

ENCINITAS UNION SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**ENCINITAS UNION SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Encinitas Union School District
Encinitas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Encinitas Union School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Encinitas Union 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.

Christy White, CPA

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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 Encinitas Union School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

Christy White Associates

San Diego, California
December 7, 2016

**ENCINITAS UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

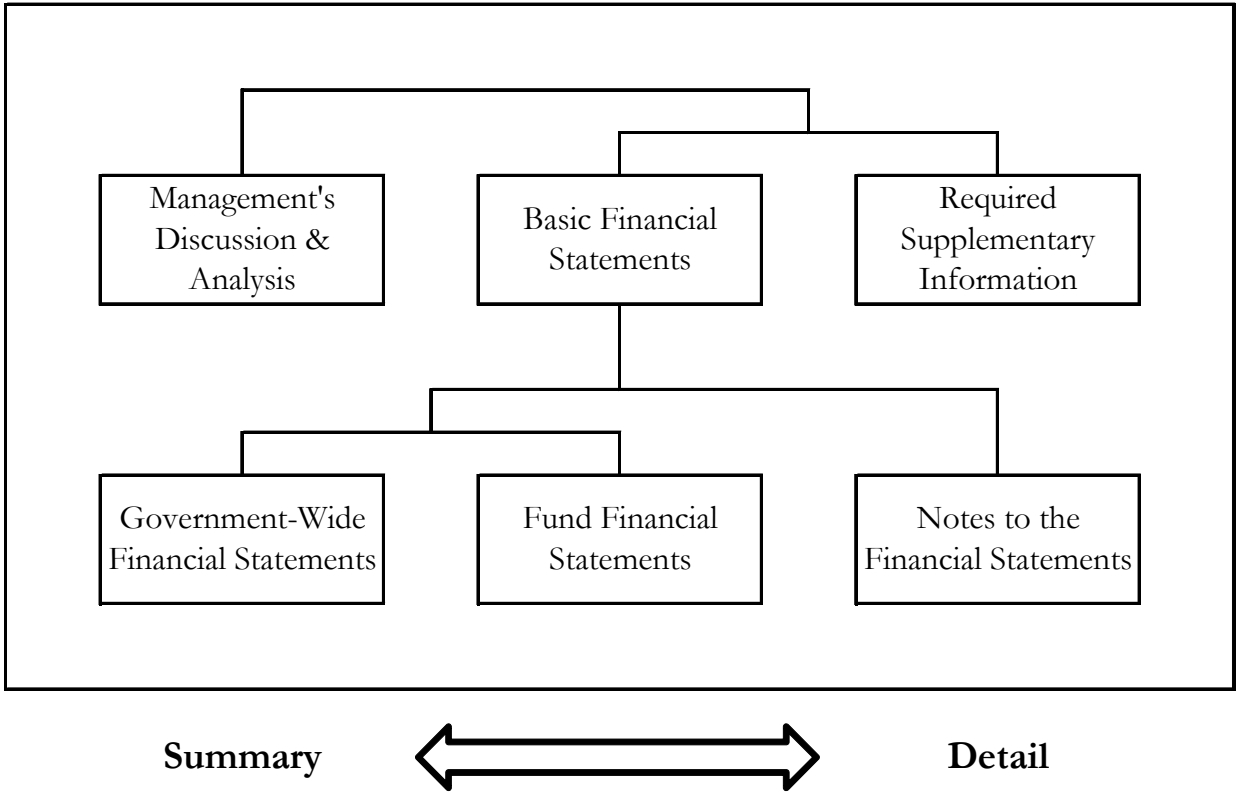
Our discussion and analysis of Encinitas Union School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position was \$35,629,891 at June 30, 2016. This was an increase of \$841,526 from the prior year.
- Overall revenues were \$65,735,110 which exceeded expenses of \$64,893,584.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



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

OVERVIEW OF FINANCIAL STATEMENTS (*continued*)

