 188,224

The \$69,397 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources related to pensions and deferred inflows of resources related to pension will be recognized as increases or decreases respectively in pension expense as follows:

	Outflows	Inflows
June 30, 2019	\$ 32,114	\$ 48,373
June 30, 2020	32,114	17,202
June 30, 2021	32,114	28,844
June 30, 2022	32,112	49,986
June 30, 2023	25,521	28,944
June 30, 2024	25,522	14,875
Total	\$ 179,497	\$ 188,224

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Assumptions. The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Assumptions (Concluded). The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Experience Study	July 1, 2010, through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-Retirement Benefit Increases	2.00% simple for DB

Mortality assumptions are based on mortality rates from the most recent CalSTRS experience study adopted by the CalSTRS Board in February, 2017 (see Change in Assumptions below.) The projection scale was set to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016), published by the Society of Actuaries.

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

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

* 20-year geometric average

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Change in Assumptions. During fiscal year 2016-2017, CalSTRS completed an experience study for the period starting July 1, 2010 and ending June 30, 2015. The experience study was adopted by the board in February, 2017. As a result of the study, certain assumptions used in determining the net pension liability of the STRP changed including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the net pension liability. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Consumer Price Inflation	2.75%	3.00%
Investment Rate of Return	7.10%	7.60%
Wage Growth	3.50%	3.75%

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

Presented below is the District's proportionate share of the net pension liability of employers and the state using the current discount rate of 7.10 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one to three percent lower or one to three percent higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability of Employers</u>	
3% Decrease (4.10%)	\$	2,279,397
2% Decrease (5.10%)	\$	1,669,757
1% Decrease (6.10%)	\$	1,189,873
Current Discount Rate (7.10%)	\$	810,365
1% Increase (8.10%)	\$	502,368
2% Increase (9.10%)	\$	248,166
3% Increase (10.10%)	\$	37,425

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

B. California Public Employees Retirement System (CalPERS)

Plan Description. The Twin Ridges Elementary School District contributes to the School Employer Pool, known as Fund B, (PERF B), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan of school employers consisting of non-teaching and non-certified employees administered by the California Public Employees' Retirement System (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 of California statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a publicly available comprehensive annual financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

Contributions. The benefits for the defined benefit pension plan are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the employee's date of hire. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. The Twin Ridges Elementary School District is required to contribute the difference between the actuarially determined rate and the contribution rate of the employees. The required employer contribution rates on applicable annual payroll for the fiscal years ending June 30, 2018 and 2017 were 15.531% and 13.888%, respectively. The Twin Ridges Elementary School District's employer contributions to CalPERS for the fiscal years ending June 30, 2018 and 2017 were \$53,841 and \$56,023, respectively and equal 100% of the required contributions for each year.

Benefits. The PERF B provides defined benefit program benefits based on members' years of service, age, final compensation and benefit formula. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the District reported a liability of \$759,357 for its proportionate share of the net pension liability for the PERF B. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

B. 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). 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 and the state, actuarially determined. At June 30, 2017, the District's proportion of contributions was 0.0032 percent, an increase of 0.00025- percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$133,527. At June 30, 2018, 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>
Deferred Outflows and Inflows of Resources:		
Difference between expected and actual experience	\$ 27,205	
Changes in assumptions	110,916	\$ 8,940
Net difference between projected and actual earnings on pension plan investments	26,269	
Changes in proportion and differences between District contributions and proportionate share of contributions	59,057	9,060
District contributions subsequent to measurement date of June 30, 2017	<u>53,841</u>	
Totals	<u>\$ 277,288</u>	<u>\$ 18,000</u>

The \$53,841 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the PERF B pensions will be recognized as increases or decreases respectively in pension expense as follows:

	<u>Outflows</u>	<u>Inflows</u>
June 30, 2019	\$ 75,387	\$ 18,000
June 30, 2020	96,908	
June 30, 2021	65,536	
June 30, 2022	<u>(14,384)</u>	
Total	<u>\$ 223,447</u>	<u>\$ 18,000</u>

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

B. California Public Employees Retirement System (CalPERS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded). Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is four years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Actuarial Assumptions. For the year ended June 30, 2017, the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Experience Study	July 1, 1997, through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-Retirement Benefit Increases	Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

The PERF B uses a mortality table based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

Change in Assumptions. During fiscal year 2016-2017, the financial reporting discount rate for the PERF B was lowered by CalPERS from 7.65 percent to 7.15 percent. Deferred inflows of resources for changes in assumptions presented in the schedule above represents the unamortized portion of this change and any changes of assumptions related to prior measurement periods.

