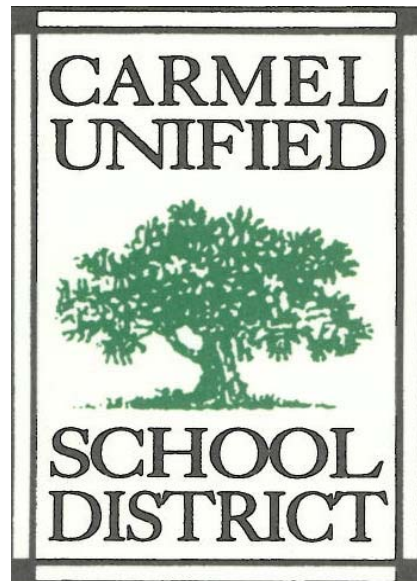


**CARMEL UNIFIED SCHOOL DISTRICT
MONTEREY COUNTY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2016**



CARMEL UNIFIED SCHOOL DISTRICT

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June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Carmel Unified School District
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Carmel Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

INDEPENDENT AUDITOR'S REPORT

Board of Education
Carmel Unified School District
Carmel, California

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

Opinion

In our opinion, the financial statements listed above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost*

INDEPENDENT AUDITOR'S REPORT

Board of Education
Carmel Unified School District
Carmel, California

Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the financial statements.

The supplementary section, including the schedule of expenditures of federal awards, and the combining and individual non-major fund financial statements, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vicenti, Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 21, 2016

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Carmel Unified School District for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

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

The Carmel Unified School District provides instruction to approximately 2,500 students from transitional kindergarten through twelfth grade. During the 2015-16 school year, the District operated three elementary schools, one middle school, one high school, one alternative high school, and a Regional Occupational Program (ROP) on an August through June schedule. The District also operated two pre-schools and an adult education program on an extended year basis.

USING THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

- * This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Carmel Unified School District as a whole, followed by a detailed examination of specific financial activities.
- * The Management's Discussion and Analysis is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to document the District's accountability for the money it receives.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

FINANCIAL HIGHLIGHTS

- * The Carmel Unified School District's Government-wide *Statement of Net Position* indicates the District ended the fiscal year with net position of \$4,634,188 derived by reducing total assets and deferred outflows of \$93,111,183, by liabilities and deferred inflows of \$88,476,995. This represents an increase of \$1,037,076 in total net position over the prior year.
- * The General Fund reported a positive fund balance of \$19,571,423, a net increase of \$3,526,916 over the prior fiscal year. The District maintains reserves for economic uncertainties at 5% of expenditures exceeding the state mandated minimum of 3%. Additionally, Board policy has established a Basic Aid reserve of no less than 10% of the differential between property tax revenues and the District's revenue as defined by state formula.
- * The District's Retiree Benefits Fund reported a positive fund balance of approximately \$861 thousand. This balance has increased moderately since its establishment at the end of the 2010-11 school year. In fiscal years 2009/2010 and 2010/2011, the District contributed an amount to this fund based on a 20 year flat funding of its obligation as determined by an actuarial study required by Government Accounting Standards Board Statement No. 45. In utilizing a flat funding model, the District contributed an amount greater than its annual cost for retiree benefits, thereby adding to the fund's positive ending balance. During the 2015-16 fiscal year the district contributed only the amount anticipated to fund current year retiree benefit costs.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

REPORTING THE DISTRICT AS A WHOLE

THE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities using the accrual basis of accounting similar to accounting procedures used by private sector corporations. All current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. These two statements report the Carmel Unified School District's net position and indicate whether they have increased or decreased over the prior year. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, current property tax laws, student enrollment, and facility conditions in arriving at a conclusion regarding the overall health of the District.

FUND FINANCIAL STATEMENTS

The fund financial statements provide detailed information about the most significant funds of the District, not the organization as a whole. Funds are accounting formats the District uses to keep track of specific sources of funding and expenditures associated with specific programs. Some funds are required by bond covenants and state law. Other funds are established by the District to control and manage a variety of activities for specific purposes or to address specific accounting requirements for certain revenue and expenditure classifications.

GOVERNMENTAL FUNDS

Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. The government fund statements provide a detailed short-term view of the District's general operations. The information they provide helps determine whether there are more or fewer financial resources available in the near future to finance the District's programs. This information does not encompass the additional long-term focus of the government-wide statements. A reconciliation following the governmental fund statements explains the differences (or relationships) between governmental fund and government-wide financial statements.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

PROPRIETARY FUNDS

When the District charges other departments within the District or external users for the services it provides, these services are generally reported in proprietary funds. Proprietary Funds are reported in the same manner as government-wide statements. The proprietary fund category includes Internal Service Funds. Internal Service Funds report activities that provide supplies and services for the District's other programs. The District maintained an Internal Service Fund, the Retiree Benefits Fund, to account for retiree health insurance costs as well as the District's contribution toward the cost of future benefits.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The Fiduciary Fund Category includes Trust and Agency Funds. The District uses an agency fund to account for resources held for student activities and groups. These funds include Associated Student Body Funds and a Foundation Trust Fund for fine arts.

The Carmel Unified School District is the trustee, or fiduciary, for its student activity funds. All school District 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 Carmel Unified School District is responsible for ensuring the assets reported in these funds are used for their intended purpose.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

THE DISTRICT AS A WHOLE

The District's net position was approximately \$4.6 million for the fiscal year ended June 30, 2016 and approximately \$3.6 million for the fiscal year ended June 30, 2015. This represents an approximate increase of \$1 million in net position over the prior fiscal period. This increase in net position is a result of moderately increased revenues combined with a slight decrease in liabilities tied to employee pension expense.

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Assets			
Cash	\$ 30,998,065	\$ 27,529,266	\$ 3,468,799
Accounts receivable	589,392	555,597	33,795
Prepaid expenditures	10,691	8,357	2,334
Stores inventory	5,135	4,660	475
Capital assets, net	55,285,324	56,843,800	(1,558,476)
Total Assets	<u>86,888,607</u>	<u>84,941,680</u>	<u>1,946,927</u>
Deferred Outflows of Resources			
Deferred outflows of resources	5,706,404	2,670,304	3,036,100
Deferred charge on refunding	516,172	567,790	(51,618)
Deferred Outflows of Resources	<u>6,222,576</u>	<u>3,238,094</u>	<u>2,984,482</u>
Liabilities			
Other liabilities	2,561,367	2,058,586	502,781
Long-term debt outstanding	81,908,076	73,746,015	8,162,061
Total Liabilities	<u>84,469,443</u>	<u>75,804,601</u>	<u>8,664,842</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pensions	4,007,552	8,778,061	(4,770,509)
Deferred Inflows of Resources	<u>4,007,552</u>	<u>8,778,061</u>	<u>(4,770,509)</u>
Net Position			
Net investment in capital assets	20,039,505	20,572,701	(533,196)
Restricted	3,694,878	3,050,967	643,911
Unrestricted	(19,100,195)	(20,026,556)	926,361
Total Net Position	<u>\$ 4,634,188</u>	<u>\$ 3,597,112</u>	<u>\$ 1,037,076</u>

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

- * Cash with the District is invested with the Monterey County Treasury. The increase in cash position between fiscal years 2015 and 2016 is primarily a result of increased revenues generated by property tax growth.
- * Accounts receivable are mainly amounts due from State and Federal government sources for the operation of categorical programs.
- * The value of Capital Assets in the district decreased by approximately \$1.5 million over the prior year, as a result of normal depreciation. See Note 6.
- * The increase of approximately \$8.6 million in the liabilities category is primarily the result of new accounting regulations from the Governmental Accounting Standards Board. The \$8.1 million increase in “long-term debt outstanding” is a result of a requirement (instituted in the prior fiscal year) that the district reflect its pension liability for employees eligible for retirement benefits through either the State Teachers Retirement or the Public Employees Retirement System.
- * Unrestricted net position is a combination of assigned and unassigned amounts. The assigned balances are amounts set-aside to fund future purchases and capital projects as planned by the District and to maintain a basic aid reserve. Unrestricted net position increased approximately \$1 million from prior year.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

STATEMENT OF ACTIVITIES

Statement of Activities presents the revenues earned, whether received or not and the expenses incurred, whether paid or not, by the District. The purpose of this Statement is to present the results of this year's operations for the District as a whole.

The Statement of Activities is summarized below:

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Revenues			
Program revenues:			
Charges for services	\$ 425,105	\$ 431,474	\$ (6,369)
Operating grants and contributions	4,293,454	4,304,749	(11,295)
General revenues:			
Property taxes	47,209,937	44,125,557	3,084,380
Federal and State aid not restricted to specific purposes	3,909,389	2,759,270	1,150,119
Interest and investment earnings	295,931	102,176	193,755
Other	<u>1,490,641</u>	<u>1,454,174</u>	<u>36,467</u>
Total Revenues	<u>57,624,457</u>	<u>53,177,400</u>	<u>4,447,057</u>
Expenses			
Instruction	29,999,322	28,063,710	1,935,612
Instruction - related services	6,405,817	5,520,136	885,681
Pupil services	5,078,822	4,556,830	521,992
General administration	4,385,395	3,665,903	719,492
Plant services	5,320,260	6,015,633	(695,373)
Community services	410,074	907,803	(497,729)
Other outgo	355,558	449,134	(93,576)
Debt service - interest	1,628,269	1,626,729	1,540
Depreciation (unallocated)	<u>3,003,864</u>	<u>2,834,925</u>	<u>168,939</u>
Total Expenses	<u>56,587,381</u>	<u>53,640,803</u>	<u>2,946,578</u>
Increase in net position	<u>1,037,076</u>	<u>(463,403)</u>	<u>1,500,479</u>
Net position, at beginning of year	3,597,112	42,475,882	(38,878,770)
Cumulative effective of change in accounting principle	<u>-</u>	<u>(38,415,367)</u>	<u>-</u>
Net position - beginning of year after cumulative effect	<u>3,597,112</u>	<u>4,060,515</u>	<u>(463,403)</u>
Net position, end of year	<u>\$ 4,634,188</u>	<u>\$ 3,597,112</u>	<u>\$ 1,037,076</u>

Total revenues at June 30, 2016 are approximately \$4.4 million greater than in 2015. This is largely the result of increases in local property tax income and state funding provided on a one-time basis for the purpose of enhancing instruction. Expenditures also increased approximately \$2.9 million with the majority of the increase coming in the area of student instruction.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

The information in the following table shows the District's nine (9) largest functions and their respective net costs (total cost less revenues generated by the activities).

