

MILPITAS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

MILPITAS UNIFIED SCHOOL DISTRICT
Milpitas, California

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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MILPITAS UNIFIED SCHOOL DISTRICT
Milpitas, California

FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 9 and the General Fund Budgetary Comparison Schedule, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 43 to 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016 on our consideration of Milpitas 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 Milpitas Unified School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Sacramento, California
December 7, 2016

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

This discussion and analysis of Milpitas Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial position increased by 62.5% compared to last year due to the impact of the District's share of the net pension liability changes.
- Total governmental revenues were \$133.3 million, \$14 million more than previous year due to the increasing in Local Control Funding Formula and one-time state funding.
- The District's combined fund balances decreased by \$2.7 million, primarily due to Building improvement.
- The total cost of basic programs was \$124.2 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$96.6 million.
- Average daily attendance (grades K-12) decreased slightly by 3.56 ADA, or 0.04%.

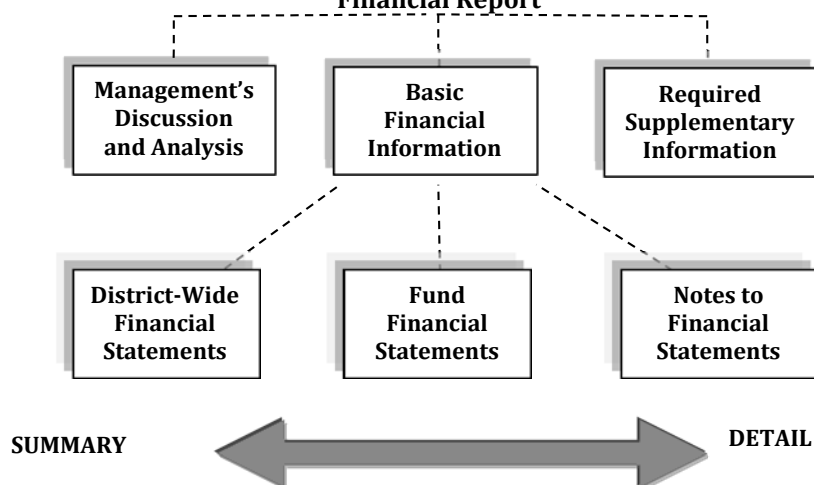
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Milpitas Unified School District's Annual Financial Report



MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain non-financial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

MILPITAS UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

The district-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 District'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 district-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health, or *position*.

- Over time, increases and decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's demographics and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

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

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

The District has two kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.
- ***Fiduciary funds*** – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

MILPITAS UNIFIED SCHOOL DISTRICT*Management's Discussion and Analysis (Unaudited)**For the Fiscal Year Ended June 30, 2016***FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net Position. The District's combined net position was higher on June 30, 2016, than it was the year before – increasing 62.5% to (\$5.7) million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	2016	2015	
Current assets	\$ 91,609,880	\$ 96,814,219	\$ (5,204,339)
Capital assets	136,540,631	130,707,504	5,833,127
Total assets	228,150,511	227,521,723	628,788
Total deferred outflows	9,222,805	6,968,727	2,254,078
Current liabilities	14,142,523	9,239,564	4,902,959
Long-term liabilities	220,134,877	220,624,366	(489,489)
Total liabilities	234,277,400	229,863,930	4,413,470
Total deferred inflows	8,765,000	19,755,732	(10,990,732)
Net position			
Net investment in capital assets	30,614,177	25,716,685	4,897,492
Restricted	29,296,883	28,153,518	1,143,365
Unrestricted	(65,580,144)	(68,999,415)	3,419,271
Total net position	\$ (5,669,084)	\$ (15,129,212)	\$ 9,460,128

Changes in net position, governmental activities. The District's total revenues increased 11.8% to \$133.3 million (See Table A-2). The increase is due primarily to higher LCFF apportionment and one-time discretionary funding.

The total cost of all programs and services increased 0.03% to \$124.2 million. The District's expenses are predominantly related to educating and caring for students, 77.8%. The purely administrative activities of the District accounted for just 2.8% of total costs. A significant contributor to the increase in costs was instruction.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	2016	2015	
Total Revenues	\$ 133,698,509	\$ 119,201,131	\$ 14,497,378
Total Expenses	124,238,381	123,907,544	330,837
Increase (decrease) in net position	\$ 9,460,128	\$ (4,706,413)	\$ 14,166,541

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S 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 \$86.9 million, which is below last year's ending fund balance of \$89.6 million. The primary cause of the decreased fund balance is Building improvement.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$14.1 million primarily to reflect changes in federal, state, and local categorical funding.
- Salaries and benefits costs – stayed consistent with the adopted budget.

While the District's final budget for the General Fund anticipated that expenditures would fall short of revenues by about \$2.7 million, the actual results for the year show that revenues exceeded expenditures by roughly \$4.5 million. Actual revenues were \$0.7 million less than anticipated, and expenditures were \$1.8 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2016 that will be carried over into the 2016-17 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested \$5.8 million in new capital assets, related to land improvement. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year exceeded \$7.2 million.

Table A-3: Capital Assets at Year End, net of Depreciation

	Governmental Activities		Variance Increase (Decrease)
	2016	2015	
Land	\$ 2,766,008	\$ 2,766,008	\$ -
Building and improvements	113,137,588	96,377,004	16,760,584
Furniture and equipment	12,174,302	13,360,167	(1,185,865)
Construction in progress	8,462,733	18,204,325	(9,741,592)
Total	\$ 136,540,631	\$ 130,707,504	\$ 5,833,127

Long-Term Debt

At year-end the District had \$227.1 million in general obligation bonds, capital leases and employment benefits – an increase of \$6.5 million – as shown in Table A-4 below. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements).

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities		Variance Increase (Decrease)
	2016	2015	
General obligation bonds	\$ 122,007,835	\$ 128,366,660	\$ (6,358,825)
Certificates of participation	14,731,438	15,274,478	(543,040)
Due to Santa Clara County	121,655	145,986	(24,331)
Capital leases	-	79,061	(79,061)
Other postemployment benefits	3,884,276	3,551,619	332,657
Net pension liability	85,993,000	72,967,556	13,025,444
Compensated absences	382,459	239,006	143,453
Total	\$ 227,120,663	\$ 220,624,366	\$ 6,496,297

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (408) 635-2600.