Discount Rate. The discount rate used to measure the total pension liability was 7.15 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.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

B. California Public Employees Retirement System (CalPERS) (Concluded)

Discount Rate (Concluded). The following presents the net pension liability of the Plan as of June 30, 2017, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

<u>Discount Rate</u>	<u>Plan's Net Pension Liability</u>
1% Decrease (6.15%)	\$ 1,117,257
Current Discount Rate (7.15%)	\$ 759,357
1% Increase (8.15%)	\$ 462,449

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 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.

<u>New Strategic Asset Class</u>	<u>Real Return Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Years 11+²</u>
Global Equity	47%	4.90%	5.38%
Fixed Income	19%	0.80%	2.27%
Inflation Assets	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Cash/Liquidity	2%	(0.40)%	(0.90)%

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position. The plan fiduciary net position disclosed in this report may differ from the plan assets reported in the Schools Pool funding actuarial valuation reported due to several reason. First, for the accounting valuation, items such as deficiency reserves, fiduciary self-insurance and OPEB expense are included in fiduciary net position. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early closing and final reconciled reserves.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRP or PERF B) must be covered by social security or an alternative plan. The District has elected to use Social Security.

NOTE 8 - EARLY RETIREMENT INCENTIVES

In addition to the pension benefits described in Note 9, the District has offered incentives for employees to retire early:

State Teachers Retirement System (STRS) Golden Handshake

The District has adopted an early retirement incentive program, pursuant to Education Code Sections 22714, 22714.5, 44929, 44929.1, 87488 and 87488.1, whereby the service credit to eligible employees is increased by two years. Eligible employees must be either; 1) age 55 with at least five (5) years of service under State Teachers' Retirement System (STRS), or 2) age 50 with at least thirty (30) years of service under STRS, or 3) age 55 with fewer than five (5) years of service credit but eligible for concurrent retirement with another California Public Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

The District has determined that the formal action taken would result in a net savings to the District.

The District has also demonstrated and certified such results to the County Office of Education, as required pursuant to Education Code Section 22714, 22714.5 and 44929. The District's certification reconciles to the information confirmed in the audit.

Retiree Information

One employee retired in exchange for the additional two years of service credit during fiscal year 2017-2018:

<u>Position Vacated</u>	<u>Age</u>	<u>Service Credit</u>	<u>Retired Employee</u>		<u>Replacement Employee</u>	
			<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Teacher	59.08	24.04	<u>\$ 73,899</u>	<u>\$ 22,225</u>	<u>\$ 60,003</u>	<u>\$ 20,943</u>

Financial Impact

The early retirement incentive program is expected to generate \$38,788 in additional costs and payroll savings over the next three (3) years of \$45,534. The breakdown in additional costs of \$38,788 is presented below:

Retirement costs	\$ 38,498
STRS Administrative costs	<u>290</u>
Total additional costs	<u>\$ 38,788</u>

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. 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, 2018.

B. State and Federal Allowances, Awards and Grants

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

C. Joint Ventures

The District participates in a joint venture under a joint powers agreement (JPA) with the Schools Insurance Group (SIG).

The JPA arranges for and/or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

The following is a summary of financial information for SIG at June 30, 2018:

Total assets	\$ 100,763,353
Total deferred outflows of resources	\$ 342,409
Total liabilities	\$ 34,839,315
Total deferred inflows of resources	\$ 63,352
Net position	\$ 66,203,095
Total revenues	\$ 91,650,321
Total expenditures	\$ 88,460,093
Change in net position	\$ 3,190,228

The relationship between the District and the Joint Power Authority is such that the authority is not a component unit of the District for financial reporting purposes.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - OPERATING LEASES

The District has entered into office equipment leases that extend beyond the current fiscal year. The District does not intend to buy-out the equipment at the end of the lease and historically has turned in the old equipment for new. The following is a schedule by year of minimum future rentals on the non-cancelable operating leases as of June 30, 2018:

<u>Year Ended June 30</u>	<u>Future Minimum Rent Payments</u>
2019	\$ 6,948
2020	5,836
2021	5,280
2022	5,280
2023	4,172
Total	<u>\$ 27,516</u>