Governmental Activities
Fiscal Year ended June 30, 2016

<u>Functions/Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental activities:		
Instruction	\$ 29,999,322	\$ 26,646,430
Instruction - related services	6,405,817	6,138,532
Pupil services	5,078,822	4,300,001
General administration	4,385,395	4,345,091
Plant services	5,320,260	5,143,967
Community services	410,074	401,562
Other outgo	355,558	261,106
Debt service - interest	1,628,269	1,628,269
Depreciation (unallocated)	3,003,864	3,003,864
Total governmental activities	<u>\$ 56,587,381</u>	<u>\$ 51,868,822</u>

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

GOVERNMENTAL FUNDS

The Special Reserve for Capital Outlay Fund qualifies, for reporting purposes, as a major fund and is stated separately from those funds included under the title “other governmental funds” (see page 64 and 65 for individual detail of funds). The District also operates adult education and deferred maintenance programs. Throughout the year these programs are accounted for independently. As required by GASB Statement No. 54, fund balance amounts from these programs are included in general fund statements for reporting purposes.

GENERAL FUND BUDGET INFORMATION

The General Fund is the District’s principal operating fund. The District begins the budget process in January of each year, by forecasting changes in revenue and expenditure assumptions. Each school in the District receives a budgetary allocation based on historical spending and current site needs. Individual departments provide input to the Business Office regarding their budget needs. Over the course of the year, the site and department budgets are reviewed periodically to ensure management becomes aware of any significant variations. During the fiscal year, the Board of Education authorized revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District.

- * On page 48 of the “Required Supplementary Information” section of the attached financial statements, is a chart comparing general fund budgetary amounts to actual revenues and expenses. For the 2015-16 year variances between original and final budgets are a result of the following: In revenues, the District received more local property tax revenue than initially projected by the County Assessor and one time funding was reclassified as state income. In the expenditure area, final expenditures were more than originally budgeted as they were adjusted based on projected increases in property tax revenues. Reductions in OPEB and deferred maintenance funding were also reflected in the general fund through a decrease in the interfund transfers out category.

- * The District's largest operating expenses are for salaries and benefits. In the 2015-2016 year, expenditures in those categories approximated 82% of total expenses incurred in the general fund. Certificated and classified salaries are adjusted annually for step and column increases and savings due to attrition and retirements.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

GENERAL FUND BUDGET VARIATIONS

In June of each year, a budget is adopted by the Carmel Unified School District's Board of Trustees, effective July 1 for fiscal year ending June 30 of the subsequent calendar year. As the school year progresses, the budget is revised and updated, with numerous financial reports made public outlining the revisions. Approximately 2 months after the June 30 fiscal year end, the books are closed, and the results are audited, yielding actual final numbers.

There are several reasons for budget revisions. Any changes in the number of staff and/or staff utilization of health and welfare benefits that vary from the original projections would yield budget revisions. Also, salary changes for district employees are reflected through a budget revision.

CAPITAL ASSET and DEBT ADMINISTRATION

Capital Assets

The Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires that governmental agencies account for fixed assets in the same way that private and public corporations do. This involves recognizing the cost of such District fixed assets as land and building and equipment in the fixed asset section of the statement of net position. Districts must now track annual and accumulated depreciation on major assets.

As of June 30, 2016 the District had \$55,285,324 invested in capital assets for governmental activities net of depreciation. Note 6 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation is presented below:

Land	\$ 2,375,748
Work in progress	1,388,522
Depreciable assets, net	<u>51,521,054</u>
Total capital assets	<u><u>\$ 55,285,324</u></u>

The total net capital assets balance decreased approximately \$1.5 million over the prior year, as a result of on-going depreciation of buildings and equipment, netted with current year acquisitions.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

Debt

Notes 7, 8, 9, and 10 to the financial statements provides additional information on outstanding debt. A summary of the district's outstanding debt at year-end is presented below:

General obligation bonds	\$ 35,761,991
Compensated absences	295,874
Other postemployment benefits	5,324,782
Net pension liability	<u>40,525,429</u>
Net long-term debt	<u>\$ 81,908,076</u>

The long-term debt balance was approximately \$73.7 million in prior year. The change in balance from prior to current year is a result of updating long term liabilities associated with employee pension programs, a reduction in general obligation bond balances, based on scheduled repayments, and the most recent actuarially determined postemployment benefit balances. The amount for other postemployment benefits is based on an actuarial calculation as required by GASB Statement No. 45. Note 9 provides more detailed information about this district obligation. Compensated absences relate to obligations the District has to certain employees for unpaid vacation benefits. A more detailed explanation can be found in Note 1 of the Financial Statements.

CARMEL UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

In planning the 2016-17 operating budget, the District Board and management utilized the following criteria:

- 1) The District's primary source of income, property tax revenue, was budgeted based on estimated yields derived from the County Assessor's most recent projected valuations.
- 2) The number of K-12 students to be served by the District was expected to increase slightly based on the cohort survival method of projecting enrollment.
- 3) Certificated staffing levels were based on the continued implementation of the K-3 class size reduction program and enrollment projections for each school site.
- 4) The District's ending fund balance is projected at 5% which exceeds the State's recommended 3% contingency reserve requirement and also includes a reserve for basic aid exceeding the Board established minimum of 10% of the differential between revenue limit and property tax income.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School 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, contact:

Rick Blanckmeister, Chief Business Official
Carmel Unified School District
P.O. Box 222700
Carmel, CA 93922

E-mail - rblanckmeister@carmelunified.org

FINANCIAL SECTION

CARMEL UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
<u>Assets</u>	
Cash in county treasury	\$ 30,936,375
Cash in revolving fund	5,000
Cash collections awaiting deposit	56,690
Accounts receivable	
Federal and state governments	502,476
Miscellaneous	86,916
Inventories	5,135
Prepaid expenses	10,691
Land	2,375,748
Construction in progress	1,388,522
Depreciable assets, net	51,521,054
Total Assets	86,888,607
 <u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	516,172
Deferred outflows - pensions	5,706,404
Total Deferred Outflows of Resources	6,222,576
 <u>Liabilities</u>	
Accounts payable and other current liabilities	1,995,110
Accrued interest	484,747
Unearned revenue	81,510
Current portion of long-term liabilities	
General obligation bonds	1,575,000
Non-current portion of long term liabilities	
General obligation bonds	34,186,991
Compensated absences	295,874
Other postemployment benefits	5,324,782
Net pension liability	40,525,429
Total Liabilities	84,469,443
 <u>Deferred Inflows of Resources</u>	
Deferred inflows - pensions	4,007,552
 <u>Net Position</u>	
Net Investment in capital assets	20,039,505
Restricted for:	
Debt service	2,424,173
Educational programs	1,270,705
Unrestricted	(19,100,195)
Total Net Position	\$ 4,634,188

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016**

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction	\$ 29,999,322	\$ 6,593	\$ 3,346,299	\$ (26,646,430)
Instruction - related services	6,405,817	933	266,352	(6,138,532)
Pupil services	5,078,822	417,579	361,242	(4,300,001)
Community services	410,074	-	8,512	(401,562)
General administration	4,385,395	-	40,304	(4,345,091)
Plant services	5,320,260	-	176,293	(5,143,967)
Other outgo	355,558	-	94,452	(261,106)
Debt service - interest	1,628,269	-	-	(1,628,269)
Depreciation (unallocated)	3,003,864	-	-	(3,003,864)
Total Governmental Activities	<u>\$ 56,587,381</u>	<u>\$ 425,105</u>	<u>\$ 4,293,454</u>	<u>(51,868,822)</u>
General Revenues				
Property taxes levied for				
General purposes				44,391,843
Debt service				2,818,094
Federal and state aid not restricted to specific purposes				3,909,389
Interest and investment earnings				295,931
Miscellaneous				1,490,641
Total General Revenues				<u>52,905,898</u>
				Change in net position
				1,037,076
				Net Position - Beginning of Year
				3,597,112
				Net Position - End of Year
				<u>\$ 4,634,188</u>

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General Fund	Special Reserve for Capital Outlay Fund	* Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash in county treasury	\$ 20,716,150	\$ 6,786,370	\$ 2,574,063	\$ 30,076,583
Cash in revolving fund	5,000	-	-	5,000
Collections awaiting deposit	38,406	300	17,984	56,690
Accounts receivable				
Federal and state governments	478,630	-	23,846	502,476
Miscellaneous	67,684	14,369	3,910	85,963
Inventories	-	-	5,135	5,135
Prepaid expenditures	10,691	-	-	10,691
Total Assets	\$ 21,316,561	\$ 6,801,039	\$ 2,624,938	\$ 30,742,538
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 1,669,853	\$ 316,025	\$ 9,232	\$ 1,995,110
Unearned revenue	75,285	-	6,225	81,510
Total Liabilities	1,745,138	316,025	15,457	2,076,620
 Fund Balances				
Nonspendable	15,691	-	5,135	20,826
Restricted	593,759	670,316	2,430,803	3,694,878
Assigned	16,490,591	5,814,698	173,543	22,478,832
Unassigned	2,471,382	-	-	2,471,382
Total Fund Balances	19,571,423	6,485,014	2,609,481	28,665,918
Total Liabilities and Fund Balances	\$ 21,316,561	\$ 6,801,039	\$ 2,624,938	\$ 30,742,538