BASIC FINANCIAL STATEMENTS

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 84,898,967
Receivables	6,036,132
Prepaid expenses	168,669
Stores inventory	506,112
Non-depreciable capital assets (Note 4)	11,228,741
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>125,311,890</u>
Total assets	<u>228,150,511</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 7 and 8)	8,197,704
Deferred loss on refunding of debt	<u>1,025,101</u>
Total deferred outflows	<u>9,222,805</u>
LIABILITIES	
Accounts payable	6,412,984
Unearned revenue	743,753
Long-term liabilities:	
Due within one year (Note 5)	6,985,786
Due after one year (Note 5)	<u>220,134,877</u>
Total liabilities	<u>234,277,400</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 7 and 8)	<u>8,765,000</u>
NET POSITION	
Net investment in capital assets	30,614,177
Restricted:	
Legally restricted programs	5,726,172
Capital projects	14,755,380
Debt service	8,815,331
Unrestricted	<u>(65,580,144)</u>
Total net position	<u>\$ (5,669,084)</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges For Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Governmental Activities
Governmental activities:					
Instruction	\$ 76,237,498	\$ 639,842	\$ 13,766,211	\$ -	\$ (61,831,445)
Instruction-related services:					
Supervision of instruction	3,980,332	8,112	1,993,291	-	(1,978,929)
Instructional library, media and technology	125,125	-	6,791	-	(118,334)
School site administration	8,000,935	69,353	1,273,480	-	(6,658,102)
Pupil services:					
Home-to-school transportation	463,634	-	-	-	(463,634)
Food services	3,515,827	1,383,606	2,021,689	-	(110,532)
All other pupil services	4,266,374	22,876	756,444	-	(3,487,054)
General administration:					
Data processing	1,157,351	204	8,305	-	(1,148,842)
All other general administration	3,527,394	53,375	475,035	-	(2,998,984)
Plant services	10,608,393	178,415	624,191	-	(9,805,787)
Ancillary services	411,495	-	14,717	-	(396,778)
Community services	68	-	-	-	(68)
Other outgo	6,983,567	3,349,717	942,413	-	(2,691,437)
Interest on long-term liabilities	4,960,388	-	-	-	(4,960,388)
Total governmental activities	<u>\$ 124,238,381</u>	<u>\$ 5,705,500</u>	<u>\$ 21,882,567</u>	<u>\$ -</u>	<u>(96,650,314)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					55,542,138
Taxes levied for debt service					9,133,388
Taxes levied for other specific purposes					4,620,394
Federal and state aid not restricted to specific purposes					34,744,723
Interest and investment earnings					185,987
Miscellaneous					<u>1,883,812</u>
Total general revenues					<u>106,110,442</u>
Change in net position					9,460,128
Net position, July 1, 2015					<u>(15,129,212)</u>
Net position, June 30, 2016					<u>\$ (5,669,084)</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Building Fund	Capital Facilities Fund	All Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and investments:					
Cash in County Treasury	\$ 29,500,068	\$ 31,042,235	\$ 14,726,797	\$ 9,475,385	\$ 84,744,485
Cash on hand and in banks	135,569	-	-	-	135,569
Cash in revolving fund	15,000	-	-	3,913	18,913
Receivables	3,213,350	102,086	30,396	2,690,300	6,036,132
Due from other funds	2,033,536	756,695	-	578,072	3,368,303
Stores inventory	404,882	-	-	101,230	506,112
Prepaid expenditures	<u>153,382</u>	<u>11,928</u>	<u>-</u>	<u>3,359</u>	<u>168,669</u>
Total assets	<u>\$ 35,455,787</u>	<u>\$ 31,912,944</u>	<u>\$ 14,757,193</u>	<u>\$ 12,852,259</u>	<u>\$ 94,978,183</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,328,161	\$ 531,817	\$ 1,813	\$ 151,242	\$ 4,013,033
Unearned revenue	739,002	-	-	4,751	743,753
Due to other funds	<u>1,199,307</u>	<u>1,593,409</u>	<u>-</u>	<u>575,587</u>	<u>3,368,303</u>
Total liabilities	<u>5,266,470</u>	<u>2,125,226</u>	<u>1,813</u>	<u>731,580</u>	<u>8,125,089</u>
Fund balances:					
Nonspendable	573,264	11,928	-	108,502	693,694
Restricted	2,420,824	29,775,790	14,755,380	12,012,177	58,964,171
Assigned	8,521,220	-	-	-	8,521,220
Unassigned	<u>18,674,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,674,009</u>
Total fund balances	<u>30,189,317</u>	<u>29,787,718</u>	<u>14,755,380</u>	<u>12,120,679</u>	<u>86,853,094</u>
Total liabilities and fund balances	<u>\$ 35,455,787</u>	<u>\$ 31,912,944</u>	<u>\$ 14,757,193</u>	<u>\$ 12,852,259</u>	<u>\$ 94,978,183</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET POSITION
June 30, 2016

Total fund balances - Governmental Funds	\$	86,853,094
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$235,826,173 and the accumulated depreciation is \$99,285,542 (Note 4).		136,540,631
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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.		(2,399,951)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2016 consisted of (Note 5):

General Obligation Bonds	\$ (111,035,000)	
Unamortized premiums	(10,972,835)	
Certificates of Participation	(14,731,438)	
Due to Santa Clara County Office of Education (SCCOE)	(121,655)	
Net pension liability (Note 7 and 8)	(85,993,000)	
Other postemployment benefits (Note 9)	(3,884,276)	
Compensated absences	<u>(382,459)</u>	
		(227,120,663)

Losses on refundings of debt are categorized as deferred outflows and are amortized over the life of the related debt.		1,025,101
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In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	\$ 8,197,704	
Deferred inflows of resources relating to pensions	<u>(8,765,000)</u>	
		<u>(567,296)</u>