The District paid \$10,388 for related rents in 2017-2018. The District will receive no sublease rentals nor pay any contingent rentals for this equipment.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Schools Insurance Group, JPA (SIG) for property and liability insurance coverage and also for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

B. Workers' Compensation

For fiscal year 2017-2018, the District participated in the Schools Insurance Group, JPA (SIG), an insurance purchasing pool. The intent of the SIG pool is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SIG pool. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SIG pool. Each participant pays its workers' compensation premium based on its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SIG pool. Participation in the SIG pool is limited to districts that can meet the SIG pool selection criteria.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - STUDENT BODY FUNDS

The Student Body Funds often engage in activities, which involve cash transactions. These transactions are not subject to adequate internal accounting prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Local Control Funding Formula Sources:				
State Apportionments	\$ 336,948	\$ 340,150	\$ 339,510	\$ (640)
Local Sources	752,247	883,401	893,263	9,862
Total Local Control Funding Formula Sources	1,089,195	1,223,551	1,232,773	9,222
Federal Revenue	152,880	117,279	131,424	14,145
Other State Revenue	62,115	75,527	162,067	86,540
Other Local Revenue	223,236	241,823	135,358	(106,465)
Total Revenues	1,527,426	1,658,180	1,661,622	3,442
EXPENDITURES				
Certificated Salaries	500,751	515,716	506,612	9,104
Classified Salaries	380,553	351,595	335,115	16,480
Employee Benefits	372,758	379,974	377,980	1,994
Books and Supplies	88,411	106,423	75,690	30,733
Services and Other Operating Expenditures	371,154	427,733	376,474	51,259
Capital Outlay	124,500	121,643	83,652	37,991
Other Outgo	74,018	60,000	51,761	8,239
Total Expenditures	1,912,145	1,963,084	1,807,284	155,800
Excess of Revenues Over (Under) Expenditures	(384,719)	(304,904)	(145,662)	159,242
Other Financing Sources (Uses):				
Operating Transfers In	500,000	300,000		(300,000)
Operating Transfers Out	(565,000)	(365,000)	(50,000)	315,000
Total Other Financing Sources (Uses)	(65,000)	(65,000)	(50,000)	15,000
Excess of Revenues Over (Under) Expenditures and Other Uses	(449,719)	(369,904)	(195,662)	174,242
Fund Balances - July 1, 2017	4,670,156	4,847,312	4,847,312	0
Fund Balances - June 30, 2018	\$ 4,220,437	\$ 4,477,408	\$ 4,651,650	\$ 174,242

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>California State Teachers' Retirement System (CalSTRS)</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0009%	0.0010%	0.0011%	0.0010%
District's proportionate share of the net pension liability	\$ 810,365	\$ 818,561	\$ 715,901	\$ 584,370
State's proportionate share of the net pension liability associated with the District	<u>479,408</u>	<u>466,061</u>	<u>416,339</u>	<u>357,858</u>
Total	<u>\$ 1,289,773</u>	<u>\$ 1,284,622</u>	<u>\$ 1,132,240</u>	<u>\$ 942,228</u>
District's covered-employee payroll	\$ 461,216	\$ 501,678	\$ 494,403	\$ 460,909
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	176%	163%	145%	127%
Plan fiduciary net position as a percentage of the total pension liability	70%	70%	74%	77%
 <u>Public Employee Retirement System (CalPERS)</u>				
District's proportion of the net pension liability	0.0032%	0.0029%	0.0029%	0.0032%
District's proportionate share of the net pension liability	\$ 759,357	\$ 579,708	\$ 433,744	\$ 363,278
District's covered-employee payroll	\$ 403,391	\$ 352,401	\$ 326,141	\$ 335,724
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	188%	165%	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
SCHEDULES OF THE DISTRICT'S CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

California State Teachers' Retirement System (CalSTRS)

	2018	2017	2016	2015
Contractually required contribution	\$ 69,397	\$ 58,021	\$ 53,830	\$ 43,903
Contributions in relation to the contractually required contribution	(69,397)	(58,021)	(53,830)	(43,903)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0
District's covered-employee payroll	\$ 480,922	\$ 461,216	\$ 501,678	\$ 494,403
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%

Public Employee Retirement System (CalPERS)

Contractually required contribution	\$ 53,841	\$ 56,023	\$ 41,749	\$ 38,390
Contributions in relation to the contractually required contribution	(53,841)	(56,023)	(41,749)	(38,390)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0
District's covered-employee payroll	\$ 346,668	\$ 403,391	\$ 352,401	\$ 326,141
Contributions as a percentage of covered-employee payroll	15.53%	13.89%	11.85%	11.77%

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A. Budgetary Comparison Schedule

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

There were no excess of expenditures over appropriations in individual governmental funds at June 30, 2018.