* See detail of individual funds on page 64

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balances - governmental funds \$ 28,665,918

Amounts reported for governmental funds are different than the statement of net position because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets consist of:

Land	\$ 2,375,748	
Construction in progress	1,388,522	
Depreciable assets, net	<u>51,521,054</u>	55,285,324

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:

General obligation bonds payable	(35,761,991)	
Compensated absences	(295,874)	
Net OPEB obligation	(5,324,782)	
Net pension liability	<u>(40,525,429)</u>	(81,908,076)

In governmental funds, deferred outflows and inflows of resources are not reported because they are applicable to future periods. Deferred outflows and inflows of resources at year-end consist of:

Deferred charge on refunding	516,172	
Deferred outflows - pension contributions	5,706,404	
Deferred inflows - pensions	(3,448,408)	
Deferred inflows - change in proportion	<u>(559,144)</u>	2,215,024

An internal service funds is used by the District to accumulate funds for the future liability for early retiree health benefits and to pay current costs. The assets and liabilities should be included with governmental activities. The fund consists of:

Assets		860,745
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Interest expense related to general obligation bonds payable was incurred but not accrued through June 30, 2016.		<u>(484,747)</u>
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Total net position - governmental activities		<u><u>\$ 4,634,188</u></u>
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See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016**

	General Fund	Special Reserve for Capital Outlay Fund	* Other Governmental Funds	Total Governmental Funds
Revenues				
Local control funding formula sources	\$ 46,529,464	\$ -	\$ -	\$ 46,529,464
Federal sources	722,180	-	203,399	925,579
Other state sources	3,742,138	-	154,908	3,897,046
Other local sources	<u>1,766,351</u>	<u>101,080</u>	<u>4,435,919</u>	<u>6,303,350</u>
Total Revenues	<u>52,760,133</u>	<u>101,080</u>	<u>4,794,226</u>	<u>57,655,439</u>
Expenditures				
Instruction	28,160,325	-	854,479	29,014,804
Instruction - related services	5,970,099	-	244,592	6,214,691
Pupil services	4,170,011	-	921,272	5,091,283
Community services	82,458	-	325,182	407,640
General administration	4,266,577	-	-	4,266,577
Plant services	5,585,830	711,366	40,749	6,337,945
Other outgo	392,619	-	-	392,619
Debt service	-	-	2,644,988	2,644,988
Total Expenditures	<u>48,627,919</u>	<u>711,366</u>	<u>5,031,262</u>	<u>54,370,547</u>
Excess (deficiency) of revenues over expenditures	<u>4,132,214</u>	<u>(610,286)</u>	<u>(237,036)</u>	<u>3,284,892</u>
Other Financing Sources (Uses)				
Interfund transfers in	150,000	-	425,298	575,298
Interfund transfers out	<u>(755,298)</u>	<u>(150,000)</u>	<u>-</u>	<u>(905,298)</u>
Total Other Financing Sources	<u>(605,298)</u>	<u>(150,000)</u>	<u>425,298</u>	<u>(330,000)</u>
Net changes in fund balance	3,526,916	(760,286)	188,262	2,954,892
Fund Balances at Beginning of Year	<u>16,044,507</u>	<u>7,245,300</u>	<u>2,421,219</u>	<u>25,711,026</u>
Fund Balances at End of Year	<u>\$ 19,571,423</u>	<u>\$ 6,485,014</u>	<u>\$ 2,609,481</u>	<u>\$ 28,665,918</u>

* See detail of individual funds on page 65

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016**

Net change in fund balances - total governmental funds \$ 2,954,892

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 1,447,091	
Depreciation expense	<u>(3,003,864)</u>	
Excess (deficiency) of capital outlay over depreciation expense		(1,556,773)

Governmental funds report the proceeds from the disposal of capital assets as revenue. In the statement of activities, only resulting gain or loss is reported

Disposal of capital assets		(1,703)
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The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. The net effect of these differences in treatment of general obligation bonds and related items is as follows:

General obligation bond principal payments	1,410,000	
Amortization of premium on general obligation bonds	81,479	
Amortization of deferred charges on general obligation bonds	<u>(51,618)</u>	
Total long-term debt payments		1,439,861

In governmental funds, pension costs are recognized when the employer contribution is made, but in the statement of activities, pension costs are recognized on the accrual basis.

The difference between accrual basis pension costs and actual employer contribution was:		(251,280)
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Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Net decrease in accrued interest	28,500	
Net increase in accreted interest	(414,581)	
Net increase in other postemployment benefits other than pensions (OPEB)	(1,197,423)	
Net decrease in compensated absences	<u>16,353</u>	(1,567,151)

An internal service fund is used by the District to accumulate funds for the future liability for early retiree health benefits. The net income of the internal service fund is reported with governmental activities.

	<u>19,230</u>
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Change in net position of governmental activities	\$ <u><u>1,037,076</u></u>
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See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUND**

June 30, 2016

	Governmental Activities: Internal Service Fund
	<u>Retiree Benefits Fund</u>
<u>Assets</u>	
Cash in county treasury	\$ 859,792
Accounts receivable	953
Total Assets	<u>860,745</u>
<u>Net Position</u>	
Restricted	860,745
Total Net Position	<u>\$ 860,745</u>

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 For the Fiscal Year Ended June 30, 2016**

	Governmental Activities: Internal Service Fund
	<u>Retiree Benefits Fund</u>
Operating Expenditures	
Employee benefits	\$ 316,141
Total Operating Expenditures	<u>316,141</u>
 Net operating income (loss)	 <u>(316,141)</u>
 Non-Operating Revenues	
Interest income	5,371
Interfund transfer in	<u>330,000</u>
Total Non-Operating Revenues	<u>335,371</u>
 Net income (loss)	 19,230
 Net Position at Beginning of Year	 <u>841,515</u>
 Net Position at End of Year	 <u>\$ 860,745</u>

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Fiscal Year Ended June 30, 2016**

	Governmental Activities: Internal Service Fund
	<u>Retiree Benefits Fund</u>
Cash Flows from Operating Activities	
Cash paid for retiree benefit insurance	\$ (316,141)
Net cash provided (used) by operating activities	<u>(316,141)</u>
Cash Flows from Investing Activities	
Interest income	<u>5,218</u>
Net cash provided (used) by investing activities	<u>5,218</u>
Cash Flows from Capital and Related Financing Activities	
Transfer from General Fund	<u>330,000</u>
Net cash provided (used) by capital and related financing activities	<u>330,000</u>
Net increase (decrease) in cash	19,077
Cash - July 1, 2015	<u>840,715</u>
Cash - June 30, 2016	\$ <u><u>859,792</u></u>

	Governmental Activities: Internal Service Fund
	<u>Retiree Benefits Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating Income (Loss)	\$ <u>(316,141)</u>
Net cash provided (used) by operating activities	\$ <u><u>(316,141)</u></u>
Cash balances at June 30, 2016 consisted of the following:	
Cash in county treasury	\$ <u>859,792</u>
Total cash	\$ <u><u>859,792</u></u>

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016

	Foundation Private Purpose Trust Fund	Associated Student Body Funds
<u>Assets</u>		
Cash in county treasury	\$ 101,465	\$ -
Cash on hand and in banks	-	191,510
Accounts receivable	211	-
Stores inventory	-	11,362
Equipment	-	5,894
Total Assets	101,676	208,766
<u>Liabilities</u>		
Due to student groups	-	208,766
Total Liabilities	-	\$ 208,766
<u>Net Position</u>		
Restricted	101,676	
Total Net Position	\$ 101,676	

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2016**

	Foundation Private Purpose Trust Fund
Additions	
Revenue from local sources	\$ 932
Total Additions	<u>932</u>
Deductions	
Other expenses	<u>-</u>
Total Deductions	<u>-</u>
Changes in net position	932
Net Position - Beginning of Year	<u>100,744</u>
Net Position - End of Year	<u>\$ 101,676</u>

See accompanying notes to the financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF 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*, updated to conform to the most current financial and reporting requirements promulgated by the California Department of Education. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The significant accounting policies applicable to the District are described below.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with GAAP as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective enhances the fund-group perspective previously required. Fiduciary activities are excluded from the basic financial statements and are reported separately in the fiduciary fund statements.

The District's basic financial statements consist of government-wide statements, including a Statement of Net Position, a Statement of Activities, and fund financial statements.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, including governmental activities of proprietary funds. Fiduciary funds are excluded.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. 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. Depreciation and interest expense have not been allocated to specific functions.

CARMEL UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary and proprietary funds are reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

Instruction: includes the activities directly dealing with the interaction between teachers and students.

Instruction-Related Services: includes supervision of instruction, instructional library, media and technology, and school site administration.

Pupil Services: includes home to school transportation, food services, and other pupil services.

Community Services: includes activities that provide services to community participants other than students.

General Administration: includes data processing services and all other general administration services.

Plant Services: includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

Other Outgo: includes transfers to other agencies.

Debt Service: includes principal and interest payments for long term debt.

The proprietary and fiduciary fund expenses are presented by natural classification.

Fund Accounting

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations, and equities.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Revenues, Expenditures and Changes in Fund Balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

Governmental Funds – Major

General Fund: used to account for all financial resources except those required to be accounted for in another fund. The Adult Education and Deferred Maintenance Funds do not meet the definition of a special revenue fund as they are no longer primarily composed of restricted or committed revenue sources. Therefore, all activities of these funds are reported in the General Fund.

Special Reserve for Capital Outlay: used to account for specific board-approved capital expenditures

Governmental Funds – Non-Major

Special Revenue Funds: used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

***Child Development Fund:** used to account for resources committed to child development programs.*

***Cafeteria Fund:** used to account for revenues received and expenditures made to operate the District's cafeterias.*

Capital Projects Funds: used to account for the financial resources that are restricted, committed or assigned for the acquisition and/or construction of major governmental general fixed assets.