Total net position - governmental activities	\$	<u><u>(5,669,084)</u></u>
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See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund	Building Fund	Capital Facilities Fund	All Non-Major Funds	Total Governmental Funds
Revenues:					
Local Control Funding Formula (LCFF):					
State apportionment	\$ 26,562,287	\$ -	\$ -	\$ -	\$ 26,562,287
Local sources	<u>55,486,448</u>	<u>-</u>	<u>-</u>	<u>55,689</u>	<u>55,542,137</u>
Total LCFF	<u>82,048,735</u>	<u>-</u>	<u>-</u>	<u>55,689</u>	<u>82,104,424</u>
Federal sources	3,705,614	-	-	2,358,424	6,064,038
Other state sources	13,858,909	-	-	3,926,068	17,784,977
Other local sources	<u>8,982,396</u>	<u>4,535,398</u>	<u>2,818,221</u>	<u>11,019,054</u>	<u>27,355,069</u>
Total revenues	<u>108,595,654</u>	<u>4,535,398</u>	<u>2,818,221</u>	<u>17,359,235</u>	<u>133,308,508</u>
Expenditures:					
Current:					
Certificated salaries	49,694,109	-	-	2,804,573	52,498,682
Classified salaries	13,110,021	185,500	18,189	2,331,152	15,644,862
Employee benefits	20,666,481	63,864	6,917	1,830,344	22,567,606
Books and supplies	3,885,676	1,601,329	-	1,636,869	7,123,874
Contract services and operating expenditures	8,065,772	812,573	45,320	361,545	9,285,210
Other outgo	6,866,003	-	-	-	6,866,003
Capital outlay	753,577	9,039,463	670,555	14,543	10,478,138
Debt service:					
Principal retirement	622,101	24,331	-	5,595,000	6,241,432
Interest	<u>425,805</u>	<u>-</u>	<u>-</u>	<u>4,922,739</u>	<u>5,348,544</u>
Total expenditures	<u>104,089,545</u>	<u>11,727,060</u>	<u>740,981</u>	<u>19,496,765</u>	<u>136,054,351</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,506,109</u>	<u>(7,191,662)</u>	<u>2,077,240</u>	<u>(2,137,530)</u>	<u>(2,745,843)</u>
Other financing sources (uses):					
Transfers in	1,789,482	-	-	728,609	2,518,091
Transfers out	<u>(578,609)</u>	<u>(1,750,000)</u>	<u>-</u>	<u>(189,482)</u>	<u>(2,518,091)</u>
Total other financing sources (uses)	<u>1,210,873</u>	<u>(1,750,000)</u>	<u>-</u>	<u>539,127</u>	<u>-</u>
Change in fund balances	5,716,982	(8,941,662)	2,077,240	(1,598,403)	(2,745,843)
Fund balances, July 1, 2015	<u>24,472,335</u>	<u>38,729,380</u>	<u>12,678,140</u>	<u>13,719,082</u>	<u>89,598,937</u>
Fund balances, June 30, 2016	<u>\$ 30,189,317</u>	<u>\$ 29,787,718</u>	<u>\$ 14,755,380</u>	<u>\$ 12,120,679</u>	<u>\$ 86,853,094</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net change in fund balances - Total Governmental Funds	\$ (2,745,843)
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	13,075,052
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(7,241,925)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	6,241,432
In governmental funds, debt issued at a premium is recognized as an other financing source. In the government-wide statements debt issued at a premium is amortized as interest over the life of the debt (Note 6)	763,825
In governmental funds, deferred outflows or inflows from the refunding of debt are not recognized. In the government-wide statements, losses incurred from the refunding of debt are deferred and amortized over the shorter of the life of the new refunding or the refunded debt.	(196,625)
In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	(375,669)
In government funds, other postemployment benefits (OPEB) costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 5).	(332,657)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:	415,991
In the statement of activities, expenditures related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	<u>(143,453)</u>
Change in net position of governmental activities	<u>\$ 9,460,128</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2016

	Student Body <u>Fund</u>
ASSETS	
Cash on hand and in banks (Note 2)	\$ 479,070
Total assets	<u>\$ 479,070</u>
LIABILITIES	
Due to student groups	\$ 479,070
Total liabilities	<u>\$ 479,070</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities.

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

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

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

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

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - Major Funds

General Fund - The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Building Fund - The Building Fund is a capital projects fund used to account for proceeds from the sale of bonds and the acquisition of major governmental capital facilities and buildings.

Capital Facilities Fund - The Capital Facilities Fund is a capital projects fund used to account for resources used for the construction of capital facilities by the District.

B - Other Funds

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Adult Education, Child Development, Cafeteria and Deferred Maintenance Funds.

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

Agency Fund - The Student Body Fund is a Fiduciary Fund which is used to account for assets held for students, for which the District has an agency relationship with the activity of the fund.

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

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

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

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

Receivables: Receivables are made up principally of amounts due from the State of California and categorical programs. The District has determined that no allowance for doubtful accounts was necessary as of June 30, 2016.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stores Inventory: Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Capital Assets: When purchased or constructed, capital assets are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation of capital assets is computed and recorded using the straight-line method. Estimated useful lives for the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; land improvements, 5 to 50 years; furniture and equipment 2 to 15 years.

Compensated Absences: Compensated absences totaling \$382,459 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as a operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain CalSTRS and CalPERS employees, when the employee retires.

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

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding of debt, which comprises the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or new debt. Amortization of deferred loss on refunding for the year ended June 30, 2016 totaled \$196,625. The District has also recognized a deferred outflow of resources related to the recognition of the net pension liability reported which is in the Statement of Net Position. Amortization related to the net pension liability for the year ended June 30, 2016 totaled \$3,417,868.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$338,000.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 5,443,249</u>	<u>\$ 2,754,455</u>	<u>\$ 8,197,704</u>
Deferred inflows of resources	<u>\$ 6,703,000</u>	<u>\$ 2,062,000</u>	<u>\$ 8,765,000</u>
Net pension liability	<u>\$ 68,248,000</u>	<u>\$ 17,745,000</u>	<u>\$ 85,993,000</u>
Pension expense	<u>\$ 8,470,566</u>	<u>\$ 1,924,020</u>	<u>\$ 10,394,586</u>

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets: Consist of capital assets, net of accumulated depreciation, reduced by outstanding related debt and adjusted for unspent debt proceeds and deferred outflows/inflows resulting from refunding debt instruments.

2. Restricted Net Position: Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents programs where the revenue received has been restricted for expenditures only in those particular programs. The restriction for debt service represents the portion of net position which the District plans to expend on debt repayment. The restriction for capital projects represents the portion of net position restricted for capital projects. It is the District's policy to first spend restricted net position when allowable expenditures are incurred.

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

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

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. As of June 30, 2016, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however as of June 30, 2016, no such designation has occurred.

E - Unassigned Fund Balance:

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

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

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2016, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of January 1. Taxes are due in two installments on or before November 15 and March 15. Unsecured property taxes are due in one installment on or before August 31. The County of Santa Clara bills and collects taxes for the District. Tax revenues are recognized by the District when received.

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2016 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:		
Cash in County Treasury	\$ 84,744,485	\$ -
Deposits:		
Cash on hand and in banks	135,569	479,070
Cash in revolving fund	<u>18,913</u>	<u>-</u>
Total cash and investments	<u>\$ 84,898,967</u>	<u>\$ 479,070</u>

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Santa Clara County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's prorata 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.

In accordance with applicable state laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2016, the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016, the carrying amount and bank balances of the District's accounts were \$633,552. The total uninsured bank balances at June 30, 2016 totaled \$137,233.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the District had no significant interest rate risk related to cash and investments held.

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the District had no concentration of credit risk.