Components of the Financials Section (*continued*)

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

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

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

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

Government-Wide Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$35,629,891 at June 30, 2016, as reflected in the table below. Of this amount, (\$47,126,173) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2016	2015	Net Change
ASSETS			
Current and other assets	\$ 50,196,016	\$ 39,007,678	\$ 11,188,338
Capital assets	106,306,804	101,063,724	5,243,080
Total Assets	156,502,820	140,071,402	16,431,418
DEFERRED OUTFLOWS OF RESOURCES	4,099,102	2,936,398	1,162,704
LIABILITIES			
Current liabilities	6,557,553	5,382,683	1,174,870
Long-term liabilities	112,542,815	92,506,866	20,035,949
Total Liabilities	119,100,368	97,889,549	21,210,819
DEFERRED INFLOWS OF RESOURCES	5,871,663	10,329,886	(4,458,223)
NET POSITION			
Net investment in capital assets	65,912,861	69,769,747	(3,856,886)
Restricted	16,843,203	15,781,035	1,062,168
Unrestricted	(47,126,173)	(50,762,417)	3,636,244
Total Net Position	\$ 35,629,891	\$ 34,788,365	\$ 841,526

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

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

	Governmental Activities		
	2016	2015	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 762,710	\$ 686,658	\$ 76,052
Operating grants and contributions	6,700,217	4,979,800	1,720,417
General revenues			
Property taxes	45,287,537	42,513,738	2,773,799
Unrestricted federal and state aid	6,969,277	5,771,589	1,197,688
Other	6,015,369	5,596,734	418,635
Total Revenues	65,735,110	59,548,519	6,186,591
EXPENSES			
Instruction	36,224,242	36,739,990	(515,748)
Instruction-related services	5,135,563	4,746,417	389,146
Pupil services	4,356,407	3,916,025	440,382
General administration	3,240,198	3,217,991	22,207
Plant services	4,492,569	4,228,454	264,115
Ancillary and community services	1,512,771	1,259,182	253,589
Debt service	4,275,319	2,288,201	1,987,118
Other Outgo	505,614	289,221	216,393
Depreciation	5,150,901	4,384,540	766,361
Other	-	39,328	(39,328)
Total Expenses	64,893,584	61,109,349	3,784,235
Transfers & special items	-	9,986,441	(9,986,441)
Change in net position	841,526	8,425,611	(7,584,085)
Net Position - Beginning*	34,788,365	26,362,754	8,425,611
Net Position - Ending	\$ 35,629,891	\$ 34,788,365	\$ 841,526

* Beginning Net Position was restated for the 2015 year only

Transfers and special items in 2014-15 relate to the sale of surplus land.

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The cost of all our governmental activities this year was \$64,893,584. The amount that our taxpayers ultimately financed for these activities through taxes was \$45,287,537; additional cost was also paid by other governments and organizations who subsidized certain programs with grants and contributions.

	<u>Net Cost of Services</u>	
	<u>2016</u>	<u>2015</u>
Instruction	\$ 30,668,297	\$ 32,718,768
Instruction-related services	4,960,514	4,689,901
Pupil services	2,973,615	2,627,017
General administration	3,132,162	3,130,204
Plant services	4,445,882	4,176,071
Ancillary and community services	1,505,915	1,252,270
Debt service	4,275,319	2,288,201
Transfers to other agencies	318,052	136,591
Depreciation	5,150,901	4,384,540
Other	-	39,328
Total Expenses	<u>\$ 57,430,657</u>	<u>\$ 55,442,891</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$42,694,049, which is more than last year's ending fund balance of \$32,734,029. The District's General Fund had \$5,468,247 more in operating revenues than expenditures for the year ended June 30, 2016. The Building Fund had \$8,251,992 less in operating revenues than expenditures for the year ended June 30, 2016, but also received \$14,086,595 in proceeds from the issuance of general obligation bonds. The Special Reserve Fund for Capital Outlay had \$865,740 less in operating revenues than expenditures for the year ended June 30, 2016.

