

MARTINEZ UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

MARTINEZ UNIFIED SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2016

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Martinez Unified School District
Martinez, 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 Martinez Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Martinez Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Christy White, CPA

Michael Ash, CPA

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State Board of Accountancy*

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Martinez Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Martinez Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 9, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

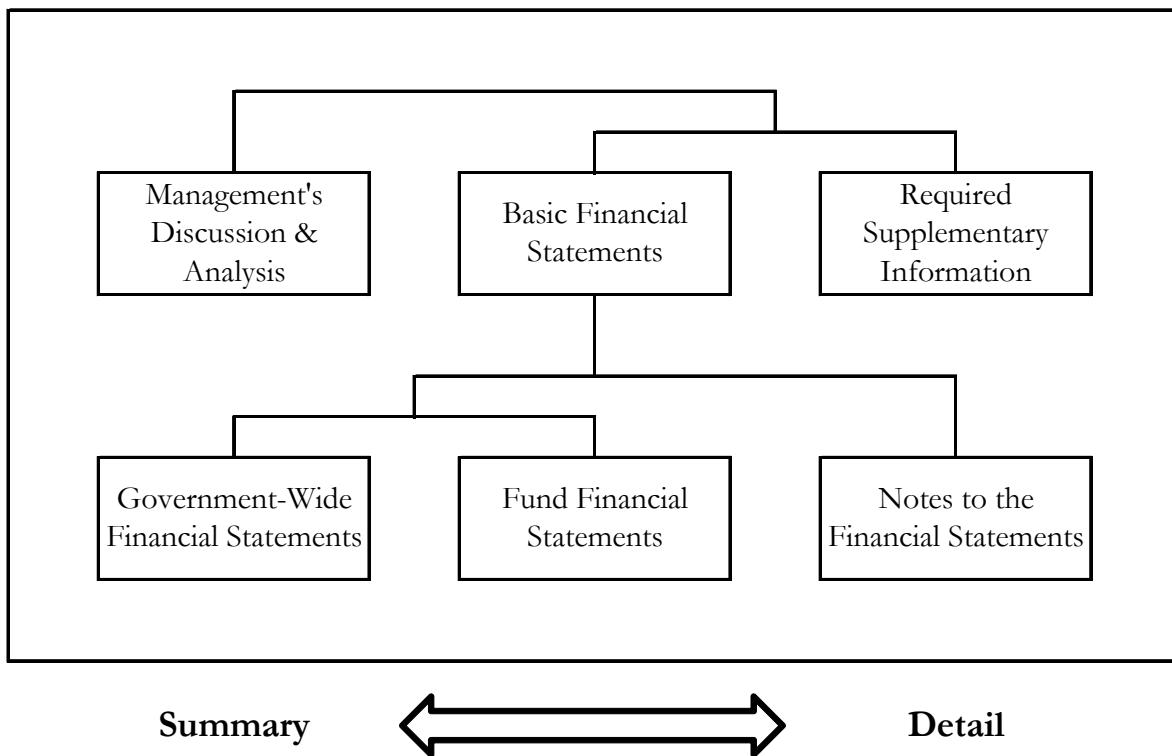
Our discussion and analysis of Martinez Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position was \$9,269,101 at June 30, 2016. This was a decrease of \$664,971 from the prior year after restatement.
- Overall revenues were \$49,664,742 which was less than expenses of \$50,329,713.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS, *continued*
FOR THE YEAR ENDED JUNE 30, 2016**

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

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity’s overall financial position.
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

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

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

**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$9,269,101 at June 30, 2016, as reflected in table below. Of this amount, (\$34,307,234) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2016	2015	Net Change
ASSETS			
Current and other assets	\$ 40,428,291	\$ 42,687,730	\$ (2,259,439)
Capital assets	60,262,696	59,827,399	435,297
Total Assets	100,690,987	102,515,129	(1,824,142)
DEFERRED OUTFLOWS OF RESOURCES	6,436,757	2,312,984	4,123,773
LIABILITIES			
Current liabilities	5,912,980	4,403,211	1,509,769
Long-term liabilities	88,579,524	81,177,018	7,402,506
Total Liabilities	94,492,504	85,580,229	8,912,275
DEFERRED INFLOWS OF RESOURCES	3,366,139	6,884,629	(3,518,490)
NET POSITION			
Net investment in capital assets	32,959,683	36,919,229	(3,959,546)
Restricted	10,616,652	6,981,345	3,635,307
Unrestricted	(34,307,234)	(31,537,319)	(2,769,915)
Total Net Position	\$ 9,269,101	\$ 12,363,255	\$ (3,094,154)

**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities		
	2016	2015	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 1,371,696	\$ 776,884	\$ 594,812
Operating grants and contributions	6,856,305	6,201,620	654,685
General revenues			
Property taxes	22,898,875	21,390,556	1,508,319
Unrestricted federal and state aid	16,848,888	14,275,368	2,573,520
Other	1,688,978	2,542,058	(853,080)
Total Revenues	49,664,742	45,186,486	4,478,256
EXPENSES			
Instruction	29,638,444	28,460,016	1,178,428
Instruction-related services	5,055,459	5,010,063	45,396
Pupil services	3,663,091	3,508,338	154,753
General administration	3,018,371	3,391,891	(373,520)
Plant services	4,391,556	4,123,965	267,591
Ancillary and community services	128,949	157,196	(28,247)
Debt service	1,280,588	3,067,730	(1,787,142)
Other Outgo	542,092	-	542,092
Depreciation	2,611,163	2,540,624	70,539
Total Expenses	50,329,713	50,259,823	69,890
Change in net position	(664,971)	(5,073,337)	4,408,366
Net Position - Beginning*	9,934,072	17,436,592	(7,502,520)
Net Position - Ending	\$ 9,269,101	\$ 12,363,255	\$ (3,094,154)

** Beginning Net Position was restated for both 2015 and 2016*

The cost of all our governmental activities this year was \$50,329,713 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was \$22,898,875 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below we have presented the net cost of each of the District's functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2016	2015
Instruction	\$ 25,197,461	\$ 24,252,691
Instruction-related services	3,774,563	4,433,603
Pupil services	1,836,636	1,660,966
General administration	2,777,234	3,214,036
Plant services	4,071,809	3,959,165
Ancillary and community services	126,736	152,504
Debt service	1,280,588	3,067,730
Transfers to other agencies	425,522	-
Depreciation	2,611,163	2,540,624
Total Expenses	\$ 42,101,712	\$ 43,281,319

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$35,938,896, which is less than last year's ending fund balance of \$40,278,391. The District's General Fund had \$1,432,334 more in operating revenues than expenditures for the year ended June 30, 2016. The District's Building Fund had \$5,154,978 less in operating revenues than expenditures for the year ended June 30, 2016.

CURRENT YEAR BUDGET 2015-16

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

**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested \$60,262,696 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2016	2015	Net Change
CAPITAL ASSETS			
Land	\$ 5,694,895	\$ 5,694,895	\$ -
Construction in progress	17,667,474	15,218,040	2,449,434
Land improvements	65,720,969	65,243,331	477,638
Buildings & improvements	11,908,105	11,891,302	16,803
Furniture & equipment	1,829,858	1,564,647	265,211
Accumulated depreciation	(42,558,605)	(39,784,816)	(2,773,789)
Total Capital Assets	\$ 60,262,696	\$ 59,827,399	\$ 435,297

Long-Term Debt

At year-end, the District had \$88,579,524 in long-term debt, an increase of 11% from last year – as shown in table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2016	2015	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 49,352,881	\$ 50,591,734	\$ (1,238,853)
Compensated absences	151,504	158,160	(6,656)
Net OPEB obligation	5,355,082	4,264,460	1,090,622
Net pension liability	34,443,910	26,162,664	8,281,246
Less: current portion of long-term debt	(723,853)	(1,203,015)	479,162
Total Long-term Liabilities	\$ 88,579,524	\$ 79,974,003	\$ 8,605,521

**MARTINEZ UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

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

All of these factors were considered in preparing the District's budget for the 2016-17 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office, Diane Deshler, Chief Business Official, Martinez Unified School District, 921 Susana Street, Martinez, CA 94553.