NOTE 3 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables: Individual interfund receivable and payable balances at June 30, 2016 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 2,033,536	\$ 1,199,307
Building	756,695	1,593,409
Non-Major Funds:		
Adult Education	4,096	19,221
Child Development	399,609	554,683
Cafeteria	74,367	1,683
Deferred Maintenance	<u>100,000</u>	<u>-</u>
Totals	<u>\$ 3,368,303</u>	<u>\$ 3,368,303</u>

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

Transfers for the 2015-2016 fiscal year were as follows:

Transfer from the Building Fund to the General Fund to provide funding for a new elementary school.	\$ 1,600,000
Transfer from the General Fund to the Child Development Fund for operational support.	399,609
Transfer from the General Fund to the Deferred Maintenance Fund for operational support.	150,000
Transfer from the Building Fund to the Deferred Maintenance Fund for operational support.	150,000
Transfer from the Adult Education Fund to the General Fund for indirect costs support.	120,575
Transfer from the General Fund to the Adult Education Fund for the remedial program.	29,000
Transfer from the Cafeteria Fund to the General Fund for indirect costs support.	<u>68,907</u>
	<u>\$ 2,518,091</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2016 is shown below:

	Balance July 1, 2015	Transfers and Additions	Transfers and Deductions	Balance June 30, 2016
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 2,766,008	\$ -	\$ -	\$ 2,766,008
Work-in-process	18,204,325	4,996,976	(14,738,568)	8,462,733
Depreciable:				
Buildings	61,262,818	450,043	205,613	61,918,474
Land improvements	117,436,257	7,589,930	14,532,955	139,559,142
Furniture and equipment	<u>23,081,713</u>	<u>38,103</u>	<u>-</u>	<u>23,119,816</u>
Totals, at cost	<u>222,751,121</u>	<u>13,075,052</u>	<u>-</u>	<u>235,826,173</u>
Less accumulated depreciation:				
Buildings	(29,940,627)	(881,089)	-	(30,821,716)
Land improvements	(52,381,444)	(5,136,868)	-	(57,518,312)
Furniture and equipment	<u>(9,721,546)</u>	<u>(1,223,968)</u>	<u>-</u>	<u>(10,945,514)</u>
Total accumulated depreciation	<u>(92,043,617)</u>	<u>(7,241,925)</u>	<u>-</u>	<u>(99,285,542)</u>
Capital assets, net	<u>\$ 130,707,504</u>	<u>\$ 5,833,127</u>	<u>\$ -</u>	<u>\$ 136,540,631</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 5,943,996
Home-to-school transportation	25,299
Food services	7,903
Data processing	125,840
Plant services	<u>1,138,887</u>
Total depreciation expense	<u>\$ 7,241,925</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM LIABILITIES

General Obligation Bonds: On January 28, 2010, the District issued 2010 General Obligation Refunding Bonds totaling \$11,670,000. Bond proceeds were used to refund all the outstanding 2001 refunding bonds. The 2010 Refunding Bonds bear interest at rates ranging from 2.0% to 4.0% and are scheduled to mature through March 2021 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,150,000	\$ 221,888	\$ 1,371,888
2018	1,190,000	179,400	1,369,400
2019	1,245,000	130,700	1,375,700
2020	1,295,000	79,900	1,374,900
2021	<u>1,350,000</u>	<u>27,000</u>	<u>1,377,000</u>
	<u>\$ 6,230,000</u>	<u>\$ 638,888</u>	<u>\$ 6,868,888</u>

On August 21, 2012, the District issued Election of 2012, Series A General Obligation Bonds totaling \$55,000,000. The proceeds of the Bond are being used to update and construct District facilities. The Bonds bear interest at rates ranging from 1.5% to 5.0% and mature through February 2038, as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 1,968,618	\$ 1,968,618
2018	-	1,968,618	1,968,618
2019	-	1,968,618	1,968,618
2020	-	1,968,618	1,968,618
2021	-	1,968,618	1,968,618
2022-2026	7,605,000	9,009,340	16,614,340
2027-2031	11,150,000	6,879,763	18,029,763
2032-2036	16,860,000	4,225,425	21,085,425
2037-2038	<u>8,885,000</u>	<u>451,886</u>	<u>9,336,886</u>
	<u>\$ 44,500,000</u>	<u>\$ 30,409,504</u>	<u>\$ 74,909,504</u>

On August 7, 2014, the District issued Election of 2012, Series B General Obligation Bonds, totaling \$40,000,000. The proceeds of the Bonds are being used to update and construct District facilities. The bonds bear interest at rates ranging from 1.0% to 5.0% and are scheduled to mature through February 2038, as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,795,000	\$ 1,514,350	\$ 4,309,350
2018	1,595,000	1,426,550	3,021,550
2019	1,590,000	1,362,850	2,952,850
2020	1,755,000	1,287,175	3,042,175
2021	1,945,000	1,194,675	3,139,675
2022-2026	5,225,000	5,235,900	10,460,900
2027-2031	7,965,000	3,828,275	11,793,275
2032-2036	9,845,000	1,874,500	11,719,500
2037-2038	<u>4,465,000</u>	<u>181,300</u>	<u>4,646,300</u>
	<u>\$ 37,180,000</u>	<u>\$ 17,905,575</u>	<u>\$ 55,085,575</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (Continued)

On August 7, 2014, the District issued Election of 2014, Series 2010 General Obligation Bonds, totaling \$24,785,000. The proceeds of the Bonds are being used to prepay the District's outstanding General Obligation Bonds. The bonds bear interest at rates ranging from 1.0% to 5.0% and are scheduled to mature through February 2025, as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,655,000	\$ 1,069,575	\$ 2,724,575
2018	1,720,000	1,004,100	2,724,100
2019	1,780,000	934,100	2,714,100
2020	1,850,000	852,250	2,702,250
2021	1,945,000	757,375	2,702,375
2022-2025	<u>14,175,000</u>	<u>1,460,375</u>	<u>15,635,375</u>
	<u>\$ 23,125,000</u>	<u>\$ 6,077,775</u>	<u>\$ 29,202,775</u>

Certificates of Participation: In December 2014, the District issued Certificates of Participation in the amount of \$15,515,400 with interest rates from 2.6% to 3.92%, maturing on December 30, 2031.

Scheduled payments for the 2015 COPs are as follows:

<u>Year Ending June 30,</u>	<u>COPs Payments</u>
2017	\$ 1,000,655
2018	1,038,539
2019	1,082,557
2020	1,118,214
2021	1,160,542
2022-2026	6,348,203
2027-2031	5,934,965
2032	<u>535,898</u>
Total payments	18,219,573
Less amount representing interest	<u>(3,488,135)</u>
Net present value of minimum payments	<u>\$ 14,731,438</u>

Due to SCCOE: During the 2005 fiscal year, the District was notified by the Santa Clara County Office of Education (SCCOE) that the SCCOE's District Business Advisory Services group had posted erroneous entries to the District's cash account in prior years, resulting in an overstatement of Cash in County Treasury for the District's Building Fund. The SCCOE determined that the District owed \$364,965 to correct this issue, and agreed to allow the District to make equal payments of \$24,331 to SCCOE over 15 years. As of June 30, 2016, the balance outstanding was \$121,655.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2016 is shown below:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 116,630,000	\$ -	\$ 5,595,000	\$ 111,035,000	\$ 5,600,000
Unamortized premiums	11,736,660	-	763,825	10,972,835	763,825
Certificates of Participation	15,274,478	-	543,040	14,731,438	597,630
Capitalized lease obligations	79,061	-	79,061	-	-
Due to SCCOE	145,986	-	24,331	121,655	24,331
Net OPEB obligation (Note 9)	3,551,619	877,490	544,833	3,884,276	-
Net pension liability (Note 7 & 8)	72,967,556	13,025,444	-	85,993,000	-
Compensated absences	239,006	143,453	-	382,459	-
	<u>\$ 220,624,366</u>	<u>\$ 14,046,387</u>	<u>\$ 7,550,090</u>	<u>\$ 227,120,663</u>	<u>\$ 6,985,786</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation, capitalized lease obligations, and amounts due to the SCCOE are made from the General Fund. Payments related to the net OPEB obligation, net pension liability and compensated absences are made from the fund for which the related employee worked.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - FUND BALANCES