***Capital Facilities Fund:** used to account for resources received from residential and commercial developer impact fees.*

Debt Service Funds: used to account for the financial resources that are restricted, committed or assigned and the accumulation of resources for, the payment of general long-term debt principal, interest, and related costs.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Bond Interest and Redemption Fund:** used to account for the payment of principal and interest on general obligation bonds.*

Proprietary Fund

Internal Service Fund

***Retiree Benefits Fund:** used to account for retiree benefits health insurance costs as well as the District's contribution toward future benefit costs. This fund is not operating as a Proprietary Fund and reclassification will be considered in the subsequent years.*

Fiduciary Funds

***Foundation Private Purpose Trust Fund:** the District may use any amounts earned above the principal amount of \$100,000 for fine arts related purposes.*

***Associated Student Body Funds:** used to account for raising and expending money to promote the general welfare, morale and educational experiences of the student body. The District operates two Associated Student Body funds.*

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. Revenues in governmental fund financial statements are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the county treasury is recorded at cost, which approximates fair value.

Receivables

Receivables are generally recorded when the amount is earned and can be estimated. All material receivables are considered fully collectible. Per Education Code Section 33128.1, a local education agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. The District has recognized receivables in accordance with this standard.

Inventories

Inventories are presented at the lower of cost or market on a weighted average basis and are expensed when used. Inventory consists of expendable supplies held for consumption. At June 30, 2016, the inventory in the Cafeteria Fund for food is \$5,135.

Prepaid Expenses/Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense/expenditure is reported in the year in which goods or services are consumed.

Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Statement of Net Position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined by GASB. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and improvements	20-50 years
Equipment	5-15 years

Depreciation expense reported on the government-wide statement of activities excludes direct depreciation expense recorded to functions where applicable.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. These amounts are reported in the government-wide statement of net position.

Deferred Charge on Refunding: A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred Outflows – Pensions: The deferred outflows of resources related to pensions results from the following and are recognized as follows:

- District contributions to employee pension plans subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.
- All other deferred outflows will be amortized to pension expense over the estimated average remaining service lifetime of plan participants (EARSL) over closed periods. The EARSL is 7 years for CalSTRS and 3.9 years for CalPERS. The first year of amortization is recognized in pension expense in the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods.

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 cash received on specific projects and programs exceed qualified expenditures.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave, therefore, accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Long-Term Obligations

The District reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. General obligation bonds are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Pension Liability

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

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the District that is applicable to a future reporting period. The deferred inflows of resources related to pensions results from the following and are amortized to pension expense as follows:

- The net differences between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period.
- All other deferred inflows will be amortized to pension expense over the estimated average remaining service lifetime of plan participants (EARSL) over closed periods. The EARSL is 7 years for CalSTRS and 3.9 year for CalPERS. The first year of amortization is recognized in pension expense in the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods.

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on use through external restrictions imposed by donors, grantors, laws or regulations of other governments or by enabling legislation adopted by the District.

Fund Balance Classification

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can be used only for specific purposes pursuant to constraints imposed

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

by formal action of the District Board of Education. These amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same formal action (vote or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Assigned: Amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. The Board of Education, through a formal action has given authority to Chief Business Official to assign amounts for a specific purpose that is neither restricted nor committed.

Unassigned: The residual fund balance for the General Fund and all other spendable amounts.

Spending Order Policy

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted net position or fund balance is available.

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

Minimum Fund Balance Policy

The District has adopted a minimum fund balance policy in order to protect against revenue shortfalls and unexpected one-time expenditures. The Board established and maintains a General Fund reserve for economic uncertainty at 5 percent of the District's General Fund expenditure budget. In addition, the Board shall establish and maintain a Basic Aid reserve at a recommended level of no less than 10 percent of annual General Fund expenditures to provide transitional funding in the event of the potentially catastrophic loss of basic aid funding. Additionally, the Board will review its financial position annually to determine the incremental increase, if any, to the Basic Aid reserve. The Board will endeavor to achieve a Basic Aid reserve equivalent to the differential between its Basic Aid revenues and the State's local control funding formula sources.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. Second period to annual corrections for local control funding formula and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the county auditor records and reports actual property tax receipts to the California Department of Education. This is generally on a cash basis. Property taxes receivable for the General Fund or Debt Service purposes cannot be estimated because the information was not provided by the county auditor and have therefore not been accrued in the Government-wide financial statements.

On-Behalf Payments

Generally accepted accounting principles require that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all school districts in California. The amount of on-behalf payments made for the District has been recorded in the fund financial statements.

Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the District receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the District based on the above guidelines. In addition, the District receives donations of immaterial equipment and supplies which are not recorded upon receipt.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from non-operating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as food service sales, federal and most state and local grants and contracts, and self-insurance premiums. Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the District, including ongoing financial support of the District or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
- The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity:

Friends of Carmel Unified Schools: a California non-profit Corporation and Public Education Foundation (established 1979); supports quality education within the Carmel Unified School District. The Foundation raises money for the purpose of providing grants and resources to benefit students, teachers, and the educational community as a whole.

Various PTA, PTO, Foundations and Booster Clubs: Each of these types of organizations at each of the school sites within the District were evaluated using the three criteria listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO, Foundations, and the Booster Club individually are not significant to the District.

NOTE 2: BUDGETS

By state law, the District's Governing Board must approve a budget no later than July 1, using the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the District Board of Education during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the General Fund is presented in a budgetary comparison schedule in the required supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

NOTE 3: DEPOSITS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 3: DEPOSITS

be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2016, none of the District's bank balance of \$225,507 was exposed to credit risk.

Investments

Cash in County

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Monterey County Treasury as part of the common investment pool. These pooled funds are carried at unamortized cost which approximates fair value.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county are either secured by federal depository insurance or are collateralized. The county investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the County Treasurer follow. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from the Monterey County Treasurer – Tax Collector, 168 W. Alisal Street, 1st Floor, Salinas, CA 93901.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 4: INTERFUND TRANSACTIONS

Interfund activity has been eliminated in the Government-wide statements. The following balances and transactions are reported in the fund financial statements.

Interfund Transfers

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

Interfund transfers for the 2015-16 fiscal year are as follows:

Transfer from the Special Reserve for Capital Outlay Fund to the General Fund for purchase of new school buses	\$ 150,000
Transfer from the General Fund to Child Development Fund for Board approved supplement to employees' children's tuition and operational shortfall.	175,409
Transfer from the General Fund to the Cafeteria Fund to cover operational shortfall	249,889
Transfer from the General Fund to the Retiree Benefits Fund to fund the District's contribution for retiree health benefits	<u>330,000</u>
Total	<u>\$ 905,298</u>

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 5: FUND BALANCES

The following amounts were nonspendable, restricted, committed, assigned or unassigned as shown below:

	General Fund	Special Reserve for Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:				
Cash in revolving fund	\$ 5,000	\$ -	\$ -	\$ 5,000
Inventories	-	-	5,135	5,135
Prepaid expenditures	10,691	-	-	10,691
Total nonspendable	<u>15,691</u>	<u>-</u>	<u>5,135</u>	<u>20,826</u>
Restricted:				
Legally restricted programs	593,759	670,316	6,630	1,270,705
Debt service	-	-	2,424,173	2,424,173
Total restricted	<u>593,759</u>	<u>670,316</u>	<u>2,430,803</u>	<u>3,694,878</u>
Assigned:				
Capital projects	3,829,321	5,814,698	173,543	9,817,562
Basic aid reserve	10,140,812	-	-	10,140,812
Deferred maintenance	1,442,918	-	-	1,442,918
OPEB annual contribution	187,540	-	-	187,540
Vehicle replacement	375,000	-	-	375,000
Equipment	250,000	-	-	250,000
School safety	265,000	-	-	265,000
Total assigned	<u>16,490,591</u>	<u>5,814,698</u>	<u>173,543</u>	<u>22,478,832</u>
Unassigned:				
Economic uncertainties	2,471,382	-	-	2,471,382
Total unassigned	<u>2,471,382</u>	<u>-</u>	<u>-</u>	<u>2,471,382</u>
Total fund balance	<u>\$ 19,571,423</u>	<u>\$ 6,485,014</u>	<u>\$ 2,609,481</u>	<u>\$ 28,665,918</u>

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 6: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

Capital asset activity for the year ended June 30, 2016 is shown below.

Governmental Activities

	Balance			Balance
	July 1, 2015	Additions	Retirements	June 30, 2016
Capital assets not being depreciated:				
Land	\$ 2,375,748	\$ -	\$ -	\$ 2,375,748
Construction in progress	706,006	682,516	-	1,388,522
Total capital assets not being depreciated	<u>3,081,754</u>	<u>682,516</u>	<u>-</u>	<u>3,764,270</u>
Capital assets being depreciated:				
Buildings and improvements	85,231,408	502,270	-	85,733,678
Equipment	3,706,591	262,305	(56,746)	3,912,150
Total capital assets being depreciated	<u>88,937,999</u>	<u>764,575</u>	<u>(56,746)</u>	<u>89,645,828</u>
Less accumulated depreciation for:				
Buildings and improvements	32,324,136	2,789,476	-	35,113,612
Equipment	2,851,817	214,388	(55,043)	3,011,162
Total accumulated depreciation	<u>35,175,953</u>	<u>3,003,864</u>	<u>(55,043)</u>	<u>38,124,774</u>
Depreciable assets, net	<u>53,762,046</u>	<u>(2,239,289)</u>	<u>(1,703)</u>	<u>51,521,054</u>
Governmental activities capital assets, net	<u>\$ 56,843,800</u>	<u>\$ (1,556,773)</u>	<u>\$ (1,703)</u>	<u>\$ 55,285,324</u>

NOTE 7: LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2016 is shown below.