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 38,431,594
Accounts receivable	1,996,247
Prepaid expenses	450
Capital assets, not depreciated	23,362,369
Capital assets, net of accumulated depreciation	36,900,327
Total Assets	100,690,987
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	6,436,757
Total Deferred Outflows of Resources	6,436,757
LIABILITIES	
Accrued liabilities	4,373,437
Unearned revenue	815,690
Long-term liabilities, current portion	723,853
Long-term liabilities, non-current portion	88,579,524
Total Liabilities	94,492,504
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	3,366,139
Total Deferred Inflows of Resources	3,366,139
NET POSITION	
Net investment in capital assets	32,959,683
Restricted:	
Capital projects	7,453,562
Debt service	1,782,400
Educational programs	1,355,451
All others	25,239
Unrestricted	(34,307,234)
Total Net Position	\$ 9,269,101

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

MARTINEZ UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 29,638,444	\$ 501,958	\$ 3,939,025	\$ (25,197,461)
Instruction-related services				
Instructional supervision and administration	1,301,508	108,624	454,795	(738,089)
Instructional library, media, and technology	355,124	14,875	76,033	(264,216)
School site administration	3,398,827	95,477	531,092	(2,772,258)
Pupil services				
Home-to-school transportation	337,583	5,789	65,924	(265,870)
Food services	1,251,238	516,044	746,558	11,364
All other pupil services	2,074,270	7,623	484,517	(1,582,130)
General administration				
Centralized data processing	710,546	-	-	(710,546)
All other general administration	2,307,825	46,070	195,067	(2,066,688)
Plant services	4,391,556	65,875	253,872	(4,071,809)
Ancillary services	127,494	-	744	(126,750)
Community services	1,455	33	1,436	14
Interest on long-term debt	1,280,588	-	-	(1,280,588)
Other Outgo	542,092	9,328	107,242	(425,522)
Depreciation (unallocated)	2,611,163	-	-	(2,611,163)
Total Governmental Activities	\$ 50,329,713	\$ 1,371,696	\$ 6,856,305	(42,101,712)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				19,065,891
Property taxes, levied for debt service				3,307,797
Property taxes, levied for other specific purposes				525,187
Federal and state aid not restricted for specific purposes				16,848,888
Interest and investment earnings				231,555
Interagency revenues				265,795
Miscellaneous				1,191,628
Subtotal, General Revenue				41,436,741
CHANGE IN NET POSITION				(664,971)
Net Position - Beginning, as restated				9,934,072
Net Position - Ending				9,269,101

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

MARTINEZ UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 7,742,992	\$ 19,758,422	\$ 10,930,180	\$ 38,431,594
Accounts receivable	1,618,226	-	378,021	1,996,247
Due from other funds	157,200	-	100,568	257,768
Prepaid expenditures	450	-	-	450
Total Assets	\$ 9,518,868	\$ 19,758,422	\$ 11,408,769	\$ 40,686,059
LIABILITIES				
Accrued liabilities	\$ 587,873	\$ 2,823,007	\$ 262,825	\$ 3,673,705
Due to other funds	-	-	257,768	257,768
Unearned revenue	696,417	-	119,273	815,690
Total Liabilities	1,284,290	2,823,007	639,866	4,747,163
FUND BALANCES				
Nonspendable	5,820	-	5,000	10,820
Restricted	1,186,177	16,935,415	10,130,207	28,251,799
Committed	-	-	623,712	623,712
Assigned	2,908,788	-	9,984	2,918,772
Unassigned	4,133,793	-	-	4,133,793
Total Fund Balances	8,234,578	16,935,415	10,768,903	35,938,896
Total Liabilities and Fund Balances	\$ 9,518,868	\$ 19,758,422	\$ 11,408,769	\$ 40,686,059

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

MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2016

Total Fund Balance - Governmental Funds	\$ 35,938,896
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

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

Capital assets	\$ 102,821,301	
Accumulated depreciation	<u>(42,558,605)</u>	60,262,696

Unmatured interest on long-term debt:

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

(699,732)

Long-term liabilities:

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

Total general obligation bonds	\$ 49,352,881	
Compensated absences	151,504	
Net OPEB obligation	5,355,082	
Net pension liability	<u>34,443,910</u>	(89,303,377)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 6,436,757	
Deferred inflows of resources related to pensions	<u>(3,366,139)</u>	3,070,618

Total Net Position - Governmental Activities	<u>\$ 9,269,101</u>
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MARTINEZ UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 32,978,127	\$ -	\$ -	\$ 32,978,127
Federal sources	1,211,206	-	997,498	2,208,704
Other state sources	4,791,300	-	1,540,280	6,331,580
Other local sources	2,926,789	129,826	5,183,207	8,239,822
Total Revenues	41,907,422	129,826	7,720,985	49,758,233
EXPENDITURES				
Current				
Instruction	26,936,722	-	1,279,062	28,215,784
Instruction-related services				
Instructional supervision and administration	1,060,807	-	221,823	1,282,630
Instructional library, media, and technology	281,726	-	66,767	348,493
School site administration	2,886,119	-	459,657	3,345,776
Pupil services				
Home-to-school transportation	337,583	-	-	337,583
Food services	350	-	1,242,967	1,243,317
All other pupil services	2,044,345	-	-	2,044,345
General administration				
Centralized data processing	695,679	-	-	695,679
All other general administration	2,138,758	-	141,753	2,280,511
Plant services	3,413,825	172,000	419,512	4,005,337
Facilities acquisition and maintenance	8,600	5,112,804	692,459	5,813,863
Ancillary services	127,282	-	-	127,282
Community services	1,200	-	255	1,455
Transfers to other agencies	542,092	-	-	542,092
Debt service				
Principal	-	-	1,203,015	1,203,015
Interest and other	-	-	2,610,566	2,610,566
Total Expenditures	40,475,088	5,284,804	8,337,836	54,097,728
Excess (Deficiency) of Revenues				
Over Expenditures	1,432,334	(5,154,978)	(616,851)	(4,339,495)
Other Financing Sources (Uses)				
Transfers in	16,847	-	220,000	236,847
Transfers out	(220,000)	-	(16,847)	(236,847)
Net Financing Sources (Uses)	(203,153)	-	203,153	-
NET CHANGE IN FUND BALANCE	1,229,181	(5,154,978)	(413,698)	(4,339,495)
Fund Balance - Beginning	7,005,397	22,090,393	11,182,601	40,278,391
Fund Balance - Ending	\$ 8,234,578	\$ 16,935,415	\$ 10,768,903	\$ 35,938,896

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

MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Governmental Funds \$ (4,339,495)

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

Capital outlay:

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

Expenditures for capital outlay:	\$	5,475,643	
Depreciation expense:		(2,611,163)	2,864,480

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,203,015

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 1,294,140

Accreted interest on long-term debt:

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. 11,985

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: 6,656

**MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2016**

Postemployment benefits other than pensions (OPEB):

In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (1,090,622)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (638,983)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: 23,853

Change in Net Position of Governmental Activities

\$ (664,971)

MARTINEZ UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Private-Purpose</u>	<u>Student Body</u>
	<u>Trust Fund</u>	<u>Fund</u>
ASSETS		
Cash and investments	\$ 100,154	\$ 301,133
Total Assets	<u>100,154</u>	<u>\$ 301,133</u>
LIABILITIES		
Accrued liabilities	1,000	\$ -
Due to student groups	-	301,133
Total Liabilities	<u>1,000</u>	<u>\$ 301,133</u>
NET POSITION		
Unrestricted	99,154	
Total Net Position	<u>\$ 99,154</u>	

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

**MARTINEZ UNIFIED SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Trust Funds</u>
	<u>Private-Purpose</u>
	<u>Trust Fund</u>
ADDITIONS	
Investment earnings	\$ 618
Other	12,367
Total Additions	<u>12,985</u>
DEDUCTIONS	
Other trust activities	<u>13,900</u>
Total Deductions	<u>13,900</u>
CHANGE IN NET POSITION	(915)
Net Position - Beginning	<u>100,069</u>
Net Position - Ending	<u>\$ 99,154</u>

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

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

B. Component Units

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

C. Basis of Presentation

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

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

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

Major Governmental Funds

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

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

Non-Major Governmental Funds

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

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections 52616[b]* and *52501.5[a]*).

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds (continued)

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

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

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

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

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

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

Private Purpose Trust Fund: This fund exists to account for assets held by the District as trustee for individuals, private organizations or other governments and are therefore not available to support the District's own programs. The District maintains one private purpose trust fund, the Scholarship Fund, which is used to provide financial assistance to students of the District

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

D. Basis of Accounting – Measurement Focus

Government-Wide and Fiduciary Financial Statements

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

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

Governmental Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions

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

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

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

Unearned Revenue

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

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

Expenses/Expenditures

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

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

Inventories

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

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	20 years
Furniture and Equipment	50 years
Vehicles	5-20 years

Interfund Balances

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance

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

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

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

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

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 73 for the year ended June 30, 2016.