B. Schedules of District's Proportionate Share of the Net Pension Liability

These schedules present information on the District's portion of the Net Pension Liability of CalSTRS and the Net Pension Liability of CalPERS in compliance with GASB 68. The amounts presented for each fiscal year were determined as of the measurement date that occurred one year prior.

These will be 10-year schedules. Years will be added to these schedules in future fiscal years until 10 years of information is available.

C. Schedules of District Contributions

These schedules provide information about the District's required and actual contributions to CalSTRS and CalPERS during the year.

These will be 10-year schedules. Years will be added to these schedules in future fiscal years until 10 years of information is available.

SUPPLEMENTARY INFORMATION SECTION

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NEVADA CITY, CALIFORNIA

JUNE 30, 2018

ORGANIZATION

Twin Ridges Elementary School District is located in Nevada County. There were no changes in the boundaries of the District during the current year. At June 30, 2018, the District was operating two traditional elementary schools.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Rebecca Wayman	President	December, 2018
Mindi Morton	Clerk	December, 2018
Malik Goodman	Member	December, 2018
Rachel Koslowski	Member	December, 2018
Christopher Little	Member	December, 2018

ADMINISTRATION

James Berardi
Superintendent/Principal

Deborah Messervey
Business Official

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional Kindergarten through Third	40.66	40.29
Fourth through Sixth	28.61	28.35
Seventh and Eighth	<u>17.32</u>	<u>16.70</u>
ADA Totals	<u><u>86.59</u></u>	<u><u>85.34</u></u>

Average daily attendance is a measurement of the numbers 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 the school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Grade Level	Minutes Requirement	2017-2018 Actual Minutes	Number of Days Traditional Calendar	Status
TK/Kindergarten	36,000	38,120	180	In Compliance
Grade 1	50,400	54,750	180	In Compliance
Grade 2	50,400	54,750	180	In Compliance
Grade 3	50,400	54,750	180	In Compliance
Grade 4	54,000	54,750	180	In Compliance
Grade 5	54,000	54,750	180	In Compliance
Grade 6	54,000	54,750	180	In Compliance
Grade 7	54,000	54,750	180	In Compliance
Grade 8	54,000	54,750	180	In Compliance

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has not met its local control funding formula target.

Districts that participate in Longer Day Incentive Funding or that met or exceed their local control funding formula target, must provide at least the number of instructional minutes specified in Education Code Section 46201(b) or 46207(a), shown as the minutes requirement above.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Twin Ridges Elementary School District.

SEE NOTES TO SUPPLEMENTARY INFORMATION

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30,2018, Annual Unaudited Actual Financial Report Fund Balance	\$ 1,009,041	\$ 3,642,609
Adjustments and Reclassifications Increasing (Decreasing) the Fund Balance:		
To conform with GAAP, activity reported separately by the District in certain Special Revenue Funds is reported in the General Fund in these financial statements.	3,642,609	(3,642,609)
Net Adjustments and Reclassifications	3,642,609	(3,642,609)
June 30,2018, Audited Financial Statement Fund Balance	\$ 4,651,650	\$ 0

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Unaudited Actual Financial Report for the year ended June 30, 2018.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>General Fund</u>	<u>Budget 2018-2019</u>	<u>2017-2018</u>	<u>2016-2017</u>	<u>2015-2016</u>
Revenues and Other Financial Sources	\$ 1,552,814	\$ 1,661,622	\$ 1,828,437	\$ 1,691,911
Expenditures	1,795,248	1,807,284	1,772,915	1,722,514
Other Uses and Transfers Out	60,000	50,000	65,000	55,000
Total Outgo	1,855,248	1,857,284	1,837,915	1,777,514
Change in Fund Balance (Decrease)	(302,434)	(195,662)	(9,478)	(85,603)
Ending Fund Balance	\$ 4,238,980	\$ 4,651,650	\$ 4,847,312	\$ 4,856,790
Available Reserves	\$ 1,252,481	\$ 1,434,986	\$ 1,611,167	\$ 1,597,276
Reserve for Economic Uncertainties	\$ 690,131	\$ 940,355	\$ 871,126	\$ 1,131,024
Unassigned Fund Balance	\$ 562,350	\$ 494,631	\$ 740,041	\$ 466,252
Available Reserves as a Percentage of Total Outgo	67.5%	77.3%	87.7%	89.9%
Total Long-Term Debt	\$ 1,569,722	\$ 1,569,722	\$ 1,398,269	\$ 1,149,645
Average Daily Attendance at P-2	84	86	84	97