	Balance			Balance	Amount Due in
	July 1, 2015	Additions	Reductions	June 30, 2016	One Year
General obligation bonds	\$ 28,780,000	\$ -	\$ 1,410,000	\$ 27,370,000	\$ 1,575,000
Accreted interest	7,162,619	414,581	-	7,577,200	-
Premium on general obligation bonds	896,270	-	81,479	814,791	-
Total general obligation bonds	<u>36,838,889</u>	<u>414,581</u>	<u>1,491,479</u>	<u>35,761,991</u>	<u>1,575,000</u>
Compensated absences	312,227	-	16,353	295,874	-
Other postemployment benefits	4,127,359	1,197,423	-	5,324,782	-
Net pension liability	32,467,540	8,057,889	-	40,525,429	-
Total	<u>\$ 73,746,015</u>	<u>\$ 9,669,893</u>	<u>\$ 1,507,832</u>	<u>\$ 81,908,076</u>	<u>\$ 1,575,000</u>

Liabilities are liquidated by the General Fund for governmental activities, including capital leases, compensated absences, net OPEB obligation, and net pension liability. General obligation

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 7: LONG-TERM DEBT – SCHEDULE OF CHANGES

bond liabilities are liquidated through property tax collections as administered by the County Controller's office through the Bond Interest and Redemption Fund.

NOTE 8: GENERAL OBLIGATION BONDS

On August 1st, 2000, the District issued \$10,335,000 in General Obligation Bonds, Series 2000. The Bonds were issued to renovate and modernize schools in the District. The Series 2000 and 2002 Bonds were authorized at a special election of the registered voters of the District held on May 23rd, 2000, at which time more than two-thirds of the persons voting authorized the issuance and sale of bonds, not to exceed \$20,000,000, for the purpose of acquiring and construction of school facilities.

On February 1st, 2002, the District issued \$9,663,455 in General Obligation Bonds, Series 2002. The Series 2002 Bonds were issued as Current Interest Series 2002 Bonds and Capital Appreciation Series 2002 Bonds. The Capital Appreciation Series 2002 Bonds are dated the date of delivery of the current interest Series 2002 Bonds and accrete in value from such date compounded semiannually on February 1st and August 1st of each year, commencing August 1st, 2002.

The Series 2000 and 2002 Bonds are payable solely from ad valorem property taxes levied and collected by the County of Monterey. The Board of Supervisors of the County has the power and is obligated to annually levy ad valorem taxes for the payment of interest and principal of the Series 2000 Bonds. Interest accrues from August 1st, 2000, and is payable semiannually on February 1st and August 1st of each year, commencing February 1st, 2001.

The Series 2006 Bonds were authorized at a special election of the registered voters of the District held on November 8th, 2005, at which 55% or more of the persons voting authorized the issuance and sale of bonds, not to exceed \$21,500,000 principal amount, to renovate, modernize, and construct school facilities for the District.

On August 1, 2006, the District issued \$10,750,744 in General Obligation Bonds, Series 2006. The Series 2006 Bonds were issued as Current Interest and Capital Appreciation Bonds. The Capital Appreciation Series 2006 Bonds accrete in value compounded semiannually on February 1st and August 1st of each year, commencing August 1, 2007.

On August 1, 2008, the District issued \$10,749,246 General Obligation Bonds, Series 2008. The Series 2008 Bonds were issued as Current Interest and Capital Appreciation Bonds. The Capital Appreciation Bonds Series 2008 Bonds accrete in value compounded semiannually on February 1 and August 1 of each year, commencing February 1st, 2009.

On April 29th, 2010, the District offered for sale \$15,140,000 of general obligation refunding

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 8: GENERAL OBLIGATION BONDS

bonds under the provisions of Title 5, Division II, Part 10, Chapter 1 of the State of California Education Code and pursuant to the County Resolution dated August 14th, 2001. The bonds were issued for the purpose of partially refunding the outstanding 2000 series. The proceeds associated with the refunding were deposited in an escrow account for future payment. In 2011-12, the 2000 series general obligation bonds were fully defeased by the escrow refunding agent.

The outstanding general obligation bonded debt of the District at June 30, 2016 is:

General Obligation Bonds	Date of Issue	Date of Maturity	Interest Rate %	Amount of Original Issue	Outstanding June 30, 2016
Series:					
2002	2/1/2002	8/1/2026	3.50-6.00%	\$ 9,663,455	\$ 2,358,227
2006	8/1/2006	8/1/2030	4.00-5.00%	10,750,744	10,239,316
2008	8/1/2008	8/1/2033	4.00-5.00%	10,749,246	11,049,657
Refunding	8/1/2010	8/1/2025	2.00-5.00%	15,140,000	11,300,000
		Total		<u>\$ 46,303,445</u>	<u>\$ 34,947,200</u>

The annual requirements to amortize Series 2002 bonds payable, outstanding as of June 30, 2016 are as follows:

Year Ending June 30,	Capital Appreciation Bond Principal	Accreted Interest	Total
2024-2027	\$ 1,098,455	\$ 2,811,545	\$ 3,910,000
Total	<u>\$ 1,098,455</u>	<u>\$ 2,811,545</u>	<u>\$ 3,910,000</u>

Capital appreciation bonds were issued as part of Series 2002 with maturity dates from August 1st, 2002 through 2026. Prior to the applicable maturity date, each bond will accrete interest on the principal components, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. The capital appreciation bond principal of \$1,098,455 and accreted interest accreted of \$1,259,772, totaling \$2,358,227 has been reflected in the long-term debt balance.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 8: GENERAL OBLIGATION BONDS

The annual requirements to amortize Series 2006 bonds payable, outstanding as of June 30, 2016 are as follows:

Year Ending June 30,	Capital		Current Interest	Accreted Interest	Total
	Current Interest Bond Principal	Appreciation Bond Principal			
2017	\$ 390,000	\$ -	\$ 330,606	\$ -	\$ 720,606
2018	450,000	-	313,806	-	763,806
2019	515,000	-	291,931	-	806,931
2020	595,000	-	266,561	-	861,561
2021	675,000	-	239,723	-	914,723
2022-2026	4,855,000	-	634,392	-	5,489,392
2027-2031	-	1,650,744	-	3,834,256	5,485,000
Total	<u>\$ 7,480,000</u>	<u>\$ 1,650,744</u>	<u>\$ 2,077,019</u>	<u>\$ 3,834,256</u>	<u>\$ 15,042,019</u>

Capital appreciation bonds were issued as part of Series 2006 with maturity dates from August 1st, 2007 through 2030. Prior to the applicable maturity date, each bond will accrete interest on the principal components, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. The capital appreciation bond principal of \$1,650,744 and accreted interest accreted of \$1,108,572, totaling \$2,759,316 has been reflected in the long-term debt balance.

The annual requirements to amortize Series 2008 bonds payable, outstanding as of June 30, 2016 are as follows:

Year Ending June 30,	Capital		Current Interest	Accreted Interest	Total
	Current Interest Bond Principal	Appreciation Bond Principal			
2017	\$ 185,000	\$ -	\$ 404,938	\$ -	\$ 589,938
2018	220,000	-	397,938	-	617,938
2019	255,000	-	389,837	-	644,837
2020	290,000	-	380,019	-	670,019
2021	330,000	-	368,619	-	698,619
2022-2026	2,350,000	-	1,601,138	-	3,951,138
2027-2031	2,890,000	677,537	872,206	1,542,463	5,982,206
2032-2034	2,070,000	886,709	258,750	3,358,291	6,573,750
Total	<u>\$ 8,590,000</u>	<u>\$ 1,564,246</u>	<u>\$ 4,673,445</u>	<u>\$ 4,900,754</u>	<u>\$ 19,728,445</u>

Capital appreciation bonds were issued as part of Series 2008 with maturity dates from August 1st, 2010 through 2033. Prior to the applicable maturity date, each bond will accrete interest on the principal components, with all interest accreting through the applicable maturity date and

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 8: GENERAL OBLIGATION BONDS

payable only upon maturity or prior payment of the principal component. The capital appreciation bond principal of \$1,564,246 and accreted interest accreted of \$895,410, totaling \$2,459,657 has been reflected in the long-term debt balance.

The annual requirements to amortize the 2010 refunding bonds payable, outstanding as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,000,000	\$ 441,750	\$ 1,441,750
2018	1,090,000	389,500	1,479,500
2019	1,185,000	338,550	1,523,550
2020	1,275,000	295,725	1,570,725
2021	1,355,000	242,725	1,597,725
2022-2026	<u>5,395,000</u>	<u>469,162</u>	<u>5,864,162</u>
Total	<u>\$ 11,300,000</u>	<u>\$ 2,177,412</u>	<u>\$ 13,477,412</u>

*Proceeds received in excess of debt are added to the maturity amount on the Statement of Net Position and amortized to interest expense over the life of the liability. The refunding bonds included a total premium of \$1,222,186. Amortization of \$81,479 was recognized during the year ended June 30, 2016.

The difference between the reacquisition price and the net carrying amount on refunded debt is deferred and amortized as a component of interest expense over the life of the new debt. Payments to the refunding escrow agent exceeded the existing carrying value of the refunded debt by \$825,880. Amortization of \$51,618 was recognized during the year ended June 30, 2016.

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

The District offers medical, dental, and vision benefits to its employees and retirees. These benefits are offered as a package through the Monterey County Schools Insurance Group (“MCSIG”) JPA. A three-tiered rate structure applies to active employees and retirees under the age of 65. The medical plan is a PPO option with no lifetime maximum benefits. Dental and vision benefits are provided through Delta Dental and Vision Service Plan.

Classified and Confidential employees who have retired under CalPERS and have completed at least 10 years of service with the District (with at least 3 consecutive years immediately prior to retirement) are eligible to retire and receive District-paid medical, dental, and vision coverage (including dependents) up to an annual District cap that varies by tier. Benefits continue until the

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

retiree reaches his or her 66th birthday. Upon attaining age 65, retirees must provide proof of coverage under Medicare Parts “A” and “B”. Retirees with Medicare may choose from MCSIG Medicare Option I or a Medicare Supplemental plan.