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

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Fiduciary Funds
Investment in county treasury	\$ 34,562,144	\$ 100,154
Cash on hand and in banks	26,349	301,133
Cash in revolving fund	10,370	-
Local Agency Investment Fund (LAIF)	3,832,731	-
Total cash and investments	\$ 38,431,594	\$ 401,287

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Contra Costa County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

C. General Authorizations

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

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

NOTE 2 – CASH AND INVESTMENTS (continued)

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$34,749,081 and an amortized book value of \$34,662,298. The average weighted maturity for this pool is 227 days.

As of June 30, 2016, the District has \$3,832,731 invested in LAIF, which had invested 2% of the pool investment funds in Structured Notes and Asset-Backed Securities. The District valued its investments in LAIF as of June 30, 2016, by multiplying its account balance with LAIF by a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of 1.00001495. No adjustment from carrying amount to fair value was made, as this difference is insignificant.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were rated AAAs/S1+.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value

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

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

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

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

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

The District's fair value measurements at June 30, 2016 were as follows:

	Uncategorized
Investment in county treasury	\$ 34,749,081
Local Agency Investment Fund (LAIF)	3,832,731
Total fair market value of investments	\$ 38,581,812

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ 586,876	\$ 268,294	\$ 855,170
State Government			
Apportionment	9,432	-	9,432
Categorical aid	610,881	109,727	720,608
Lottery	181,190	-	181,190
Local Government			
Other local sources	229,847	-	229,847
Total	\$ 1,618,226	\$ 378,021	\$ 1,996,247

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 01, 2015	Adjustments	Restated Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities						
Capital assets not being depreciated						
Land	\$ 5,694,895	\$ -	\$ 5,694,895	\$ -	\$ -	\$ 5,694,895
Construction in progress	15,218,040	(2,266,557)	12,951,483	4,715,991	-	17,667,474
Total Capital Assets not Being Depreciated	20,912,935	(2,266,557)	18,646,378	4,715,991	-	23,362,369
Capital assets being depreciated						
Land improvements	65,243,331	-	65,243,331	477,638	-	65,720,969
Buildings & improvements	11,891,302	-	11,891,302	16,803	-	11,908,105
Furniture & equipment	1,564,647	-	1,564,647	265,211	-	1,829,858
Total Capital Assets Being Depreciated	78,699,280	-	78,699,280	759,652	-	79,458,932
Less Accumulated Depreciation						
Land improvements	31,299,886	1,951	31,301,837	533,810	-	31,835,647
Buildings & improvements	7,313,532	115,100	7,428,632	1,994,754	-	9,423,386
Furniture & equipment	1,171,398	45,575	1,216,973	82,599	-	1,299,572
Total Accumulated Depreciation	39,784,816	162,626	39,947,442	2,611,163	-	42,558,605
Governmental Activities						
Capital Assets, net	\$ 59,827,399	\$ (2,429,183)	\$57,398,216	\$ 2,864,480	\$ -	\$ 60,262,696

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2016 were as follows:

		Due From Other Funds		
Due To Other Funds		Non-Major		
		General Fund	Governmental Funds	Total
Non-Major Governmental Funds	\$	157,200	\$ 100,568	\$ 257,768
Total Due From Other Funds	\$	157,200	\$ 100,568	\$ 257,768

From the Non-Major Adult Education Fund to the General Fund for indirect costs	\$	108,534
From the Non-Major Cafeteria Fund to the General Fund for indirect costs		33,219
From the Non-Major Capital Facilities Fund to the General Fund for management fees		15,447
From the Non-Major Special Reserve Fund for Capital Outlay Projects to the Non-Major Capital Facilities Fund to reclass expenses		100,568
Total	\$	257,768

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

Interfund Transfers Out	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 220,000	\$ 220,000
Non-Major Governmental Funds	16,847	-	16,847
Total Interfund Transfers	\$ 16,847	\$ 220,000	\$ 236,847

Transfer from the Non-Major Adult Education Fund to the General Fund for PEI Grant	\$ 1,400
Transfer from the Non-Major Capital Facilities Fund to the General Fund for 3% administrative costs	15,447
Transfer from the General Fund to the Non-Major Deferred Maintenance Fund to cover projects	70,000
Transfer from the General Funds to the Non-Major Special Reserve Fund for Capital Outlay for summer maintenance projects	150,000
Total	\$ 236,847

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	District-Wide	Total Governmental Activities
Construction	\$ -	\$ 2,823,007	\$ -	\$ -	\$ 2,823,007
Vendors payable	587,873	-	262,825	-	850,698
Unmatured interest	-	-	-	699,732	699,732
Total	\$ 587,873	\$ 2,823,007	\$ 262,825	\$ 699,732	\$ 4,373,437

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 260,434	\$ 119,273	\$ 379,707
State categorical sources	435,983	-	435,983
Total	\$ 696,417	\$ 119,273	\$ 815,690

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 44,998,563	\$ -	\$ 1,203,015	\$ 43,795,548	\$ 680,640
Unamortized premium	466,733	-	23,853	442,880	23,853
Accreted interest	5,126,438	-	11,985	5,114,453	19,360
Total general obligation bonds	50,591,734	-	1,238,853	49,352,881	723,853
Compensated absences	158,160	-	6,656	151,504	-
Net OPEB obligation	4,264,460	1,090,622	-	5,355,082	-
Net pension liability	26,162,664	8,281,246	-	34,443,910	-
Total	\$ 81,177,018	\$ 9,371,868	\$ 1,245,509	\$ 89,303,377	\$ 723,853

Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$151,504. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. General Obligation Bonds

In 2011, the Martinez Unified School District issued General Obligation Bonds, Series 2011 New Money Bonds in the principal amount of \$24,998,563 to finance specific construction, repair and improvement projects approved by the voters of the District. The District also issued General Refunding Bonds, Series 2011 Refunding Bonds in the principal amount of \$13,075,000 for the purpose of refunding the District's 1997 and 1998 General Obligation Bonds, which matured August 1, 1998 through August 1, 2015, and a portion of the General Refunding Bonds, Series 2001.

The Series 2011 New Money Bonds were issued as capital appreciation bonds that will convert to current interest bonds in August 2015. The Series 2011 Refunding Bonds were issued as current interest bonds.

In 2014, the Martinez Unified School District issued General Obligation Bonds, Series 2014A and Series 2014B, in the principal amounts of \$3,000,000 and \$17,000,000 respectively, to finance specific construction, repair and improvement projects approved by the voters of the District. The bonds were comprised of current interest bonds, bear interest rates between 2.00% and 5.00%, and are scheduled to mature through August, 2033.

The Bonds are payable solely from ad valorem property taxes levied and collected by the County of Contra Costa. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates).

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

As described above, the District has defeased various General Obligation Bonds issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advanced refunding met the requirements of an in-substance debt defeasance and therefore removed as a liability from the District's government-wide financial statements.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016	
2011	8/10/2011	8/1/2035	2.75 - 4.25	\$ 24,998,563	\$ 24,998,563	\$ -	\$ 53,015	\$ 24,945,548	
2014A	2/19/2014	8/1/2018	2.00 - 4.00	\$ 3,000,000	3,000,000	-	1,150,000	1,850,000	
2014B	2/19/2014	8/1/2033	3.25 - 5.00	\$ 17,000,000	17,000,000	-	-	17,000,000	
					\$ 44,998,563	\$ -	\$ 1,203,015	\$ 43,795,548	

Series 2011

Year Ended June 30,	Principal	Interest	Total
2017	\$ 85,640	\$ 19,360	\$ 105,000
2018	150,890	34,110	185,000
2019	228,374	51,626	280,000
2020	305,858	69,142	375,000
2021	395,576	89,424	485,000
2022 - 2026	4,853,444	916,556	5,770,000
2027 - 2031	-	-	-
2032 - 2036	18,925,766	3,934,234	22,860,000
Total	\$ 24,945,548	\$ 5,114,452	\$ 30,060,000

Series 2014A

Year Ended June 30,	Principal	Interest	Total
2017	\$ 595,000	\$ 68,050	\$ 663,050
2018	605,000	50,200	655,200
2019	650,000	26,000	676,000
Total	\$ 1,850,000	\$ 144,250	\$ 1,994,250

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

Series 2014B

Year Ended June 30,	Principal	Interest	Total
2017	\$ -	\$ 729,269	\$ 729,269
2018	-	729,269	729,269
2019	-	729,269	729,269
2020	680,000	729,269	1,409,269
2021	735,000	695,269	1,430,269
2022 - 2026	4,610,000	2,864,094	7,474,094
2027 - 2031	6,330,000	1,659,844	7,989,844
2032 - 2034	4,645,000	373,728	5,018,728
Total	\$ 17,000,000	\$ 8,510,011	\$ 25,510,011

C. Postemployment Benefits

The Martinez Unified School District accounts for postemployment benefits under GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension. This accounting requires the District to report its liability for other postemployment benefits (OPEB) consistent with newly established generally accepted accounting principles by reflecting an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

The total post-employment benefits payable at June 30, 2016 amounted to \$5,355,082.