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.

The General Fund balance has decreased \$290,743 during the past three years. Average daily attendance has decreased 11 ADA during the past two years. For a District this size, the state recommends available reserves of at least 5% (\$92,864) of total expenditures, transfers out and other uses (total outgo) or \$66,000, whichever is greater. Available reserves consist of all unassigned fund balances contained within the General Fund.

The District's long-term debt obligations for its proportionate share of the unfunded STRS and PERS liability has increased \$420,077 thousand over the last two years.

The amounts reported as Budget 2018-2019 are presented for additional analysis and have not been audited.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2018

	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS					
Cash	\$ 15,400	\$ 149,816	\$ 140,360	\$ 1,264	\$ 306,840
Accounts Receivable	15,736				15,736
Due From Other Funds	596				596
Total Assets	<u>\$ 31,732</u>	<u>\$ 149,816</u>	<u>\$ 140,360</u>	<u>\$ 1,264</u>	<u>\$ 323,172</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 811				\$ 811
Due to Other Funds	15,047				15,047
Total Liabilities	<u>15,858</u>				<u>15,858</u>
Fund Balances:					
Nonspendable	1,000				1,000
Restricted	14,874	\$ 149,816	\$ 140,360	\$ 1,264	306,314
Total Fund Balances	<u>15,874</u>	<u>149,816</u>	<u>140,360</u>	<u>1,264</u>	<u>307,314</u>
Total Liabilities and Fund Balances	<u>\$ 31,732</u>	<u>\$ 149,816</u>	<u>\$ 140,360</u>	<u>\$ 1,264</u>	<u>\$ 323,172</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NON-MAJOR FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Cafeteria Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES					
Federal Revenue	\$ 59,651				\$ 59,651
Other State Revenue	4,321				4,321
Other Local Revenue	2,894	\$ 1,666	\$ 11,264	\$ 19	15,843
Total Revenues	66,866	1,666	11,264	19	79,815
EXPENDITURES					
Classified Salaries	51,456				51,456
Employee Benefits	17,929				17,929
Books and Supplies	43,744				43,744
Services and Other Operating Expenditures	5,726	13,244			18,970
Total Expenditures	118,855	13,244	0	0	132,099
Excess of Revenues Over (Under) Expenditures	(51,989)	(11,578)	11,264	19	(52,284)
Other Financing Sources					
Operating Transfers In	50,000				50,000
Other Sources-Sale of Property		153,000			153,000
Total Other Financing Sources	50,000	153,000	0	0	203,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(1,989)	141,422	11,264	19	150,716
Fund Balances - July 1, 2017	17,863	8,394	129,096	1,245	156,598
Fund Balances - June 30, 2018	\$ 15,874	\$ 149,816	\$ 140,360	\$ 1,264	\$ 307,314

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances</u>
<u>Student Body Account</u>				
ASSETS				
Cash	\$ <u>4,726</u>	\$ <u>2,783</u>	\$ <u>2,098</u>	\$ <u>5,411</u>
LIABILITIES				
Due to Student Groups	\$ <u>4,726</u>	\$ <u>2,783</u>	\$ <u>2,098</u>	\$ <u>5,411</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

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

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

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

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

E. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

F. Combining Statements and Individual Fund Schedules

Combining statements and individual fund schedules are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements and schedules present more detailed information about the financial position and financial activities of the District's individual funds.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION



Certified Public Accountant

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

Board of Trustees
Twin Ridges Elementary School District
Nevada City, California

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Twin Ridges Elementary School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Twin Ridges Elementary School District's basic financial statements and have issued my report thereon dated December 13, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Twin Ridges Elementary 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Twin Ridges Elementary School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Twin Ridges Elementary 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 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that I consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Ridges Elementary School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Twin Ridges Elementary School District's Response to Findings

Twin Ridges Elementary School District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Twin Ridges Elementary School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



MICHELLE M. HANSON
Certified Public Accountant

December 13, 2018



Certified Public Accountant

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

Board of Trustees
Twin Ridges Elementary School District
Nevada City, California

I have audited Twin Ridges Elementary School District’s compliance with the types of compliance requirements described in the 2017-2018 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting that could have a direct and material effect on each of Twin Ridges Elementary School District’s State government programs as noted below for the year ended June 30, 2018.