Fund balances, by category, at June 30, 2016 consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	\$ 15,000	\$ -	\$ -	\$ 3,913	\$ 18,913
Stores inventory	404,882	-	-	101,230	506,112
Prepaid expenditures	<u>153,382</u>	<u>11,928</u>	<u>-</u>	<u>3,359</u>	<u>168,669</u>
Subtotal nonspendable	<u>573,264</u>	<u>11,928</u>	<u>-</u>	<u>108,502</u>	<u>693,694</u>
Restricted:					
Legally restricted programs	2,420,824	-	-	3,196,846	5,617,670
Capital projects	-	29,775,790	14,755,380	-	44,531,170
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,815,331</u>	<u>8,815,331</u>
Subtotal restricted	<u>2,420,824</u>	<u>29,775,790</u>	<u>14,755,380</u>	<u>12,012,177</u>	<u>58,964,171</u>
Assigned:					
Other postemployment benefits	1,176,290	-	-	-	1,176,290
Workers Compensation	256,535	-	-	-	256,535
Operational Carry-over	5,141,603	-	-	-	5,141,603
Program carry-over	<u>1,946,792</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,946,792</u>
Subtotal assigned	<u>8,521,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,521,220</u>
Unassigned:					
Designated for economic uncertainty	<u>18,674,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,674,009</u>
Total fund balances	<u>\$ 30,189,317</u>	<u>\$ 29,787,718</u>	<u>\$ 14,755,380</u>	<u>\$ 12,120,679</u>	<u>\$ 86,853,094</u>

(Continued)

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

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

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

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

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

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

Members - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.56 percent of applicable member earnings for fiscal year 2015-16.

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

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

Employers – 10.73 percent of applicable member earnings.

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed \$5,443,249 to the plan for the fiscal year ended June 30, 2016.

State - 7.391percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 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	\$ 68,248,000
State's proportionate share of the net pension liability associated with the District	<u>36,096,000</u>
Total	<u>\$ 104,344,000</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 an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2015, the District's proportion was 0.101 percent, which was an increase of zero from its proportion measured as of June 30, 2014.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

For the year ended June 30, 2016, the District recognized pension expense of \$8,470,566 and revenue of \$3,626,873 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>
Difference between expected and actual experience	\$ -	\$ 1,140,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	5,563,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
Contributions made subsequent to measurement date	<u>5,443,249</u>	<u>-</u>
Total	<u>\$ 5,443,249</u>	<u>\$ 6,703,000</u>

\$5,443,249 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

Years Ended <u>June 30,</u>	
2017	\$ (2,492,401)
2018	(2,492,401)
2019	(2,492,401)
2020	1,154,203
2021	(190,000)
2022	(190,000)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally 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

* 10-year geometric average

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
District's proportionate share of the net pension liability	<u>\$103,049,000</u>	<u>\$ 68,248,000</u>	<u>\$ 39,325,000</u>

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

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

General Information about the Public Employer's Retirement Fund B

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

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf>.

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2016 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2015-16.

Employers - The employer contribution rate was 11.847 percent of applicable member earnings.

The District contributed \$1,740,455 to the plan for the fiscal 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 \$17,745,000 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 an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2015, the District’s proportion was 0.120 percent, which was an increase of 0.003 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,924,020. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,014,000	\$ -
Changes of assumptions	-	1,090,000
Net differences between projected and actual earnings on investments	-	608,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	364,000
Contributions made subsequent to measurement date	<u>1,740,455</u>	<u>-</u>
Total	<u>\$ 2,754,455</u>	<u>\$ 2,062,000</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

\$1,740,455 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

Years Ended <u>June 30,</u>	
2017	\$ (268,333)
2018	(268,333)
2019	(268,334)
2020	(243,000)

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

* 10-year geometric average

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

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District’s proportionate share of the net pension liability	<u>\$ 28,881,000</u>	<u>\$ 17,745,000</u>	<u>\$ 8,484,000</u>

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7 and 8, the District provides post-employment health care benefits to all employees who retire from the District on or after attaining age 55 with at least 15 years of service, in accordance with contracts between the District and employee groups. The District pays the full amount of the employee-only premium for group health insurance coverage until the employee reaches 65 years of age, for employees with between 12 and 14 years of service. For employees with 15 to 19 years of service, the District pays for coverage of the retiree plus one dependent. Retirees with between 20 and 24 years of service receive both medical and dental coverage for themselves and one dependent, and retirees with 25 years or more of service to the District receive medical, dental, and vision for the retiree and all dependents, plus life coverage for the retiree.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Annual required contribution	\$ 971,525
Interest on net OPEB obligation	137,739
Adjustment to annual required contribution	<u>(231,774)</u>
Annual OPEB cost (expense)	877,490
Contributions made	<u>(544,833)</u>
Increase in net OPEB obligation	332,657
Net OPEB obligation - beginning of year	<u>3,551,619</u>
Net OPEB obligation - end of year	<u><u>\$ 3,884,276</u></u>

The District's 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 preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 836,248	71.1%	\$ 3,288,368
June 30, 2015	\$ 855,981	69.2%	\$ 3,551,619
June 30, 2016	\$ 877,490	62.1%	\$ 3,884,276

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$9.9 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.9 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$54 million, and the ratio of the UAAL to the covered payroll was 18 percent. The OPEB plan is currently operated as a single employer pay-as-you-go plan and does not issue stand-alone financial statements.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, 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 the 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.

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

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4% percent investment rate. The rate includes a 3% percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was 23 years.

NOTE 10 - JOINT POWERS AGREEMENTS

The District is a member of the Protected Insurance Program for Schools (PIPS), Metropolitan Education (Metro Ed), Santa Clara County Schools Insurance Group (SCCSIG), East Valley Schools Transportation Agency (EVSTA), and South Bay Area Schools Insurance Authority (SBASIA) public entity risk pools. The District pays an annual premium to each entity for certain programs including health, worker's compensation, property and liability coverage, and transportation services based on the nature of the individual pool. The relationship between the District and these pools is such that they are not component units of the District for financial reporting purposes. The District is also a member of the newly formed Milpitas Civic Facilities Authority Joint Powers Authority (JPA). No financial transactions have occurred in the JPA as of June 30, 2016.