D. Net Pension Liability

The District's beginning net pension liability was \$26,162,664 and increased by \$8,281,246 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$34,443,910. See Note 11 for additional information regarding the net pension liability.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	\$ 5,370	\$ -	\$ 5,000	\$ 10,370
Prepaid expenditures	450	-	-	450
Total non-spendable	5,820	-	5,000	10,820
Restricted				
Educational programs	1,186,177	-	169,274	1,355,451
Capital projects	-	16,935,415	7,453,562	24,388,977
Debt service	-	-	2,482,132	2,482,132
All others	-	-	25,239	25,239
Total restricted	1,186,177	16,935,415	10,130,207	28,251,799
Committed				
Adult education	-	-	566,023	566,023
Deferred maintenance	-	-	57,689	57,689
Total committed	-	-	623,712	623,712
Assigned				
Special Reserve for Post-Employment Benefits Fund	640,136	-	-	640,136
One-Time Funds	2,137,999	-	-	2,137,999
Parcel Tax	130,653	-	-	130,653
Food service	-	-	9,984	9,984
Total assigned	2,908,788	-	9,984	2,918,772
Unassigned				
Reserve for economic uncertainties	1,220,852	-	-	1,220,852
Remaining unassigned	2,912,941	-	-	2,912,941
Total unassigned	4,133,793	-	-	4,133,793
Total	\$ 8,234,578	\$ 16,935,415	\$ 10,768,903	\$ 35,938,896

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

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District provides medical, dental and vision benefits to retirees and their covered eligible dependents. The District pays a portion of the medical costs for eligible retirees only. Retirees must pay the entire cost for dental, vision, and dependent medical benefits. All active employees who retire directly from the District and meet the eligibility criteria may participate.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	396
Active plan members	153
Total*	<u>549</u>
Number of participating employers	1

*As of November 1, 2014 actuarial study

B. Funding Policy

The District's contribution is currently based on a project pay-as-you-go funding method, that is, benefits are payable when due.

As of June 30, 2016, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	1,309,682
Interest on net OPEB obligation		191,901
Adjustment to annual required contribution		(210,890)
Annual OPEB cost (expense)		<u>1,290,693</u>
Contributions made		<u>(200,071)</u>
Increase (decrease) in net OPEB obligation		1,090,622
Net OPEB obligation, beginning of the year		<u>4,264,460</u>
Net OPEB obligation, end of the year	\$	<u>5,355,082</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 1,290,693	16%	\$ 5,355,082
2015	\$ 1,309,682	35%	\$ 4,264,460
2014	\$ 912,373	29%	\$ 3,418,283

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
November 1, 2014	\$ -	\$ 11,338,360	\$ 11,338,360	0%	\$ 17,653,285	64%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	11/1/2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level-percentage of payroll
Remaining Amortization Period	30
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	4.5%
Discount rate	4.5%
Health care trend rate	4.0%
Inflation rate	2.8%

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 27,693,387	\$ 4,727,308	\$ 2,720,224	\$ 2,576,829
PERS Pension	6,750,523	1,709,449	645,915	854,102
Total	\$ 34,443,910	\$ 6,436,757	\$ 3,366,139	\$ 3,430,931

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 60

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

CalSTRS 2% at 62

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$2,133,893 for the year ended June 30, 2016.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$1,227,741 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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 were as follows:

District's proportionate share of the net pension liability	\$ 27,693,387
States's proportionate share of the net pension liability associated with the District	14,646,709
Total	<u>\$ 42,340,096</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 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 0.041 percent, which was an increase of 0.004 percent from its proportion measured as of June 30, 2014.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$2,576,829. In addition, the District recognized pension expense and revenue of \$1,134,250 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 2,257,461
Differences between expected and actual experience	-	462,763
Changes in proportion and differences between District contributions and proportionate share of contributions	2,593,415	-
District contributions subsequent to the measurement date	2,133,893	-
	<u>\$ 4,727,308</u>	<u>\$ 2,720,224</u>

The \$2,133,893 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 432,236	\$ 641,492
2018	432,236	641,492
2019	432,236	641,492
2020	432,236	641,492
2021	432,236	77,127
2022	432,235	77,129
	<u>\$ 2,593,415</u>	<u>\$ 2,720,224</u>

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
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%
	<u>100%</u>	

* 10-year geometric average

NOTE 11 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 41,814,859	\$ 27,693,387	\$ 15,957,304

Pension plan fiduciary net position

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

NOTE 11 – PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$658,055 for the year ended June 30, 2016.

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 of \$6,750,523 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 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 0.046 percent, which was an increase of 0.006 percent from its proportion measured as of June 30, 2014.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$854,102. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 231,144
Differences between expected and actual experience	385,803	-
Changes in assumptions	-	414,771
Changes in proportion and differences between District contributions and proportionate share of contributions	665,591	-
District contributions subsequent to the measurement date	658,055	-
	<u>\$ 1,709,449</u>	<u>\$ 645,915</u>

The \$658,055 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 362,550	\$ 200,810
2018	362,550	200,810
2019	326,294	186,508
2020	-	57,787
	<u>\$ 1,051,394</u>	<u>\$ 645,915</u>

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

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

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	<u>100%</u>		

* An expected inflation of 2.5% used for this period

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

Discount rate

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 10,987,038	\$ 6,750,523	\$ 3,227,577

Pension plan fiduciary net position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

C. Construction Commitments

As of June 30, 2016, the District had commitments with respect to unfinished capital projects of \$5,902,612.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in four joint ventures under joint powers agreements (JPAs); the Contra Costa County Schools Insurance Group (CCCSIG) for workers' compensation insurance; the Contra Costa and Solano Counties School Districts' Self-Insurance Authority (CCSCSDSIA) for property and liability insurance, Schools Excess Liability Fund (SELF) for excess liability, property, and workers' compensation coverage, and Schools Self-Insurance of Contra Costa County (SSICCC) for dental and vision. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

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

NOTE 14 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record decrease of capital assets. The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 12,363,255
Restatement	(2,429,183)
Net Position - Beginning, as Restated	<u>\$ 9,934,072</u>

REQUIRED SUPPLEMENTARY INFORMATION

MARTINEZ UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 32,700,668	\$ 32,431,497	\$ 32,978,127	\$ 546,630
Federal sources	1,250,926	1,373,333	1,211,206	(162,127)
Other state sources	3,658,674	3,370,330	4,791,300	1,420,970
Other local sources	3,289,577	4,082,370	3,278,742	(803,628)
Total Revenues	40,899,845	41,257,530	42,259,375	1,001,845
EXPENDITURES				
Certificated salaries	18,667,963	19,241,600	19,768,699	(527,099)
Classified salaries	5,090,724	4,917,678	5,262,722	(345,044)
Employee benefits	8,779,836	9,221,138	9,901,827	(680,689)
Books and supplies	1,511,013	1,734,659	1,237,696	496,963
Services and other operating expenditures	4,962,069	7,149,992	3,835,576	3,314,416
Capital outlay	121,409	181,778	68,229	113,549
Other outgo				
Excluding transfers of indirect costs	8,432	8,432	542,092	(533,660)
Transfers of indirect costs	(13,173)	-	(141,753)	141,753
Total Expenditures	39,128,273	42,455,277	40,475,088	1,980,189
Excess (Deficiency) of Revenues				
Over Expenditures	1,771,572	(1,197,747)	1,784,287	2,982,034
Other Financing Sources (Uses)				
Transfers in	-	-	16,847	16,847
Transfers out	(820,000)	(220,000)	(220,000)	-
Net Financing Sources (Uses)	(820,000)	(220,000)	(203,153)	16,847
NET CHANGE IN FUND BALANCE				
	951,572	(1,417,747)	1,581,134	2,998,881
Fund Balance - Beginning	5,827,098	6,013,308	6,013,308	-
Fund Balance - Ending	\$ 6,778,670	\$ 4,595,561	\$ 7,594,442	\$ 2,998,881

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

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Post-Employment Benefits in accordance with the fund type definitions promulgated by GASB Statement No. 54.