Certificated, Administrative, and Management employees follow the same rules as Classified and Confidential employees except that they must have attained age 55 and completed a minimum of five years of service with the District (with at least five consecutive years immediately prior to retirement).

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retired plan members and their spouses as applicable. For the year ended June 30, 2016, the District contributed \$330,000 to the plan and total member contributions were \$280,955.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

	Balance
	June 30, 2016
<u>Annual OPEB Cost and Net OPEB Obligation</u>	
Annual required contribution (ARC)	\$ 1,733,402
Interest on net OPEB obligation	165,094
Adjustment to ARC	<u>(238,685)</u>
Annual OPEB cost	1,659,811
Contributions made, including implicit rate subsidy	<u>(462,388)</u>
Change in net OPEB obligation	1,197,423
Net OPEB obligation - beginning of year	<u>4,127,359</u>
Net OPEB obligation - end of year	<u><u>\$ 5,324,782</u></u>

The District’s annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2016 was as follows:

CARMEL UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

Year Ending June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 1,611,166	56.0%	\$ 3,323,630
2015	1,598,668	49.7%	4,127,359
2016	1,659,811	27.9%	5,324,782

Funding Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$11,967,518. The covered payroll (annual payroll of active employees covered by the plan) was \$22,063,780, and the ratio of the UAAL to the covered payroll was 54.2%.

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

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6 to 8 percent initially, with increases over the next several years. The actuarial value of assets was determined using techniques that

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 9: POST EMPLOYMENT HEALTHCARE BENEFITS

spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar of projected payroll on an open basis over 30 years.

NOTE 10: EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

As of June 30, 2016, the District's proportionate share of the net pension liabilities, pension expense, and deferred inflows of resources and deferred outflows of resources for each of the retirement plans as follows:

	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense
Pension Plan				
CalSTRS (STRP)	\$ 30,295,800	\$ 4,155,925	\$ 2,975,850	\$ 2,658,866
CalPERS (Schools Pool Plan)	10,229,629	1,550,479	1,031,702	926,886
Total	<u>\$ 40,525,429</u>	<u>\$ 5,706,404</u>	<u>\$ 4,007,552</u>	<u>\$ 3,585,752</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes to the STRP Defined Benefit Program and STRP Defined Benefit Supplement Program; thus, disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

Provisions and Benefits	STRP Defined Benefit Program and Supplement Program	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.391%	7.391%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2016 are presented above and the total District contributions were \$2,283,231.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

were as follows:

	Balance June 30, 2016
Proportionate Share of Net Pension Liability	
District proportionate share of net pension liability	\$ 30,295,800
State's proportionate share of the net pension liability associated with the District	16,023,096
Total	\$ 46,318,896

The net pension liability was measured as of June 30, 2015. 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, 2015, the District's proportion was 0.0450%.

For the year ended June 30, 2016, the District recognized pension expense of \$2,658,866 and revenue of \$1,241,169 for support provided by the state. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Deferred Outflows and Inflows of Resources		
Pension contributions subsequent to measurement date	\$ 2,283,231	\$ -
Difference between expected and actual experience	-	506,250
Difference in proportion	1,872,694	
Net differences between projected and actual earnings on plan investments	-	2,469,600
Total	\$ 4,155,925	\$ 2,975,850

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The remaining amount will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2017	\$ (389,659)
2018	(389,659)
2019	(389,659)
2020	(389,659)
2021	227,741
2022	227,739
Total	\$ (1,103,156)

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions	
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.60%
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The 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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop an expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term
		Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

CARMEL UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016

NOTE 10: EMPLOYEE RETIREMENT PLANS

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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 (7.60%) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.60%)	\$ 45,744,300
Current discount rate (7.60%)	30,295,800
1% increase (8.60%)	17,456,850

Plan Fiduciary Net Position

Detailed information about the STRP’s plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Law.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

Provisions and Benefits	School Employer Pool (CalPERS)	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 are as presented above and the total District contributions were \$965,841.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,229,629. The net pension liability was measured as of June 30, 2015. The total pension liability for CalPERS was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 and rolling forward the total pension liability to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.0688%.

For the year ended June 30, 2016, the District recognized pension expense of \$926,886. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Deferred Outflows and Inflows of Resources		
Pension contributions subsequent to measurement date	\$ 965,841	\$ -
Difference between expected and actual experience	584,638	-
Changes of assumptions	-	628,537
Difference in proportion	-	52,894
Net differences between projected and actual earnings on plan investments	-	350,271
Total	\$ 1,550,479	\$ 1,031,702

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The remaining amounts will be recognized to pension expense as follows:

Year Ending June 30,	Amortization
2017	\$ (291,509)
2018	(291,112)
2019	(284,472)
2020	420,029
Total	\$ (447,064)

Actuarial Methods and Assumptions

Total pension liability for the School Pool Plan was determined by applying update procedures to

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.65%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	19%	2.43%
Private equity	10%	6.95%
Real estate	12%	5.13%
Inflation assets	6%	3.36%
Liquidity	2%	-1.05%

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 10: EMPLOYEE RETIREMENT PLANS

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 16,649,572
Current discount rate (7.65%)	10,229,629
1% increase (8.65%)	4,891,016

Plan Fiduciary Net Position

Detailed information about CalPERS School Employer plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

**NOTE 11: PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER
AUTHORITIES**

The District is a member of the Monterey and San Benito Counties Liability and Property Joint Powers Authority (MSBCLPJA), the Monterey Country Schools Insurance Group (MCSIG), and the Monterey Educational Risk Management Authority (MERMA) public entity risk pools. For property and liability and workers' compensation insurance, they are organized on a county basis, but not all districts in the County are members. The District elected to become a member of MCSIG effective July 1st, 2006. The District makes monthly payments to MCSIG based on the level of employee participation, annual contribution rates set by MCSIG, and in accordance with collective bargaining agreements. The JPAs arrange for and provide the respective types of insurance. Each member District pays a premium commensurate with the level of coverage requested and experience modifier. In the property and liability JPA, each member is responsible for their claims up to a maximum of \$50,000 for liability and \$50,000 for property. The member's share of claim costs is added to their premiums.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 11: PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

Each JPA is governed by a board consisting of a representative from each member District. This board controls the operations of its JPA independent from any influence by the members beyond their representation on the governing boards.

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

The District has appointed one board member and one alternative to each of the governing boards of MSBCLPJPA, MERMA, and MCSIG.

During the year ended June 30, 2016, the District made payments of \$227,323 to MSBCLPJPA for liability and property insurance, \$568,229 to MERMA for workers' compensation insurance, and \$6,995,196 to MCSIG representing payment of premiums for health-related coverage.

Condensed financial information for the year ended June 30, 2016 is as follows:

<u>JPA Condensed Financial Information</u>	MSBCLPJPA	MERMA	MCSIG
	(Unaudited)	(Audited)	(Audited)
	June 30,2015	June 30,2015	June 30,2015
Total assets	\$ 2,061,194	\$ 43,556,746	\$ 19,942,245
Total liabilities	1,753,368	28,771,567	9,036,602
Fund balance	307,826	14,785,179	10,905,643
Total revenues	4,084,453	9,885,797	53,222,564
Total expenditures	3,886,194	1,445,092	50,969,639

NOTE 12: COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

NOTE 12: COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, which 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 reimbursement will not be material.

Purchase Commitments

As of June 30, 2016, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$5.7 million. Projects will be funded through County School Facilities Fund grants, Capital Facilities Funds, and General Funds.

NOTE 13: SUBSEQUENT EVENTS

General Obligation Bonds

On October 20, 2016, the District sold \$17,755,000 of 2016 General Obligation Refunding Bonds under provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State of California Government Code for the purpose of refunding portions of the outstanding Election of 2005, Series 2006, Election of 2005, Series 2008, and 2010 General Obligation Refunding Bonds, collectively the Refunded Bonds. The proceeds associated with the 2016 General Obligation Refunding Bonds were deposited to an escrow account for future payment and redemption of the Refunded Bonds and, as such, the Refunded Bonds are considered in-substance defeased. The 2016 General Obligation Refunding Bonds were sold with fixed interest rates of 2.00% to 4.00% and mature in 2032. The outstanding balance of the Refunded Bonds was \$19,010,000. The difference in cash flow requirements related to this refunding amounted to a new present value savings of approximately \$2,929,870.

**NOTE 14: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NET YET EFFECTIVE**

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations. Those statements that will most likely impact the District are summarized below:

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement No. 67 and No. 68

This statement was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet certain criteria specified in Statement No. 68 should not be considered pension plan assets. The objective is to provide information about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement No. 68 and to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. The statement is effective for the fiscal year 2015-16, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the fiscal year 2016-17.

Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

This statement was issued in June 2015 and establishes standards of financial reporting for defined benefit OPEB plans and defined contribution OPEB plans. This statement is closely related in some areas to Statement No. 75. The statement is effective for the fiscal year 2016-17.

Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement was issued in June 2015 and establishes standards for governmental employer recognition, measurements, and presentation of information about OPEB. The statement also establishes requirements for reporting information about financial support provided by certain non-employer entities for OPEB that are provided to the employees of other entities. This statement is closely related in some areas to Statement No. 74. The statement is effective for the fiscal year 2017-18.

Statement No. 77 – Tax Abatement Disclosures

This statement was issued in August 2015 and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The statement is effective for the fiscal year 2016-17.