CURRENT YEAR BUDGET 2015-16

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of 2015-16 the District had invested \$106,306,804 in capital assets, net of accumulated depreciation as depicted in the table below.

	Governmental Activities		
	2016	2015	Net Change
CAPITAL ASSETS			
Land	\$ 20,468,378	\$ 20,468,378	\$ -
Construction in progress	9,303,842	4,616,069	4,687,773
Land improvements	2,830,480	2,663,700	166,780
Buildings & improvements	112,948,014	108,958,382	3,989,632
Furniture & equipment	15,836,458	14,286,662	1,549,796
Accumulated depreciation	(55,080,368)	(49,929,467)	(5,150,901)
Total Capital Assets	\$ 106,306,804	\$ 101,063,724	\$ 5,243,080

Long-Term Debt

At year-end, the District had \$112,542,815 in long-term liabilities, an increase of 21.7% from last year. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2016	2015	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 65,093,096	\$ 51,144,967	\$ 13,948,129
Compensated absences	312,294	301,091	11,203
Net OPEB obligation	3,039,268	2,709,767	329,501
Net pension liability	45,373,092	39,665,760	5,707,332
Less: current portion of long-term debt	(1,274,935)	(1,314,722)	39,787
Total Long-term Liabilities	\$ 112,542,815	\$ 92,506,863	\$ 20,035,952

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Assistant Superintendent of Business Services, Encinitas Union School District, at 101 S. Rancho Santa Fe Road; Encinitas, CA 92024.

ENCINITAS UNION SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 48,035,134
Accounts receivable	1,998,456
Inventory	162,426
Capital assets, not depreciated	29,772,220
Capital assets, net of accumulated depreciation	76,534,584
Total Assets	156,502,820
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	4,099,102
Total Deferred Outflows of Resources	4,099,102
LIABILITIES	
Accrued liabilities	4,304,261
Unearned revenue	978,357
Long-term liabilities, current portion	1,274,935
Long-term liabilities, non-current portion	112,542,815
Total Liabilities	119,100,368
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	5,871,663
Total Deferred Inflows of Resources	5,871,663
NET POSITION	
Net investment in capital assets	65,912,861
Restricted:	
Capital projects	11,149,769
Debt service	3,712,555
Educational programs	1,790,688
Food service	84,077
Permanent endowment	106,114
Unrestricted	(47,126,173)
Total Net Position	\$ 35,629,891

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

ENCINITAS UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 36,224,242	\$ 168,550	\$ 5,387,395	\$ (30,668,297)
Instruction-related services				
Instructional supervision and administration	1,452,821	-	80,972	(1,371,849)
Instructional library, media, and technology	1,408,443	-	7,354	(1,401,089)
School site administration	2,274,299	-	86,723	(2,187,576)
Pupil services				
Home-to-school transportation	709,385	-	-	(709,385)
Food services	1,001,040	495,156	367,067	(138,817)
All other pupil services	2,645,982	13,424	507,145	(2,125,413)
General administration				
Centralized data processing	83,787	-	-	(83,787)
All other general administration	3,156,411	248	107,788	(3,048,375)
Plant services	4,492,569	26,919	19,768	(4,445,882)
Community services	1,512,771	5,665	1,191	(1,505,915)
Interest on long-term debt	4,275,319	-	-	(4,275,319)
Other Outgo	505,614	52,748	134,814	(318,052)
Depreciation (unallocated)	5,150,901	-	-	(5,150,901)
Total Governmental Activities	\$ 64,893,584	\$ 762,710	\$ 6,700,217	(57,430,657)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				41,212,551
Property taxes, levied for debt service				4,075,056
Property taxes, levied for other specific purposes				(70)
Federal and state aid not restricted for specific purposes				6,969,277
Interest and investment earnings				205,415
Interagency revenues				50,973
Miscellaneous				5,758,981
Subtotal, General Revenue				58,272,183
CHANGE IN NET POSITION				841,526
Net Position - Beginning				34,788,365
Net Position - Ending				\$ 35,629,891