Management’s Responsibility

Management is responsible for compliance with the requirements of State laws and regulations.

Auditor’s Responsibility

My responsibility is to express an opinion on compliance with State laws and regulations of Twin Ridges Elementary School District’s State government programs based on my audit of the types of compliance requirements referred to below. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the 2017-2018 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting. Those standards require that I 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 applicable State laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Twin Ridges Elementary School District’s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion. However, my audit does not provide a legal determination of Twin Ridges Elementary School District’s compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (See next page)
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	No (See next page)
Early Retirement Incentive	Yes
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort (MOE)	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Office of Education and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
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
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Non-Classroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Non-Classroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Procedures were not performed for Independent Study attendance because the average daily attendance generated by the program was below the level required for testing.

Procedures were not performed for the Classroom Teacher Salaries because the District has fewer than 101 units of average daily attendance and is exempt from the provisions of *California Education Code* Section 41372.

Opinion on Each State Government Program

In my opinion, Twin Ridges Elementary 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 State government programs for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of my testing of compliance and the results of that testing based on the requirements of the *2017-2018 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



MICHELLE M. HANSON
 Certified Public Accountant

December 13, 2018

FINDINGS AND RESPONSES SECTION

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? ___ Yes x No
Significant deficiency(ies) identified
that are not considered to be material
weaknesses? x Yes ___ None reported

Noncompliance material to financial
statements noted? ___ Yes x No

State Awards

Internal control over state programs:
Material weakness(es) identified? ___ Yes x No
Significant deficiency(ies) identified
that are not considered to be material
weaknesses? ___ Yes x None reported

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

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND RESPONSES

JUNE 30, 2018

Section II - Financial Statements Findings

2018 - 001 - CASH RECEIPTS - 30000

Criteria: Sound accounting practices require the implementation of sufficient policies and procedures (internal controls) to not only protect assets, but also individuals handling the assets. Internal controls include segregating duties so that one person is not handling a transaction from beginning to end, systems of checks and balances, asset security, etc.

Statement of Condition: During testing of the internal controls over cash receipts it was noted there were payments (cash and checks) received by District employees more than one month prior to being deposited to the bank account, with no deposits made from January to May, 2018.

Cause: There do not appear to be sufficient cash control procedures in place, establishing a frequency in which deposits must be made.

Effect or Potential Effect: The retention of cash receipts on site limits management's control over funds received and facilitates an environment where misappropriation of assets may occur and go undetected. Additionally, the risk of funds not being available when presented to the bank increases the longer the check is held resulting in the returned check expense and the chance the transaction will become uncollectible.

Questioned Costs: The conditions referred to above were the result of tests of an attribute of the control system. There are no questioned costs associated with this finding.

Recommendation: To ensure District assets are protected, money received by any District employee should be kept in the safe in the District Office. Deposits to the bank for a District of this size should never be made less frequently than once a month.

View of Responsible Official: We will keep all money in the safe and make deposits on a monthly basis.

Section III - Federal Award Findings and Responses

No matters are reported.

Section IV - State Award Findings and Responses

No matters are reported.

TWIN RIDGES ELEMENTARY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2018

2017 - 001: All District expenditures should be supported by a completed purchase requisition or purchase order prepared, approved, and dated in advance of the purchase. The District should also consider implementing encumbrance accounting to further strengthen budgetary controls.

Current Status:

Accepted
Implemented

2017 - 002: The District should require all timecards be reviewed and signed by an individual in a supervisory position with knowledge regarding the employee's schedule and duties.

Current Status:

Accepted
Implemented

2017 - 003: The District should implement procedures to ensure each person employed in a position requiring certification qualification is required to provide a valid certification document or renewed document to the District.

Current Status:

Accepted
Implemented