Condensed audited financial information for the District's JPAs at June 30, 2015 (the latest information available) is provided below:

	<u>PIPS</u>	<u>Metro Ed</u>	<u>SCCSIG</u>	<u>EVSTA</u>	<u>SBASIA</u>
Total assets	\$ 109,911,317	\$ 48,707,356	\$ 17,782,565	\$ 326,284	\$ 5,653,861
Deferred outflows of resources	\$ -	\$ 1,086,732	\$ 51,103	\$ -	\$ -
Total liabilities	\$ 99,473,185	\$ 13,261,791	\$ 5,669,266	\$ 57,260	\$ 3,071,170
Deferred inflows of resources	\$ -	\$ 2,784,784	\$ 97,094	\$ -	\$ -
Net position	\$ 10,438,132	\$ 33,747,513	\$ 12,067,308	\$ 269,024	\$ 2,582,691
Total revenues	\$ 236,319,886	\$ 18,795,972	\$ 31,396,777	\$ 2,416,501	\$ 3,466,746
Total expenses	\$ 237,952,641	\$ 18,358,330	\$ 29,086,940	\$ 2,416,501	\$ 3,628,756
Change in net position	\$ (1,632,755)	\$ 437,642	\$ 2,309,837	\$ -	\$ (162,010)

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 - CONTINGENCIES

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

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

NOTE 12 - SUBSEQUENT EVENT

On January 12, 2016, the District entered into an agreement to purchase land from the City of Milpitas at a total purchase price of \$20,770,000, for the purpose of constructing a new school site. At June 30, 2016, \$50,000 was held in escrow to be used for the purchase and transfer of property at the time of closing.

REQUIRED SUPPLEMENTARY INFORMATION

MILPITAS UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2016

	<u>Budget</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 30,713,767	\$ 25,732,070	\$ 26,562,287	\$ 830,217
Local sources	<u>50,828,968</u>	<u>55,851,006</u>	<u>55,486,448</u>	<u>(364,558)</u>
Total LCFF	<u>81,542,735</u>	<u>81,583,076</u>	<u>82,048,735</u>	<u>465,659</u>
Federal sources	3,408,877	3,846,854	3,705,614	(141,240)
Other state sources	9,505,771	10,835,915	13,858,909	3,022,994
Other local sources	<u>8,069,532</u>	<u>9,035,747</u>	<u>8,982,396</u>	<u>(53,351)</u>
Total revenues	<u>102,526,915</u>	<u>105,301,592</u>	<u>108,595,654</u>	<u>3,294,062</u>
Expenditures:				
Current:				
Certificated salaries	48,602,559	49,544,912	49,694,109	(149,197)
Classified salaries	13,247,991	13,146,274	13,110,021	36,253
Employee benefits	18,546,219	17,926,899	20,666,481	(2,739,582)
Books and supplies	7,305,846	8,510,745	3,885,676	4,625,069
Contract services and operating expenditures	7,652,286	9,095,187	8,065,772	1,029,415
Other outgo	7,041,871	7,939,259	6,866,003	1,073,256
Capital outlay	-	5,000	753,577	(748,577)
Debt service:				
Principal retirement	646,666	646,666	622,101	24,565
Interest	<u>425,571</u>	<u>425,571</u>	<u>425,805</u>	<u>(234)</u>
Total expenditures	<u>103,469,009</u>	<u>107,240,513</u>	<u>104,089,545</u>	<u>3,150,968</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(942,094)</u>	<u>(1,938,921)</u>	<u>4,506,109</u>	<u>6,445,030</u>
Other financing sources (uses):				
Transfers in	5,896,617	3,382,710	1,789,482	(1,593,228)
Transfers out	<u>(424,177)</u>	<u>(567,952)</u>	<u>(578,609)</u>	<u>(10,657)</u>
Total other financing sources (uses)	<u>5,472,440</u>	<u>2,814,758</u>	<u>1,210,873</u>	<u>(1,603,885)</u>
Change in fund balance	4,530,346	875,837	5,716,982	4,841,145
Fund balance, July 1, 2015	<u>24,472,335</u>	<u>24,472,335</u>	<u>24,472,335</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 29,002,681</u>	<u>\$ 25,348,172</u>	<u>\$ 30,189,317</u>	<u>\$ 4,841,145</u>

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	<u>Schedule of Funding Progress</u>		Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)			
July 1, 2010	\$ -	\$ 13,603,279	\$ 13,603,279	0%	\$ 55,005,278	24.7%
July 1, 2012	\$ -	\$ 9,316,804	\$ 9,316,804	0%	\$ 54,540,000	17.1%
July 1, 2014	\$ -	\$ 9,917,595	\$ 9,917,595	0%	\$ 53,939,988	18.4%

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2016

State Teachers' Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.102%	0.101%
District's proportionate share of the net pension liability	\$ 59,605,740	\$ 68,248,000
State's proportionate share of the net pension liability associated with the District	<u>35,915,000</u>	<u>36,096,000</u>
Total net pension liability	<u>\$ 95,520,740</u>	<u>\$ 104,344,000</u>
District's covered-employee payroll	\$ 45,332,000	\$ 47,052,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.49%	145.05%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

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

All years prior to 2015 are not available.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2016

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.118%	0.120%
District's proportionate share of the net pension liability	\$ 13,361,816	\$ 17,745,000
District's covered-employee payroll	\$ 12,350,000	\$ 13,328,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.19%	133.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%

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

All years prior to 2015 are not available.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2016

State Teachers' Retirement Plan
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 4,178,191	\$ 5,443,249
Contributions in relation to the contractually required contribution	<u>(4,178,191)</u>	<u>(5,443,249)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 47,052,000	\$ 50,729,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2016

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 1,568,810	\$ 1,740,455
Contributions in relation to the contractually required contribution	<u>(1,568,810)</u>	<u>(1,740,455)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 13,328,000	\$ 14,691,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

All years prior to 2015 are not available.

MILPITAS UNIFIED SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

Excess of expenditures over appropriations for the year ended June 30, 2016 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Certificated salaries	\$ 149,197
Employee benefits	\$ 2,739,582
Capital outlay	\$ 748,577

These excesses are not in accordance with Education Code 42600.

B - Schedule of Other Postemployment Benefits Funding Progress

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

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

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

D - Schedule of the District's Contributions

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

E - Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 percent in 2015 and 7.65 percent in 2016. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

MILPITAS UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR FUNDS
June 30, 2016