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

ENCINITAS UNION SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 23,667,626	\$ 5,335,564	\$ 10,133,337	\$ 6,469,635	\$ 45,606,162
Accounts receivable	1,935,744	17,471	14,586	27,161	1,994,962
Due from other funds	283,518	-	-	-	283,518
Stores inventory	126,804	-	-	35,622	162,426
Total Assets	\$ 26,013,692	\$ 5,353,035	\$ 10,147,923	\$ 6,532,418	\$ 48,047,068
LIABILITIES					
Accrued liabilities	\$ 1,402,229	\$ 1,377,277	\$ -	\$ 446,976	\$ 3,226,482
Due to other funds	1,087,438	-	43,416	17,326	1,148,180
Unearned revenue	969,563	-	-	8,794	978,357
Total Liabilities	3,459,230	1,377,277	43,416	473,096	5,353,019
FUND BALANCES					
Nonspendable	136,804	-	-	35,622	172,426
Restricted	1,790,688	3,975,758	10,104,507	6,023,700	21,894,653
Assigned	16,515,648	-	-	-	16,515,648
Unassigned	4,111,322	-	-	-	4,111,322
Total Fund Balances	22,554,462	3,975,758	10,104,507	6,059,322	42,694,049
Total Liabilities and Fund Balances	\$ 26,013,692	\$ 5,353,035	\$ 10,147,923	\$ 6,532,418	\$ 48,047,068

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

**ENCINITAS UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2016**

Total Fund Balance - Governmental Funds \$ 42,694,049

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

Capital assets:

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

Capital assets	\$ 161,387,172	
Accumulated depreciation	(55,080,368)	106,306,804

Unmatured interest on long-term debt:

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

(1,075,692)

Long-term liabilities:

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

Total general obligation bonds	\$ 65,093,096	
Compensated absences	312,294	
Net pension liability	45,373,092	(110,778,482)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 4,099,102	
Deferred inflows of resources related to pensions	(5,871,663)	(1,772,561)

Internal service funds:

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

255,773

Total Net Position - Governmental Activities	\$	35,629,891
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The accompanying notes are an integral part of these financial statements.

**ENCINITAS UNION SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCHF sources	\$ 44,291,536	\$ -	\$ -	\$ -	\$ 44,291,536
Federal sources	1,908,962	-	-	363,541	2,272,503
Other state sources	7,084,895	-	-	46,373	7,131,268
Other local sources	7,060,224	50,296	52,851	5,202,380	12,365,751
Total Revenues	60,345,617	50,296	52,851	5,612,294	66,061,058
EXPENDITURES					
Current					
Instruction	36,672,869	-	-	423	36,673,292
Instruction-related services					
Instructional supervision and administration	1,448,999	-	-	-	1,448,999
Instructional library, media, and technology	1,774,330	-	-	-	1,774,330
School site administration	2,287,640	-	-	-	2,287,640
Pupil services					
Home-to-school transportation	709,385	-	-	-	709,385
Food services	114,689	-	-	885,054	999,743
All other pupil services	2,657,591	-	-	-	2,657,591
General administration					
Centralized data processing	83,787	-	-	-	83,787
All other general administration	3,134,305	-	-	5,000	3,139,305
Plant services					
Facilities acquisition and maintenance	4,243,163	-	2,250	47,927	4,293,340
Community services	-	8,038,140	916,341	1,269,829	10,224,310
Transfers to other agencies	1,509,146	-	-	-	1,509,146
Transfers to other agencies	241,466	-	-	-	241,466
Debt service					
Principal	-	-	-	1,303,340	1,303,340
Interest and other	-	264,148	-	2,581,660	2,845,808
Total Expenditures	54,877,370	8,302,288	918,591	6,093,233	70,191,482
Excess (Deficiency) of Revenues					
Over Expenditures	5,468,247	(8,251,992)	(865,740)	(480,939)	(4,130,424)
Other Financing Sources (Uses)					
Transfers in	-	-	2,158,847	50,000	2,208,847
Other sources	-	14,086,595	-	3,849	14,090,444
Transfers out	(50,000)	(2,158,847)	-	-	(2,208,847)
Net Financing Sources (Uses)	(50,000)	11,927,748	2,158,847	53,849	14,090,444
NET CHANGE IN FUND BALANCE					
	5,418,247	3,675,756	1,293,107	(427,090)	9,960,020
Fund Balance - Beginning	17,136,215	300,002	8,811,400	6,486,412	32,734,029
Fund Balance - Ending	\$ 22,554,462	\$ 3,975,758	\$ 10,104,507	\$ 6,059,322	\$ 42,694,049