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
November 1, 2014	\$ -	\$ 11,338,360	\$ 11,338,360	0%	\$ 17,653,285	64%
November 1, 2012	\$ -	\$ 7,943,100	\$ 7,943,100	0%	\$ 17,180,812	46%
March 1, 2010	\$ -	\$ 9,734,922	\$ 9,734,922	0%	\$ 16,515,225	59%

See accompanying note to required supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.041%	0.037%
District's proportionate share of the net pension liability	\$ 27,693,387	\$ 21,621,690
States's proportionate share of the net pension liability associated with the District	14,646,709	13,469,895
Total	<u>\$ 42,340,096</u>	<u>\$ 35,091,585</u>
District's covered-employee payroll	\$ 20,440,103	\$ 17,229,285
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	135.5%	125.5%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALPERS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.046%	0.040%
District's proportionate share of the net pension liability	\$ 6,750,523	\$ 4,540,974
District's covered-employee payroll	\$ 5,819,464	\$ 4,326,219
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	116.0%	105.0%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,133,893	\$ 1,702,623
Contributions in relation to the contractually required contribution*	(2,133,893)	(1,702,623)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 20,440,103	\$ 17,229,285
Contributions as a percentage of covered-employee payroll	10.44%	9.88%

*Amounts do not include on behalf contributions

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 658,055	\$ 610,361
Contributions in relation to the contractually required contribution	(658,055)	(610,361)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,819,464	\$ 4,326,219
Contributions as a percentage of covered-employee payroll	11.31%	14.11%

See accompanying note to required supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

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

Schedule of District Contributions

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

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 19,241,600	\$ 19,768,699	\$ 527,099
Classified salaries	\$ 4,917,678	\$ 5,262,722	\$ 345,044
Employee benefits	\$ 9,221,138	\$ 9,901,827	\$ 680,689
Other outgo			
Excluding transfers of indirect costs	\$ 8,432	\$ 542,092	\$ 533,660

SUPPLEMENTARY INFORMATION

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected Adult Education	84.010	14329	\$ 308,889
Adult Education: Adult Secondary Education	84.002A	13978	23,512
Adult Education: English Literacy and Civics Education	84.002A	14109	35,001
Subtotal Adult Education			<u>58,513</u>
Title II, Part A, Teacher Quality	84.367	14341	53,943
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	3,843
Department of Rehab: Workability II, Transition Partnership	84.158	10006	99,234
Indian Education	84.060	10011	80,220
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	617,716
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	50,059
Part B, Preschool Grants	84.173	13430	10,481
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	28,399
IDEA Quality Assurance & Focused Monitor	84.173A	13431	38,244
Subtotal Special Education Cluster			<u>744,899</u>
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	<u>164,834</u>
Total U. S. Department of Education			<u><u>1,514,375</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	13390	127,611
National School Lunch Program	10.555	13391	394,993
USDA Commodities	10.555	*	62,700
Subtotal Child Nutrition Cluster			<u>585,304</u>
Child & Adult Care Food Program	10.558	13666	<u>109,025</u>
Total U. S. Department of Agriculture			<u>694,329</u>
Total Federal Expenditures			<u><u>\$ 2,208,704</u></u>

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

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2016

	Second Period Report	Revised Second Period Report	Annual Report
SCHOOL DISTRICT			
TK/K through Third			
Regular ADA	1,187.72	1,187.78	1,189.06
Extended Year Special Education	0.72	0.72	0.72
Special Education - Nonpublic Schools	1.90	1.90	1.81
Extended Year Special Education - Nonpublic Schools	0.45	0.45	0.45
Total TK/K through Third	1,190.79	1,190.85	1,192.04
Fourth through Sixth			
Regular ADA	948.16	948.07	947.36
Extended Year Special Education	1.21	1.21	1.21
Special Education - Nonpublic Schools	0.80	0.80	0.82
Extended Year Special Education - Nonpublic Schools	0.04	0.04	0.04
Total Fourth through Sixth	950.21	950.12	949.43
Seventh through Eighth			
Regular ADA	637.45	637.46	635.98
Extended Year Special Education	0.45	0.45	0.45
Special Education - Nonpublic Schools	1.54	1.54	1.69
Extended Year Special Education - Nonpublic Schools	0.19	0.19	0.19
Total Seventh through Eighth	639.63	639.64	638.31
Ninth through Twelfth			
Regular ADA	1,249.17	1,249.12	1,242.81
Special Education - Nonpublic Schools	4.10	4.10	4.02
Extended Year Special Education - Nonpublic Schools	0.76	0.76	0.76
Total Ninth through Twelfth	1,254.03	1,253.98	1,247.59
TOTAL SCHOOL DISTRICT	4,034.66	4,034.59	4,027.37

See accompanying note to supplementary information.

**MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	Minutes Requirement	2015-16 Actual	Number of Days	Status
		Minutes		
Kindergarten	36,000	36,000	180	Complied
Grade 1	50,400	53,450	180	Complied
Grade 2	50,400	53,450	180	Complied
Grade 3	50,400	53,450	180	Complied
Grade 4	54,000	55,520	180	Complied
Grade 5	54,000	55,520	180	Complied
Grade 6	54,000	54,780	180	Complied
Grade 7	54,000	54,780	180	Complied
Grade 8	54,000	54,780	180	Complied
Grade 9	64,800	67,084	180	Complied
Grade 10	64,800	67,084	180	Complied
Grade 11	64,800	67,084	180	Complied
Grade 12	64,800	67,084	180	Complied

MARTINEZ UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

	2017 (Budget)	2016	2015***	2014***
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 40,104,559	\$ 42,276,222	\$ 37,316,043	\$ 33,545,895
Expenditures And Other Financing Uses	42,267,566	40,695,088	39,847,043	34,327,577
Net change in Fund Balance	\$ (2,163,007)	\$ 1,581,134	\$ (2,531,000)	\$ (781,682)
Ending Fund Balance	\$ 5,431,435	\$ 7,594,442	\$ 7,005,397	\$ 9,536,397
Available Reserves*	\$ 4,171,677	\$ 4,133,793	\$ 5,473,540	\$ 6,832,677
Available Reserves As A Percentage Of Outgo	9.87%	10.16%	13.74%	19.90%
Long-term Debt	\$ 88,579,524	\$ 89,303,377	\$ 81,177,018	\$ 53,523,338
Average Daily Attendance At P-2	4,035	4,035	4,039	4,028

The General Fund balance has decreased by \$1,941,955 over the past two years. The fiscal year 2016-17 budget projects a further decrease of \$2,163,007. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$35,780,039 over the past two years.

Average daily attendance has increased/decreased by 7 ADA over the past two years. No change in ADA is anticipated during the 2016-17 fiscal year.

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

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Post-Employment Benefit, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

***2015 and 2014 amounts presented on this schedule include the financial activity of the Special Reserve Fund for Postemployment Benefits

**MARTINEZ UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	Special Reserve Fund for Postemployment Benefits
June 30, 2016, annual financial and budget report fund balance	\$ 7,594,442	\$ 17,107,415	\$ 640,136
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Accounts payable accrual	-	(172,000)	-
Fund balance transfer (GASB 54)	640,136	-	(640,136)
Net adjustments and reclassifications	640,136	(172,000)	(640,136)
June 30, 2016, audited financial statement fund balance	\$ 8,234,578	\$ 16,935,415	\$ -

MARTINEZ UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2016

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	\$ 779,158	\$ 8,311	\$ 57,783	\$ 2,404,830	\$ 1,971,534	\$ 3,226,432	\$ 2,482,132	\$ 10,930,180
Accounts receivable	270,464	107,557	-	-	-	-	-	378,021
Due from other funds	-	-	-	100,568	-	-	-	100,568
Total Assets	\$ 1,049,622	\$ 115,868	\$ 57,783	\$ 2,505,398	\$ 1,971,534	\$ 3,226,432	\$ 2,482,132	\$ 11,408,769
LIABILITIES								
Accrued liabilities	\$ 81,518	\$ 47,426	\$ 94	\$ -	\$ -	\$ 133,787	\$ -	\$ 262,825
Due to other funds	108,534	33,219	-	15,447	-	100,568	-	257,768
Unearned revenue	119,273	-	-	-	-	-	-	119,273
Total Liabilities	309,325	80,645	94	15,447	-	234,355	-	639,866
FUND BALANCES								
Non-spendable	5,000	-	-	-	-	-	-	5,000
Restricted	169,274	25,239	-	2,489,951	1,971,534	2,992,077	2,482,132	10,130,207
Committed	566,023	-	57,689	-	-	-	-	623,712
Assigned	-	9,984	-	-	-	-	-	9,984
Total Fund Balances	740,297	35,223	57,689	2,489,951	1,971,534	2,992,077	2,482,132	10,768,903
Total Liabilities and Fund Balance	\$ 1,049,622	\$ 115,868	\$ 57,783	\$ 2,505,398	\$ 1,971,534	\$ 3,226,432	\$ 2,482,132	\$ 11,408,769