	Adult Education Fund	Child Develop- ment Fund	Cafeteria Fund	Deferred Mainten- ance Fund	Bond Interest and Redemption Fund	Total
ASSETS						
Cash in County Treasury	\$ 285,251	\$ 150,119	\$ 140,216	\$ 95,557	\$ 8,804,242	\$ 9,475,385
Cash in revolving fund	-	-	3,913	-	-	3,913
Receivables	2,408,082	41,276	229,536	317	11,089	2,690,300
Due from other funds	4,096	399,609	74,367	100,000	-	578,072
Store inventory	-	-	101,230	-	-	101,230
Prepaid expenditures	<u>274</u>	<u>-</u>	<u>3,085</u>	<u>-</u>	<u>-</u>	<u>3,359</u>
Total assets	<u>\$ 2,697,703</u>	<u>\$ 591,004</u>	<u>\$ 552,347</u>	<u>\$ 195,874</u>	<u>\$ 8,815,331</u>	<u>\$ 12,852,259</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 115,726	\$ 31,570	\$ 3,946	\$ -	\$ -	\$ 151,242
Unearned revenue	-	4,751	-	-	-	4,751
Due to other funds	<u>19,221</u>	<u>554,683</u>	<u>1,683</u>	<u>-</u>	<u>-</u>	<u>575,587</u>
Total liabilities	<u>134,947</u>	<u>591,004</u>	<u>5,629</u>	<u>-</u>	<u>-</u>	<u>731,580</u>
Fund balances:						
Nonspendable	274	-	108,228	-	-	108,502
Restricted	<u>2,562,482</u>	<u>-</u>	<u>438,490</u>	<u>195,874</u>	<u>8,815,331</u>	<u>12,012,177</u>
Total fund balances	<u>2,562,756</u>	<u>-</u>	<u>546,718</u>	<u>195,874</u>	<u>8,815,331</u>	<u>12,120,679</u>
Total liabilities and fund balances	<u>\$ 2,697,703</u>	<u>\$ 591,004</u>	<u>\$ 552,347</u>	<u>\$ 195,874</u>	<u>\$ 8,815,331</u>	<u>\$ 12,852,259</u>

MILPITAS UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2016

	Adult Education Fund	Child Develop- ment Fund	Cafeteria Fund	Deferred Mainten- ance Fund	Bond Interest and Redemption Fund	Total
Revenues:						
LCFF sources	\$ 55,689	\$ -	\$ -	\$ -	\$ -	\$ 55,689
Federal sources	374,881	131,423	1,852,120	-	-	2,358,424
Other state sources	2,936,372	807,704	140,889	-	41,103	3,926,068
Other local sources	<u>161,766</u>	<u>252,154</u>	<u>1,479,139</u>	<u>743</u>	<u>9,125,252</u>	<u>11,019,054</u>
Total revenues	<u>3,528,708</u>	<u>1,191,281</u>	<u>3,472,148</u>	<u>743</u>	<u>9,166,355</u>	<u>17,359,235</u>
Expenditures:						
Current:						
Certificated salaries	2,159,088	645,485	-	-	-	2,804,573
Classified salaries	464,229	434,494	1,432,429	-	-	2,331,152
Employee benefits	845,201	415,346	569,797	-	-	1,830,344
Books and supplies	98,948	13,974	1,481,594	42,353	-	1,636,869
Contract services and operating expenditures	80,240	81,591	(11,817)	211,531	-	361,545
Capital outlay	-	-	-	14,543	-	14,543
Debt service:						
Principal retirement	-	-	-	-	5,595,000	5,595,000
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,922,739</u>	<u>4,922,739</u>
Total expenditures	<u>3,647,706</u>	<u>1,590,890</u>	<u>3,472,003</u>	<u>268,427</u>	<u>10,517,739</u>	<u>19,496,765</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(118,998)</u>	<u>(399,609)</u>	<u>145</u>	<u>(267,684)</u>	<u>(1,351,384)</u>	<u>(2,137,530)</u>
Other financing sources (uses):						
Transfers in	29,000	399,609	-	300,000	-	728,609
Transfers out	<u>(120,575)</u>	<u>-</u>	<u>(68,907)</u>	<u>-</u>	<u>-</u>	<u>(189,482)</u>
Total other financing sources (uses)	<u>(91,575)</u>	<u>399,609</u>	<u>(68,907)</u>	<u>300,000</u>	<u>-</u>	<u>539,127</u>
Net change in fund balances	(210,573)	-	(68,762)	32,316	(1,351,384)	(1,598,403)
Fund balances, July 1, 2015	<u>2,773,329</u>	<u>-</u>	<u>615,480</u>	<u>163,558</u>	<u>10,166,715</u>	<u>13,719,082</u>
Fund balances, June 30, 2016	<u>\$ 2,562,756</u>	<u>\$ -</u>	<u>\$ 546,718</u>	<u>\$ 195,874</u>	<u>\$ 8,815,331</u>	<u>\$ 12,120,679</u>

MILPITAS UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2016

Milpitas Unified School District was organized in 1968 and operates 9 elementary schools, 2 middle schools, 1 comprehensive high school, an adult education program, a continuation high school, two child care centers and a community day school. There were no changes in District boundaries during the year.

The Board of Education at June 30, 2016 was comprised of the following members:

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Gunawan Alisantosa	President	2016
Bob Nunez	Vice President	2018
Daniel Bobay	Clerk	2016
Danny Lau	Member	2018
Chris Norwood	Member	2018

ADMINISTRATION

Cheryl Jordan
Interim Superintendent

Norma Rodriguez
Assistant Superintendent, Learning & Development

Wendy Zhang
Assistant Superintendent, Business Services

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	Second Period Report (Original)	Second Period Report (Revised)*	Annual Report
DISTRICT			
Elementary:			
Transitional Kindergarten through Third	3,000	3,000	2,999
Fourth through Sixth	2,282	2,282	2,279
Seventh and Eighth	1,553	1,553	1,553
Special Education	<u>12</u>	<u>12</u>	<u>12</u>
Total Elementary	<u>6,847</u>	<u>6,847</u>	<u>6,843</u>
Secondary:			
Ninth through Twelfth	3,041	3,042	3,036
Special Education	11	11	11
Continuation	<u>109</u>	<u>109</u>	<u>109</u>
Total Secondary	<u>3,161</u>	<u>3,162</u>	<u>3,156</u>
District Totals	<u><u>10,008</u></u>	<u><u>10,009</u></u>	<u><u>9,999</u></u>
Classes for Adults:			
Adults in correctional facilities	<u><u>1,347</u></u>	<u><u>1,347</u></u>	<u><u>1,325</u></u>

* Reflects revisions made by the District subsequent to the submission of the original Second Period Report of Attendance, based on an internal review of records.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
DISTRICT				
Kindergarten	36,000	43,620	180	In Compliance
Grade 1	50,400	50,475	180	In Compliance
Grade 2	50,400	50,475	180	In Compliance
Grade 3	50,400	50,475	180	In Compliance
Grade 4	54,000	54,043	180	In Compliance
Grade 5	54,000	54,043	180	In Compliance
Grade 6	54,000	54,043	180	In Compliance
Grade 7	54,000	57,295	180	In Compliance
Grade 8	54,000	57,295	180	In Compliance
Grade 9	64,800	65,270	180	In Compliance
Grade 10	64,800	65,270	180	In Compliance
Grade 11	64,800	65,270	180	In Compliance
Grade 12	64,800	65,270	180	In Compliance