REQUIRED SUPPLEMENTARY INFORMATION

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2016**

	Budgetary Amounts - General		Actual Amounts	(a) Fund Basis to GAAP	Actual Amounts GAAP Basis
	Fund				
	Original	Final	Fund		
Revenues					
Local control funding formula sources	\$ 46,737,342	\$ 46,620,242	\$ 46,529,464	\$ -	\$ 46,529,464
Federal sources	612,002	717,761	722,180	-	722,180
Other state sources	494,119	2,145,963	3,736,781	5,357	3,742,138
Other local sources	1,313,963	1,665,452	1,689,107	77,244	1,766,351
Total Revenues	<u>49,157,426</u>	<u>51,149,418</u>	<u>52,677,532</u>	<u>82,601</u>	<u>52,760,133</u>
Expenditures					
Certificated salaries	20,500,434	21,174,551	21,220,272	83,390	21,303,662
Classified salaries	7,923,463	8,387,456	8,448,056	40,720	8,488,776
Employee benefits	9,433,346	9,212,551	10,526,031	45,254	10,571,285
Books and supplies	2,815,346	2,783,987	2,400,840	19,437	2,420,277
Services and other operating expenditures	4,754,112	5,339,878	4,760,602	38,443	4,799,045
Capital outlay	162,331	500,857	332,992	319,263	652,255
Other outgo	400,000	389,152	385,419	-	385,419
Debt service	7,200	7,200	7,200	-	7,200
Total Expenditures	<u>45,996,232</u>	<u>47,795,632</u>	<u>48,081,412</u>	<u>546,507</u>	<u>48,627,919</u>
Excess (deficiency) of revenues over expenditures	<u>3,161,194</u>	<u>3,353,786</u>	<u>4,596,120</u>	<u>(463,906)</u>	<u>4,132,214</u>
Other Financing Sources (Uses)					
Interfund transfers in		150,000	150,000	-	150,000
Interfund transfers out	<u>(3,161,194)</u>	<u>(1,720,370)</u>	<u>(1,350,615)</u>	<u>595,317</u>	<u>(755,298)</u>
Total Other Financing Sources (Uses)	<u>(3,161,194)</u>	<u>(1,570,370)</u>	<u>(1,200,615)</u>	<u>595,317</u>	<u>(605,298)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ 1,783,416</u>	3,395,505	131,411	3,526,916
Fund Balance - Beginning of Year			<u>15,328,732</u>	<u>715,775</u>	<u>16,044,507</u>
Fund Balance - End of Year			<u>\$ 18,724,237</u>	<u>\$ 847,186</u>	<u>\$ 19,571,423</u>

(a) amounts presented are the result of the District including activity of the Adult Education and Deferred Maintenance funds

See the accompanying notes to the required supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF POSTEMPLOYMENT HEALTHCARE
BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Unit Credit		Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		Cost Method) (AAL)					
7/1/2007	\$ -	\$	12,036,801	\$ 12,036,801	0.0%	\$ 21,087,407	57.1%
7/1/2009	-		10,374,510	10,374,510	0.0%	21,566,614	48.1%
7/1/2011	-		10,729,687	10,729,687	0.0%	23,569,230	45.5%
7/1/2013	-		12,067,654	12,067,654	0.0%	25,314,260	47.7%
7/1/2015	-		11,967,518	11,967,518	0.0%	22,063,780	54.2%

Although the plan has no segregated assets, the District does maintain the postemployment benefits within the retiree benefits fund which accounts for retiree benefits health insurance cost as well as the District's contribution toward future benefit costs. At June 30, 2016, the fund's ending balance was \$860,745.

See the accompanying notes to the required supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2016**

State Teachers' Retirement Plan	2015	2016
District's proportion of the net pension liability (assets)	0.0420%	0.0450%
District's proportionate share of the net pension liability (asset)	\$ 24,543,540	\$ 30,295,800
State's proportionate share of the net pension liability (asset) associated with the District	14,820,598	16,023,096
Total	\$ 39,364,138	\$ 46,318,896
District's covered-employee payroll	\$ 19,500,000	\$ 19,880,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	125.86%	152.39%
Plan fiduciary net position as a percentage of the total pension liability	77.00%	74.00%
California Public Employees' Retirement Plan	2015	2016
District's proportion of the net pension liability (assets)	0.0698%	0.0688%
District's proportionate share of the net pension liability (asset)	\$ 7,924,000	\$ 10,229,629
District's covered-employee payroll	\$ 7,300,000	\$ 7,700,000
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	108.55%	132.85%
Plan fiduciary net position as a percentage of the total pension liability	83.37%	79.43%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

See the accompanying notes to the required supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2016

<u>State Teachers' Retirement Plan</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 1,765,866	\$ 2,283,231
Contributions in relation to the contractually required contribution	<u>1,765,866</u>	<u>2,283,231</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 19,880,000	\$ 34,000,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%
<u>California Public Employees' Retirement Plan</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 904,438	\$ 967,877
Contributions in relation to the contractually required contribution	<u>904,438</u>	<u>967,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,700,000	\$ 8,200,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Budgetary Comparison For The General Fund

A budgetary comparison is presented for the general fund. This schedule presents the budget as originally adopted, the revised budget as of the fiscal yearend, actual amounts at fiscal yearend, and any adjustments needed to present the amounts in accordance with generally accepted accounting principles (GAAP).

Schedule of Postemployment Healthcare Benefits Funding Progress

The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedules of District's Proportionate Share of the Net Pension Liability – STRP and PERS

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Schedules of District Contributions – STRP and PERS Schools Pool Plan

The schedule presents information on the District's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excesses of expenditures over appropriations, by major object accounts, occurred in the general fund:

Certificated salaries	\$129,111
Classified salaries	101,320
Employee benefits	1,358,734

SUPPLEMENTARY INFORMATION

CARMEL UNIFIED SCHOOL DISTRICT

HISTORY AND ORGANIZATION For the Fiscal Year Ended June 30, 2016

Carmel Unified School District was established on July 1st, 1939 and is comprised of 594 square miles. There are four distinctive population centers within the boundaries of the District; Carmel-by-the-Sea, Carmel Valley, Pebble Beach, and Big Sur. The District operates three elementary schools, one middle school, one high school, one alternative high school, and a regional occupational program on the traditional August through June schedule. The District also operates two pre-schools and an adult education program on an extended year basis.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2016 were as follows:

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mark Stilwell	President	December 2017
Karl Pallestrini	Board Clerk	December 2019
John Ellison	Member	December 2017
Rita Patel	Member	December 2019
Annette Yee-Steck	Member	December 2019

DISTRICT ADMINISTRATORS

Karen Hendricks	Interim Superintendent
Rick Blanckmeister	Chief Business Official
Mike Heffner	Chief Academic Officer
Paul Behan	Chief Technology Officer
Karen Hendricks	Chief Human Resource Officer
Heath Rocha	Chief Student Services Officer

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2016**

	Revised	
	<u>Second Period</u>	<u>Annual</u>
Grades Transitional Kindergarten through third:		
Regular ADA	671	671
Extended year special education	-	-
Special education - nonpublic, nonsectarian schools	-	-
Total grades transitional kindergarten through third ADA	<u>671</u>	<u>671</u>
Grades four through six:		
Regular ADA	543	544
Total grades four through six ADA	<u>543</u>	<u>544</u>
Grades seven and eight:		
Regular ADA	371	372
Total grades seven and eight ADA	<u>371</u>	<u>372</u>
Grades nine through twelve:		
Regular ADA	825	818
Total grades nine through twelve ADA	<u>825</u>	<u>818</u>
Total ADA	<u><u>2,410</u></u>	<u><u>2,405</u></u>

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2016**

Grade Level	Minute Requirement	Actual Minutes	Number of Days	
			Traditional Calendar	Status
Kindergarten	36,000	51,080	180	In Compliance
Grade 1	50,400	55,850	180	In Compliance
Grade 2	50,400	55,850	180	In Compliance
Grade 3	50,400	55,850	180	In Compliance
Grade 4	54,000	55,850	180	In Compliance
Grade 5	54,000	55,850	180	In Compliance
Grade 6	54,000	66,295	180	In Compliance
Grade 7	54,000	66,295	180	In Compliance
Grade 8	54,000	66,295	180	In Compliance
Grade 9	64,800	64,930	180	In Compliance
Grade 10	64,800	64,930	180	In Compliance
Grade 11	64,800	64,930	180	In Compliance
Grade 12	64,800	64,930	180	In Compliance

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016**

Program Name	Pass-Through		Total Program Expenditures
	Federal Catalog Number	Entity Identifying Number	
United States Department of Agriculture			
Pass-Through Program From California Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13390	\$ 118,103
Especially Needy Breakfast Program	10.553	13391	51,249
Meal Supplement	10.555	(1)	4,768
Commodities	10.555	(1)	<u>29,279</u>
Total: Child Nutrition Cluster			<u>203,399</u>
Total: United States Department of Agriculture			<u>203,399</u>
United States Department of Education			
Pass-Through Program From California Department of Education:			
Special Education Cluster:			
Special Education - IDEA Basic Local Assistance Entitlement	84.027	13379	<u>293,924</u>
Total: Special Education Cluster			293,924
Every Student Succeeds Act:			
Title I - Basic Grants	84.010	14329	285,414
Title II - Improving Teacher Quality	84.367	14341	55,780
Vocational Programs	84.048	14894	<u>11,466</u>
Total: United States Department of Education			<u>646,584</u>
United States Department of Health and Human Services			
Pass-Through Program From California Department of Education:			
Medi-Cal Billing Option	93.778	10060	29,237
Medi-Cal Administrative Activities	93.778	10060	<u>46,359</u>
Total: United States Department of Health and Human Services			<u>75,596</u>
Total Federal Programs			<u>\$ 925,579</u>

(1) Pass-Through Entity Identifying Number not readily available or not applicable

The District is the recipient of a federal program that does not result in cash receipts or disbursements. The District was granted \$29,279 of commodities under the National School Lunch Program (CFDA 10.555).