See accompanying note to supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES								
Federal sources	\$ 303,169	\$ 694,329	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 997,498
Other state sources	1,476,621	41,398	-	-	-	-	22,261	1,540,280
Other local sources	768,364	574,001	185	528,259	-	16,770	3,295,628	5,183,207
Total Revenues	2,548,154	1,309,728	185	528,259	-	16,770	3,317,889	7,720,985
EXPENDITURES								
Current								
Instruction	1,279,062	-	-	-	-	-	-	1,279,062
Instruction-related services								
Instructional supervision and administration	221,823	-	-	-	-	-	-	221,823
Instructional library, media, and technology	66,767	-	-	-	-	-	-	66,767
School site administration	459,657	-	-	-	-	-	-	459,657
Pupil services								
Food services	-	1,242,967	-	-	-	-	-	1,242,967
General administration								
All other general administration	108,534	33,219	-	-	-	-	-	141,753
Plant services	282,416	8,250	25,831	-	-	103,015	-	419,512
Facilities acquisition and maintenance	-	-	4,000	15,869	-	672,590	-	692,459
Community services	255	-	-	-	-	-	-	255
Debt service								
Principal	-	-	-	-	-	-	1,203,015	1,203,015
Interest and other	-	-	-	-	-	-	2,610,566	2,610,566
Total Expenditures	2,418,514	1,284,436	29,831	15,869	-	775,605	3,813,581	8,337,836
Excess (Deficiency) of Revenues Over Expenditures	129,640	25,292	(29,646)	512,390	-	(758,835)	(495,692)	(616,851)
Other Financing Sources (Uses)								
Transfers in	-	-	70,000	-	-	150,000	-	220,000
Transfers out	(1,400)	-	-	(15,447)	-	-	-	(16,847)
Net Financing Sources (Uses)	(1,400)	-	70,000	(15,447)	-	150,000	-	203,153
NET CHANGE IN FUND BALANCE	128,240	25,292	40,354	496,943	-	(608,835)	(495,692)	(413,698)
Fund Balance - Beginning	612,057	9,931	17,335	1,993,008	1,971,534	3,600,912	2,977,824	11,182,601
Fund Balance - Ending	\$ 740,297	\$ 35,223	\$ 57,689	\$ 2,489,951	\$ 1,971,534	\$ 2,992,077	\$ 2,482,132	\$ 10,768,903

See accompanying note to supplementary information.

MARTINEZ UNIFIED SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

The Martinez Unified School District was unified in 1963, and is comprised of an area of approximately 24 square miles located in Contra Costa County. There were no changes in the boundaries of the District during the current year. The District is operating Four elementary schools, one junior high school, one high school, one continuation high school, a full-time independent study program and an adult school.

GOVERNING BOARD

Member	Office	Term Expires
Deidre M. Siguenza	President	December 2018
Bobbi Horack	Vice President	December 2018
John Fuller	Clerk	December 2016
Kathi McLaughlin	Member	December 2016
Johnathan Wright	Member	December 2016

DISTRICT ADMINISTRATORS

CJ Cammack
Superintendent

Diane Deshler
Chief Business Official

MARTINEZ UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections 46200 through 46208*. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Martinez Unified School District
Martinez, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martinez Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Martinez Unified School District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control over Financial Reporting

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Findings #2016-01 – 2016-06)

Compliance and Other Matters

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

Martinez Unified School District's Response to Findings

Martinez Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Martinez Unified School 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.



San Diego, California
December 9, 2016

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Martinez Unified School District
Martinez, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item #2016-07. Our opinion on each major federal program is not modified with respect to these matters.

Martinez Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Martinez Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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

Christy White Associates

San Diego, California
December 9, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Martinez Unified School District
Martinez, California

Report on State Compliance

We have audited Martinez Unified School District's 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*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Martinez Unified School District's state programs for the fiscal year ended June 30, 2016, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Martinez Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Martinez Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Martinez Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Martinez Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2016-08 through #2016-10. Our opinion on state compliance is not modified with respect to these matters.

Martinez Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Martinez Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
December 9, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MARTINEZ UNIFIED SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	Yes
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.027, 84.173, 84.027A, 84.173A	Special Education Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	750,000
Auditee qualified as low-risk auditee?		Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for state programs:	Unmodified

MARTINEZ UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

FINDING #2016-01- DISTRICT CASH IN COMMERCIAL BANK (30000)

Criteria: Sound accounting practices require transactions occurring in District bank accounts be accounted for completely and accurately in the District's general ledger.

Condition: During our testing of the District Revolving, Adult Education and Cafeteria commercial bank accounts for clearing the revolving, we noted the District reported the June 30, 2016 ending balance differently from the bank reconciliation. The Cafeteria account was understated \$3,098. The two (2) Adult Education accounts were overstated \$17,645 and \$2,157 respectively. For the District Revolving Cash balance for Fund 01 in the general ledger is \$5,370 which there was any backup bank statements and bank statement reconciliation for this account. Auditor was unable to test the recorded balance. In addition, through reviewing the prior year audit report, auditor noticed this account balance was carried over from prior year.

Questioned Costs: The effect of these errors results in an overstatement of cash in the general ledger.

Cause: The District did not reconcile the monthly bank statements to the recorded account balances to the District's general ledger.

Effect: Errors could occur in the recording of cash transactions and not be detected and corrected by a District employee performing their regular duties.

Recommendation: The District should review the bank activity each month and perform a complete and accurate reconciliation of the bank statement to the recorded balance. The reconciliations should be completed timely and discrepancies promptly resolved.

District Response: The District agrees with the finding. Procedures have been implemented where account bank activity is reviewed and reconciled on a monthly basis.

**MARTINEZ UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2016-02: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000)

Criteria: Proper internal controls should be in place to ensure Associated Student Body (ASB) funds are properly collected, deposited and expended as part of the District's fiduciary duty. In addition, adequate internal controls will ensure that fiduciary fund assets are safeguarded.

Condition: Sites listed and detailed below were determined to be lacking proper internal controls and audit documentation relating to budgeting, cash disbursements, and/or cash receipts. The deficiencies in internal controls noted include the following:

Las Juntas Elementary School

- Pre-numbered receipts are not issued when cash is turned in, we could not identify any mitigating controls such as double counting and/or sign off.

Martinez Junior High School

- 9 (nine) out of 10 disbursements selected for testing did not contain adequate documentation of expenditure approval. Authorizations should include the approval signatures of an administrative employee (principal or vice principal), ASB advisor, and a representative of the student body.
- 2 (two) out of 10 cash receipts selected for testing did not trace correctly from supporting documentation to the actual deposit amount, the auditor was not able to receive supporting documentation to substantiate the cash received.

Alhambra High School

- Based on our internal control review of the ASB, it appears that there is a lack of proper segregation of duties. Through our evaluation of internal controls, it appears the ASB bookkeeper handles authorization, recording, and custodial functions related to accounting for student body funds and is a signor on the account.

Cause: Lack of adequate oversight and/or noncompliance with District accounting policies.

Effect: A lack of proper internal controls can lead to accounting irregularities to go undetected and increase the potential for the misappropriation of fiduciary fund assets.

Perspective: We audited the ASB funds at the schools for testing in the fiscal year 2015-16. Our audit included an evaluation of internal control procedures over cash disbursements, cash receipts, inventory, budgeting, and ASB organization.

Recommendation: Training and instruction on the use of standardized formats should continue to be provided annually with compliance follow-up by the district office. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented. Proper controls over cash receipting and cash disbursements are integral for proper safeguarding of assets.

**MARTINEZ UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2016-02: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000), continued

District Response: The district agrees with the recommendation. In September 2016, Martinez Junior High School (MJHS) Vice Principal and Leadership Teacher, and the Alhambra High School Assistant Principal attended the FCMAT Associated Student Body Training Workshop with the District CBO. MJHS administration is working closely with district business staff to improve the internal control procedures as outlined in the audit. ASB training for all district administrators is scheduled in February.

FINDING #2016-03: ASSOCIATED STUDENT BODY INTERNAL CONTROLS – BANK RECONCILIATIONS (30000)

Criteria: Proper internal controls should be in place to ensure Associated Student Body (ASB) funds are properly collected, deposited and expended as part of the District's fiduciary duty. In addition, adequate internal controls will ensure that fiduciary fund assets are safeguarded.