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Ed: IDEA Basic Local Assistance Entitlement	13379	\$ 1,601,563
84.027A	Special Ed: IDEA Mental Health Services	14468	108,806
84.027A	Special Ed: IDEA Preschool Local Entitlement	13682	71,876
84.173	Special Ed: IDEA Preschool Grants	13430	39,815
84.027	Special Ed: IDEA Local Assistance, Private School ISPs	10115	18,246
84.173A	Special Ed: IDEA Preschool Staff Development	13431	<u>437</u>
	Subtotal Special Education Cluster		<u>1,840,743</u>
	Adult Education Programs:		
84.002	Adult Education: Adult Secondary Education	13978	50,941
84.002A	Adult Education: Adult Basic Education & ESL	14508	158,419
84.002	Adult Education: Institutionalized Adults	13971	105,634
84.002A	Adult Education: English Literacy & Civics Education Local Grant	14109	<u>59,887</u>
	Subtotal Adult Education Programs		<u>374,881</u>
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	14329	891,103
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	52,174
84.126	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	176,542
84.365	NCLB: Title III, Limited English Proficiency	14346	285,027
84.367	NCLB: Title II, Part A Improving Teacher Quality Local Grants	14341	<u>242,526</u>
	Total U.S. Department of Education		<u>3,862,996</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs	13390	<u>1,852,120</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2016

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option	10013	\$ 84,488
93.575	Child Development: Federal Child Care, Center Based	15136	<u>131,423</u>
Total U.S. Department of Health and Human Services			<u>215,911</u>
<u>U.S. Department of Defense - Passed through California Department of Education</u>			
12.235	Navy Junior ROTC	N/A	<u>87,807</u>
Total Federal Programs			<u>\$ 6,018,834</u>

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

There were no adjustments proposed to any funds of the District

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2016
(UNAUDITED)

	(Budget) <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>General Fund</u>				
Revenues and other financing sources	\$ <u>103,687,217</u>	\$ <u>110,385,136</u>	\$ <u>110,844,941</u>	\$ <u>94,347,451</u>
Expenditures	108,084,425	104,089,545	112,119,428	86,841,649
Other uses and transfers out	<u>461,471</u>	<u>578,609</u>	<u>499,964</u>	<u>7,188,830</u>
Total outgo	<u>108,545,896</u>	<u>104,668,154</u>	<u>112,619,392</u>	<u>94,030,479</u>
Change in fund balance	\$ <u>(4,858,679)</u>	\$ <u>5,716,982</u>	\$ <u>(1,774,451)</u>	\$ <u>316,972</u>
Ending fund balance	\$ <u>25,330,638</u>	\$ <u>30,189,317</u>	\$ <u>24,472,335</u>	\$ <u>26,246,786</u>
Available reserves	\$ <u>3,256,377</u>	\$ <u>18,674,009</u>	\$ <u>3,307,996</u>	\$ <u>2,814,915</u>
Designated for economic uncertainties	\$ <u>3,256,377</u>	\$ <u>18,674,009</u>	\$ <u>3,307,996</u>	\$ <u>2,814,915</u>
Undesignated fund balance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Available reserves as percentages of total outgo	<u>3.0%</u>	<u>17.8%</u>	<u>2.9%</u>	<u>3.0%</u>
<u>All Funds</u>				
Total long-term liabilities	\$ <u>220,134,877</u>	\$ <u>227,120,663</u>	\$ <u>220,624,366</u>	\$ <u>189,079,877</u>
Average daily attendance, at P-2 excluding Adult Education	<u>10,060</u>	<u>10,009</u>	<u>10,012</u>	<u>9,902</u>

The General Fund fund balance has increased by \$4,259,503 over the past three years. The fiscal year 2017 budget projects an decrease of \$4,858,679. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2016, the District has met this requirement.

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2016.

Total long-term liabilities have increased by \$38,040,786 over the past two years, due primarily to the issuance of General Obligation Bonds, Certificates of Participation, and the implementation of GASB Statement No. 68.

Average daily attendance has increased by 107 over the past two years. The District anticipates an increase of 51 ADA for the 2016-2017 fiscal year.

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2016

Charter Schools Chartered by District

Included in District
Financial Statements, or
Separate Report

There are no charter schools in the District.

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Milpitas Unified School District presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2016.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,064,038
Add: Medi-Cal Billing Option awards not spent	93.778	<u>(45,204)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 6,018,834</u>

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

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2016-2017 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

F - Schedule of Charter Schools

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 required certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2016, the District did not adopt such a program.

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

Board of Education
 Milpitas Unified School District
 Milpitas, California

Report on Compliance with State Laws and Regulations

We have audited Milpitas Unified School District's compliance with the types of compliance requirements described in the State of California's *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed below for the year ended June 30, 2016.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, See below
Independent Study	No, See below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See below
Middle or Early College High Schools	No, See below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	No, See below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, See below
Immunizations	No, See below
Attendance, for charter schools	No, See below
Mode of Instruction, for charter schools	No, See below
Nonclassroom-Based Instruction/Independent Study, for charter schools	No, See below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	No, See below
Annual Instructional Minutes - Classroom-Based, for charter schools	No, See below
Charter School Facility Grant Program	No, See below

(Continued)

We did not perform procedures related to Kindergarten Continuance because the District did not have any students who took Kindergarten for a second year in a row.

We did not perform procedures related to Independent Study because the District did not generate a material amount of ADA for this program.

We did not perform any procedures related to the Early Retirement Incentive Program because the District did not offer an Early Retirement Incentive Program.

We did not perform any procedures related to Juvenile Court Schools because the District did not operate this program.

We did not perform any procedures related to Middle or Early College High Schools because the District did not operate this program.

We did not perform any procedures related to After School Education and Safety Program: Before School, because the District did not offer a Before School program in the current year.

We did not perform any procedures related to Independent Study - Course Based because the District did not operate this program.

We did not perform any procedures related to Immunizations because all required required immunization assessment reports were submitted to the California Department of Public Health.

We did not perform any procedures related to Charter schools because the District did not include any charter schools in this report.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Compliance with State Laws and Regulations

In our opinion, Milpitas Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2016.

(Continued)

Purpose of this Report

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

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Sacramento, California
December 7, 2016

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

Board of Education
Milpitas Unified School District
Milpitas, 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 Milpitas Unified School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Milpitas Unified School District's basic financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

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

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Crowe Horwath LLP", is positioned above the printed name of the firm.

Crowe Horwath LLP

Sacramento, California
December 7, 2016

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

Board of Education
Milpitas Unified School District
Milpitas, California

Report on Compliance for Each Major Federal Program

We have audited Milpitas Unified School District's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of Milpitas Unified School District's major federal programs for the year ended June 30, 2016. Milpitas 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 Milpitas 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 Milpitas 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 Milpitas Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Milpitas 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.

Report on Internal Control Over Compliance

Management of Milpitas 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 Milpitas 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 Milpitas Unified School District's internal control over compliance.

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

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

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



Crowe Horwath LLP

Sacramento, California
December 7, 2016

FINDINGS AND RECOMMENDATIONS

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	Child Nutrition: School Programs

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

Auditee qualified as low-risk auditee? X Yes No

STATE AWARDS

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS

MILPITAS UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
No matter were reported.		