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

	<u>2017 (Budgeted)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total revenues	\$ 51,644,095	\$ 52,677,532	\$ 47,598,312	\$ 45,141,955
Total expenditures	(49,984,301)	(48,081,412)	(44,094,712)	(41,964,688)
Total other sources and uses	<u>(1,172,209)</u>	<u>(1,200,615)</u>	<u>(4,666,859)</u>	<u>(8,842,674)</u>
Change in fund balance	487,585	3,395,505	(1,163,259)	(5,665,407)
Ending fund balance	<u>\$ 19,211,823</u>	<u>\$ 18,724,237</u>	<u>\$ 15,328,732</u>	<u>\$ 16,491,991</u>
Available reserve	<u>\$ 3,045,411</u>	<u>\$ 2,471,382</u>	<u>\$ 2,390,020</u>	<u>\$ 5,990,567</u>
Available reserve %	6.0%	5.0%	4.9%	11.8%
ADA	<u>2,415</u>	<u>2,410</u>	<u>2,386</u>	<u>2,370</u>
Total long term debt	<u>\$ 40,165,070</u>	<u>\$ 41,382,647</u>	<u>\$ 41,278,475</u>	<u>\$ 41,361,243</u>

The amounts above are those reported as General Fund in the Annual Financial and Budget Report and do not include special revenue funds included in the General Fund of the governmental funds' financial statements.

Available reserves are those amounts reserved for economic uncertainty and any other remaining unassigned fund balance from the General Fund.

All percentages are of total expenditures.

Long-term debt is reported for the district as a whole and includes debt related to all funds, excluding the net pension liability.

The 2017 budget is the original budget adopted in June 2016.

For a District this size, the state recommends 3% of total General Fund expenditures, transfers out and other uses. For the year ended June 30, 2016, the District has met this requirement.

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2016**

The District is not the granting agency for any Charter Schools.

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE ANNUAL FINANCIAL AND BUDGET REPORT
WITH THE AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

There were no differences between the fund balances reported on the June 30, 2016 Annual Financial and Budget Report for the governmental funds and the audited financial statements.

See the accompanying notes to the supplementary information.

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has not met or exceeded its target funding and has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal governmental for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District did not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Schedule of Financial Trends and Analysis

The 2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

Reporting requires that this schedule be prepared showing financial trends of the general fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

Schedule of Charter Schools

The *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule list all charter schools chartered by the District and inform the users whether or not the charter school information is included in the District's financial statements.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the annual Financial and Budget Report form to the audited financial statements.

OPTIONAL SUPPLEMENTARY INFORMATION

CARMEL UNIFIED SCHOOL DISTRICT

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2016

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
<u>Assets</u>					
Cash in county treasury	\$ 83,531	\$ (23,742)	\$ 90,101	\$ 2,424,173	\$ 2,574,063
Collections awaiting deposit	13,591	4,393	-	-	17,984
Accounts receivable					
Federal and state governments	-	23,846	-	-	23,846
Miscellaneous	589	-	3,321	-	3,910
Inventories	-	5,135	-	-	5,135
Total Assets	\$ 97,711	\$ 9,632	\$ 93,422	\$ 2,424,173	\$ 2,624,938
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 8,421	\$ 811	\$ -	\$ -	\$ 9,232
Unearned revenue	6,225	-	-	-	6,225
Total Liabilities	14,646	811	-	-	15,457
Fund Balances					
Nonspendable	-	5,135	-	-	5,135
Restricted	2,944	3,686	-	2,424,173	2,430,803
Assigned	80,121	-	93,422	-	173,543
Total Fund Balances	83,065	8,821	93,422	2,424,173	2,609,481
Total Liabilities and Fund Balances	\$ 97,711	\$ 9,632	\$ 93,422	\$ 2,424,173	\$ 2,624,938

CARMEL UNIFIED SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2016

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non- Major Governmental Funds
Revenues					
Federal sources	\$ -	\$ 203,399	\$ -	\$ -	\$ 203,399
Other state sources	136,044	12,712	-	6,152	154,908
Other local sources	<u>1,089,016</u>	<u>417,443</u>	<u>75,326</u>	<u>2,854,134</u>	<u>4,435,919</u>
Total Revenues	<u>1,225,060</u>	<u>633,554</u>	<u>75,326</u>	<u>2,860,286</u>	<u>4,794,226</u>
Expenditures					
Instruction	854,479	-	-	-	854,479
Instruction - related services	244,592	-	-	-	244,592
Pupil services	38,389	882,883	-	-	921,272
Community services	325,182	-	-	-	325,182
Plant services	14,250	-	26,499	-	40,749
Debt service	-	-	-	2,644,988	2,644,988
Total Expenditures	<u>1,476,892</u>	<u>882,883</u>	<u>26,499</u>	<u>2,644,988</u>	<u>5,031,262</u>
Excess (deficiency) of revenues over expenditures	<u>(251,832)</u>	<u>(249,329)</u>	<u>48,827</u>	<u>215,298</u>	<u>(237,036)</u>
Other Financing Sources (Uses)					
Interfund transfers in	<u>175,409</u>	<u>249,889</u>	<u>-</u>	<u>-</u>	<u>425,298</u>
Total Other Financing Sources	<u>175,409</u>	<u>249,889</u>	<u>-</u>	<u>-</u>	<u>425,298</u>
Net changes in fund balance	(76,423)	560	48,827	215,298	188,262
Fund Balances at Beginning of Year	<u>159,488</u>	<u>8,261</u>	<u>44,595</u>	<u>2,208,875</u>	<u>2,421,219</u>
Fund Balances at End of Year	<u>\$ 83,065</u>	<u>\$ 8,821</u>	<u>\$ 93,422</u>	<u>\$ 2,424,173</u>	<u>\$ 2,609,481</u>

CARMEL UNIFIED SCHOOL DISTRICT

**NOTES TO THE OPTIONAL SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2016**

NOTE 1: PURPOSE OF SCHEDULES

Combining Fund Financial Statements

Combining fund balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to the financial statements

OTHER INDEPENDENT AUDITOR'S REPORT

**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 Education
Carmel Unified School District
Carmel, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities (the business-type activities, the aggregate discretely presented component units), each major fund, and the aggregate remaining fund information of Carmel Unified School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

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

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

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

**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***

did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. [See finding 2016-001]

Compliance and Other Matters

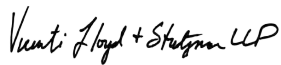
As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect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

District’s Response to Finding

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

Purpose of this Report

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



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 21, 2016



Vicenti, Lloyd & Stutzman, CPAs

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

Board of Education
Carmel Unified School District
Carmel, California

Report on Compliance for Each Major Federal Program

We have audited Carmel Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Purpose of this Report

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

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 21, 2016



Vicenti, Lloyd & Stutzman, CPAs

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Carmel Unified School District
Carmel, California

We have audited the Carmel Unified School District's (the District) compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. The District's state compliance requirements are identified in the table provided.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

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

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No ¹
Continuation Education	No ¹
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy 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
Immunizations	No ³
Charter Schools:	
Attendance	No ²
Mode of Instruction	No ²
Nonclassroom Based Instruction/Independent Study	No ²
Determination of Funding for Nonclassroom Based Instruction	No ²
Annual Instructional Minutes – Classroom Based	No ²
Charter School Facility Grant Program	No ²

¹We did not perform testing for independent study or continuation education because the independent study and continuation education ADA was under the level which requires testing.

²The District is not the granting agency for any Charter Schools.

³The District was not listed on the immunization assessment reports.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Opinion on State Compliance

In our opinion, the District complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
November 21, 2016

FINDINGS AND QUESTIONED COSTS

CARMEL UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X None Reported

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

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

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I: Basic Grants

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

Auditee qualified as low-risk auditee? X Yes No

CARMEL UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2016

All audit findings must be identified as one or more of the following twelve categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINANCIAL STATEMENT FINDINGS

2016-001 Bank Reconciliation Process 30000

Criteria: Bank reconciliations should be completed monthly and accurately and stale dated transactions should be investigated, resolved, and removed from the reconciliation timely.

Condition: Cafeteria and general fund clearing accounts were reconciled timely; however, both QuickBooks generated reconciliations noted several outstanding transactions including deposits in transit dating back to September and December 2015. This included computer generated duplicate transactions. The bank reconciliations were corrected, and evidence of the duplicate transactions was provided before the end of the audit, upon our request.

Context: Outstanding transactions were more than \$100k, and there were no notations on the original reconciliation as to their disposition.

Effect: The control of monitoring and detection was ineffective because there was not proper attention to stale dated and erroneous entries in the accounting records and system.

Cause: Through inquiry, we learned that technical errors in the software during the time of transitional upgrade of systems were the cause of the errors. In addition, there was a lack of consistent access to qualified personnel, due to extraordinary absenteeism, which was also a contributing factor.

Questioned Costs and Units: Entries found to be duplicated and not clearing regularly were \$11,716 in the Miscellaneous Clearing account and \$287,911 in the Cafeteria Clearing account. These are now corrected.

Recommendation: Accurate reconciliations must be completed and reviewed timely with analysis of outstanding items and their age and appropriateness. Any stale dated, duplicate and/or unreconciled amounts should be investigated and resolved, and records should be corrected. If

CARMEL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS**

June 30, 2016

2016-001 Bank Reconciliation Process 30000

computer systems added inappropriate or inaccurate entries, a manual reconciliation must be completed until the computer system items can be resolved. When computer or extraordinary transactions or events take place, a narrative should accompany the reconciliation to explain variances. The district should follow-up with IT and QuickBooks support as to how to proceed to remedy the erroneous records. Review the staffing responsibilities associated with this task.

Corrective Action Plan: Administration has reorganized existing staff responsibilities, with respect to the bank reconciliation process, to ensure accurate and timely reconciliation of all cash accounts in the short term. As a more permanent solution, and to avoid negative impact on specific operational areas, the District will consider contracting with an independent party to conduct monthly reconciliation services.

CARMEL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2016

FEDERAL AWARDS FINDINGS

There were no findings and questioned costs related to federal awards for June 30, 2016.

CARMEL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2016

STATE COMPLIANCE FINDINGS

There were no findings and questioned costs related to state awards for the year ended June 30, 2016.

CARMEL UNIFIED SCHOOL DISTRICT

**STATUS OF PRIOR YEAR
FINDINGS AND QUESTIONED COSTS
June 30, 2016**

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the prior year.