Condition: Sites listed and detailed below were determined to be lacking proper internal controls for bank reconciliation procedures:

- *Las Juntas Elementary School* - The Las Juntas June 2016 bank statement, bank reconciliations and Register Report, auditor noted the ending reconciled bank balance \$2,992.39 is different from the ending Register Balance \$2,991.37. Variance is \$1.08.
- *Morello Park ASB* – The Morello Park ASB June 2016 bank statement, bank reconciliations and Register Report, auditor noted deposit reference # 37809345 amount \$329.5 and deposit reference # 37012932 amount \$16.5 from the June 2016 bank statement were not recorded on the Register Report. After adjusting the total inflows and total outflow on the Register Report, the new adjusted net total is \$3,138.52. Auditor also noted the ending reconciled bank balance \$15,245.95 is different from the adjusted ending Register balance \$14,601.19. Variance is \$644.76.
- *Martinez Junior High School ASB* -After reviewing Martinez Junior High June 2016 bank statement, bank reconciliations and Register Report, auditor acquired the June 2015 bank statement and bank reconciliations to verify the beginning balance. Auditor noted the ending reconciled bank balance \$80,200.71 is different from the ending register balance \$80,196.71. Variance is \$4.54.

Cause: The sites and District did not reconcile the monthly bank statements to the recorded account balances in the District's general ledger.

Effect: Errors could occur in the recording of cash transactions and not be detected and corrected by a District employee performing their regular duties.

Recommendation: The District should review the bank activity each month and perform a complete and accurate reconciliation of the bank statement to the recorded balance. The reconciliations should be completed timely and discrepancies promptly resolved.

**MARTINEZ UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2016**

**FINDING #2016-03: ASSOCIATED STUDENT BODY INTERNAL CONTROLS – BANK RECONCILIATIONS
(30000), continued**

District Response: The District agrees with the finding. Procedures have been implemented where account bank activity is reviewed and reconciled on a monthly basis.

FINDING #2016-04- CAPITAL ASSETS INVENTORY (20000)

Criteria: The District's policy is to record assets purchased or acquired with an original cost of \$5,000 or more as capital assets. All additions and deletions should be included in the capital asset listing in a timely manner so the District's records are current and accurate. All depreciable capital assets should be depreciated on the straight-line basis over an estimated useful life.

Condition: During our audit of capital assets, we determined the capital assets valuation has not been properly reconciled until the 2015-16 fiscal year. The listing of capital assets has not been updated completely for all additions, deletions, work in progress and depreciation which resulted in a restatement to the beginning net position.

Cause: The District had not been following its policy for recording capital assets and updating the listing in an accurate and timely manner until 2015-16.

Effect: Lack of complete and current listings of all capital assets including work in progress and completed capital projects will lead to inaccurate capital asset records and potential loss of control over District assets.

Questioned Costs: This resulted in a restatement of \$2,429,183 to capital assets.

Recommendation: We recommend the following:

1. The District should maintain current capital asset inventory records, updated throughout the year by including additions and eliminating disposed items.
2. The capital asset records should summarize projects completed and placed into service at the end of each year.

District Response: The district agrees with the recommendation. District has researched, evaluated and implemented new procedures and software for maintaining capital asset inventory records which will be updated throughout the year. The district has developed and implemented new procedures for tracking capital asset records including a new process for tracking work in progress and completed capital projects.

**MARTINEZ UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS , continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2016-05: ACCOUNTS PAYABLE ACCRUALS (30000)

Criteria: Accrual accounting requires that expenditures be recorded in the period in which they are incurred. Internal controls should be implemented to ensure that accounting transactions are recorded in the proper period and follow proper accrual accounting standards.

Condition: During testing of accounts payable, we found one capital outlay expenditures for a total of \$172,000 for work completed prior to June 30, 2016 that should have been recorded as accrued liabilities in 2015-16.

Cause: The services were complete on June 28, 2016, the information did not get relayed to the accounting department.

Effect: Transactions not recorded in the proper period could lead to misstatements.

Perspective: Testing of accounts payable balances.

Recommendation: We recommend that the District implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

District Response: The district agrees with the recommendation and has updated appropriate internal control procedures.

FINDING #2016-06: CASH DISBURSEMENT INTERNAL CONTROLS (30000)

Criteria: Expenditures going through the purchasing process should obtain proper approval and funds should be encumbered prior to purchases. In addition, the District should be monitoring any open purchase orders to verify total approved purchase order amount is not exceeded.

Condition: During our testing of internal controls over cash disbursements at the Adult Education site, it was noted that cash disbursements were not obtaining proper pre-approval prior to the expenditure being made. In addition the person who is taking the cash, check or card payment is also the signor on the account.

Cause: Lack of segregation of duties at the Adult Education site.

Effect: The possibility to circumvent the purchasing process and not encumber funds.

Perspective: Six (6) out of eight (8) revolving cash disbursements did not have an approval signature on the form

Recommendation: We recommend that the District revise internal controls and adopt a system to allow for pre-approval and a segregation of duties at the Adult Education site.

District Response: The district agrees with the recommendation. The appropriate internal control procedures and training have been implemented at the Adult Education site.

**MARTINEZ UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

FINDING #2016-07- FEDERAL COMPLIANCE – TIME REPORTING (50000)

Criteria: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, requires an accounting for personnel time on multi-funded positions by the time spent on each program and to semi-annually certify positions charged 100% to federal programs. Standards for Documentation of Personnel Expenses Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the non-Federal entity
- Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities
- Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- Comply with the established accounting policies and practices of the non-Federal entity
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.
- Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

Condition: Auditor selected employees with salaries coded during the month of November to the IDEA Special Education Cluster (Resource 3310 and 3320). 2/25 employees tested with salaries coded to the IDEA special education cluster during the month of November did not have any time certifications on file for the 2015-16 year. 23/25 of the employees tested with salaries coded to the IDEA special education cluster during the month of November only had time certifications prepared once during the year. It is required that the time certifications for single funded employees be prepared twice a year.

Cause: The District has not been following its policy for proper time accounting.

Effect: The District is not in compliance.

MARTINEZ UNIFIED SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-07- FEDERAL COMPLIANCE – TIME REPORTING (50000) (continued)

Questioned Costs: Although the District was not in compliance we did not find any questionable costs.

Recommendation: We recommend the prepare time certification semi-annually.

District Response: The district agrees with the recommendation. New procedures have been implemented to ensure time certifications are completed semi-annually.

**MARTINEZ UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

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

FINDING #2016-08 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b).

Condition: 20 of 60 pupils tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as free or reduced price meal eligible (FRPM) did not have proper supporting documentation to support their designation.

Cause: The District was unaware that this meal application status from the approved child nutrition software program did not update into the Aeries system for CALPADS purposes. Thus, the CALPADS report was submitted prior to the meal application status updates for the 2016-17 school year.

Effect: The District is not in compliance with applicable state requirements.

Context: 20 of 60 students reported as FRPM eligible did not have proper supporting documentation to support their designation.

Questioned Costs: To determine questioned costs, the error rate (20/60) was extrapolated over the entire impacted population for all schools, as the error only related to FRPM determination, only pupils eligible based on FRPM were considered. For the calculation we found 20 out of our sample of 60 did not have an application on file, for a percentage of 33%. The total population that was FRMP was 477, this $477 \times 33\% = 159$. The 159 is used as the number of Unduplicated Pupil Count audit adjustment. The final penalty to the District will be \$42,136, calculated below.

The District did submit a revised CALPADS report. We did an additional audit of this report and pulled a sample of 60 FRPM eligible students and found no instances of non-compliance.

MARTINEZ UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-08 – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)
(continued)

Questioned Costs, continued:

UPP Audit Adjustment		Section 1: Regular UPP	Section 2: Alternate UPP*
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	12,598	12,681
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	3,997	4,153
3	Number of Unduplicated Pupil Count audit adjustment	(159)	(159)
4	Revised Adjusted Unduplicated Pupil Count	3,838	3,994
5	UPP calculated as of P-2	0.3173	0.3275
6	Revised UPP for audit finding	0.3047	0.3150
7	Greater of Revised UPP for audit finding from Section 1 or 2	0.3150	
9	Revised UPP adjusted for Concentration Cap	0.3150	
LCFF Target Base Grant Funding		Estimated Values	
10	Total Base Grant Funding as of P-2	\$32,068,609	
LCFF Target Supplemental Grant Funding Audit Adjustment			
11	Target Supplemental Grant Funding calculated as of P-2	\$2,100,494	
12	Revised Target Supplemental Grant Funding for audit finding	\$2,020,322	
13	Target Supplemental Grant Funding audit adjustment	(\$80,172)	
Estimated Value of Unduplicated Pupil Count Audit Adjustment at LCFF Target			
17	Total Target Supplemental and Concentration audit adjustment	(\$80,172)	
Estimated Value of Unduplicated Pupil Count Audit Adjustment in LCFF Transition			
18	Statewide Gap Funding Rate as of P-2	0.52557615 97	
21	Estimated Value of Unduplicated Pupil Count audit adjustment	(\$42,136)	

Recommendation: We recommend that the District ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have supporting documentation to support their CALPADS designation.

District Response: The district agrees with the recommendation. District has implemented revised internal controls to ensure that the meal application process is completed and updated correctly to ensure that all students listed as FRPM in the CALPADS 1.18 report have supporting documentation to support their CALPADS designation.

**MARTINEZ UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING 2016-09: INDEPENDENT STUDY (10000)

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

Condition: Through our testing of short term independent study, we noted the following deficiencies:

Las Juntas Elementary School

- 5 out of 5 contracts reviewed were not signed prior to the commencement of the independent study contract or note the number of days given by the certificated teacher. (K, 5 days, Grade 3, 11 days, Grade 5, 13 days for a total of 29 days overstated).

Alhambra High School

- 3 out of 4 contracts reviewed were not signed prior to the commencement of the independent study contract. (A total of 20 days overstated)

Cause: Procedures were not followed to obtain all required elements of the independent study agreement on or before the independent study date.

Context: The discrepancies in attendance were noted within the short term independent study program at one out of the three school sites tested.

Effect: Loss of apportionment funding for days of attendance related to incomplete and deficient independent study contracts.

Questioned Costs: A total of 49 attendance days are overstated, however the District has submitted a revised P2 report to correct this overstatement.

Recommendations: We recommend that the District implement adequate procedures to ensure that independent study contracts are being filled out with all the necessary information required by Education Code Section 51747 and completed prior to the beginning of the contract.

District Response: The district agrees with the recommendation. The district has made the changes as required and updated the second period attendance report to reflect the changes. Procedures have been implemented so that independent study contracts are being filled out with all the required information.

MARTINEZ UNIFIED SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-10: ATTENDANCE ACCOUNTING (10000)

Criteria: Absence notes, tardy notes, signed rosters and other source documentation of attendance should be correctly posted to the District's attendance system and retained per Education Code Section 46000 et seq.

Auditors are required to verify compliance in Section 19817.1 if the *Standards and Procedures for Audits of California K-12 Local Education Agencies*.

Condition: During our testing of attendance we noted that there were multiple instances where one student was marked absent by the teacher, but the student had signed into the tardy log and was not properly reflected in the system.

Las Juntas Elementary School

- 1 of 10 tardy notes selected for testing did not agree with attendance register in Aeries. Tardy note did not agree with status in Aeries. The Student was marked absent by substitute teacher on signed verification register and in the attendance systems. (Grade 3)
- 1 of 10 absent notes selected for testing did not agree with attendance register in Aeries. The student was marked present in the Aeries system and marked present on teachers signed verification register. (Grade 3)

Alhambra High School

- 1 of 10 attendance registers did not agree to teacher's signed verification register. Student marked absent on teacher's verification register but was marked present in Aeries. Auditor was able to verify in absence call log that parent called in to report student as absent all day.

Cause: Inadequate controls over the record keeping of attendance documents.

Effect: The District has overstated ADA by the total numbers of students for each missing roster.

Questioned Costs: None, the District has submitted a revised P2 Report to correct this overstatement.

Perspective: Attendance was tested at four school sites.

Recommendation: We recommend that the District ensure that proper attendance accounting and record keeping is taking place at the various school sites. In addition, the District should provide training on controls and compliance over attendance accounting and revise the P-2 to reflect the changes.

District Response: The district agrees with the recommendation. The district has made the changes as required and updated the second period attendance report to reflect the changes.

**MARTINEZ UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2015-1- DISTRICT BUDGET RESTRICTION ON EXPENDITURES (30000)

Criteria: *California Education Code* Section 42600 states the total amount budgeted as the proposed expenditure of the school district shall be the maximum amount which may be expended for the school year.

Condition: During our audit of Martinez Unified School District, we determined the total appropriations were exceeded in the General Fund during fiscal year 2014-2015.

Questioned Costs: The amount appropriated in the adopted General Fund budget of \$12,290,680 was revised during the year, increasing appropriations approved by the Governing Board to \$14,467,405. The actual General Fund expenditures and transfers to other funds were \$14,829,196, exceeding revised appropriations by \$367,191.

Cause: Expenditures were processed during fiscal year 2014-2015 with Governing Board approval for the appropriation.

Effect: Processing proposed expenditures without a review to ensure the item has been appropriated in the most recent budget, reduces management's ability to control District expenditures.

Recommendation: We recommend expenditures be monitored by District administration to ensure appropriations are not exceeded. Budget adjustments or transfers should be processed to adjust appropriations when actual expenditures exceed estimates. No expenditure should be approved that would result in appropriations being exceeded and a transfer from an under-expended account or available reserves has not been obtained.

District Response: The District has developed and is currently implementing a plan to prevent total expenditures from exceeding proposed and approved appropriations. The plan includes training of District business services staff and changing internal controls processes. This includes no longer allowing budget override when processing requisition.

The District will be training the Account Supervisor and accounting department staff. This process will continue to be monitored with additional training provided when necessary. Monthly budget reports will be reviewed as part of this process.

Current Status: Implemented.

MARTINEZ UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-2- CAPITAL ASSETS INVENTORY (20000)

Criteria: The District's policy is to record assets purchased or acquired with an original cost of \$5,000 or more as capital assets. All additions and deletions should be included in the capital asset listing in a timely manner so the District's records are current and accurate. All depreciable capital assets should be depreciated on the straight-line basis over an estimated useful life.

Condition: During our audit of capital assets, we determined the capital assets valuation has not been properly reconciled. The listing of capital assets has not been updated completely for all additions, deletions, work in progress and depreciation.

Cause: The District has not been following its policy for recording capital assets and updating the listing in an accurate and timely manner.

Effect: Lack of complete and current listings of all capital assets including work in progress and completed capital projects will lead to inaccurate capital asset records and potential loss of control over District assets.

Questioned Costs: The District reported fixed assets of \$99.6 million and accumulated depreciation of \$40 million.

Recommendation: We recommend the following:

1. The District should maintain current capital asset inventory records, updated throughout the year by including additions and eliminating disposed items.
2. The capital asset records should summarize projects completed and placed into service at the end of each year.
3. A physical inventory of all equipment should be conducted and the asset inventory records updated for all differences. It is not necessary to perform physical inventories every year, however an inventory of each sit should be completed at least every three (3) years.

District Response: District agrees with the recommendation and will implement.

Current Status: See Finding #2016-03.

MARTINEZ UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-3- DISTRICT CASH IN COMMERCIAL BANK (30000)

Criteria: Sound accounting practices require transactions occurring in District bank accounts be accounted for completely and accurately in the District's general ledger.

Condition: During our testing of the Adult Education and Cafeteria commercial bank accounts for clearing the revolving, we noted the District reported the June 30, 2015 ending balance differently from the bank reconciliation. The Cafeteria account was understated \$284. The two (2) Adult Education accounts were overstated \$12,512 and \$4,080 respectively.

Questioned Costs: The effect of these errors results in an overstatement of \$16,308.

Cause: The District did not reconcile the monthly bank statements to the recorded account balances in the District's general ledger.

Effect: Errors could occur in the recording of cash transactions and not be detected and corrected by a District employee performing their regular duties.

Recommendation: The District should review the bank activity each month and perform a complete and accurate reconciliation of the bank statement to the recorded balance. The reconciliations should be completed timely and discrepancies promptly resolved.

District Response: District agrees with the finding and has implemented in 2015-2016

Current Status: See Finding #2016-01.

MARTINEZ UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-4- ASSOCIATED STUDENT BODY – BANK RECONCILIATIONS (30000)

Criteria: Sound accounting practices governing associated student body funds require the cash balance of each commercial bank account be reconciled to the monthly bank statement on a timely basis.

Condition: During our testing of internal controls over associated student body accounts, we noted the accounts for student body activity at Las Juntas Elementary School and John Muir Elementary School were not consistently reconciled in a timely manner.

Questioned Costs: The conditions referred to above were the result of our tests of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in an incorrect conclusion.

Cause: District policies relating to accounting for associated student body activity are not consistently followed.

Effect: Errors could occur in the recording of cash transactions and not be detected and corrected by a District employee performing their regular duties.

Recommendation: To improve controls for associated student body accounting at Las Juntas Elementary School and John Muir Elementary School, we recommend the cash balance be accurately reconciled to the monthly bank statement on a timely basis.

District Response: The District agrees with the recommendation and is in the process of developing a plan to improve associated student body accounting practices. These new procedures will include on-going monitoring by the Business Office of all associated student body activities.

Current Status: See Finding #2016-02.