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

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

Net Change in Fund Balances - Governmental Funds \$ 9,960,020

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

Capital outlay:

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

Expenditures for capital outlay:	\$ 10,393,981	
Depreciation expense:	<u>(5,150,901)</u>	5,243,080

Debt service:

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

1,303,340

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(13,999,453)

Unmatured interest on long-term debt:

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

(532,631)

Accreted interest on long-term debt:

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

(1,172,407)

(Continued on next page)

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

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (11,203)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was: (86,405)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is: (79,609)

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: 216,794

Change in Net Position of Governmental Activities	\$ 841,526
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ENCINITAS UNION SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 2,428,972
Accounts receivable	3,494
Due from other funds	1,087,438
Total current assets	3,519,904
Total Assets	3,519,904
LIABILITIES	
Current liabilities	
Accrued liabilities	2,087
Due to other funds	222,776
Total current liabilities	224,863
Non-current liabilities	3,039,268
Total Liabilities	3,264,131
NET POSITION	
Unrestricted	255,773
Total Net Position	\$ 255,773

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

ENCINITAS UNION SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	\$ 861,663
Total operating revenues	<u>861,663</u>
OPERATING EXPENSE	
Professional services	659,002
Total operating expenses	<u>659,002</u>
Operating income/(loss)	<u>202,661</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	14,133
Total non-operating revenues/(expenses)	<u>14,133</u>
CHANGE IN NET POSITION	216,794
Net Position - Beginning	<u>38,979</u>
Net Position - Ending	<u>\$ 255,773</u>

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

**ENCINITAS UNION SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016**

	Governmental Activities
	Internal Service Fund(s)
Cash flows from operating activities	
Cash received (paid) from assessments made to (from) other funds	\$ 221,657
Cash payments for payroll, insurance, and operating costs	(328,589)
Net cash provided by (used for) operating activities	<u>(106,932)</u>
Cash flows from investing activities	
Interest received	14,133
Net cash provided by (used for) investing activities	<u>14,133</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(92,799)</u>
 CASH AND CASH EQUIVALENTS	
Beginning of year	2,521,771
End of year	<u>\$ 2,428,972</u>
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ 202,661
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,119)
(Increase) decrease in due from other funds	(861,663)
Increase (decrease) in accounts payable	912
Increase (decrease) in due to other funds	222,776
Increase (decrease) in claims liabilities	329,501
Net cash provided by (used for) operating activities	<u>\$ (106,932)</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-6 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

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

C. Basis of Presentation

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

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

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

C. Basis of Presentation (*continued*)

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

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

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

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

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

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

C. Basis of Presentation (*continued*)

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

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

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

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

Permanent Funds: Permanent funds were introduced as part of the governmental financial reporting model established by GASB Statement 34 to account for permanent foundations that benefit a District.

Foundation Permanent Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* that are restricted to the extent that earnings, but not principal, may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

Proprietary Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. **Basis of Accounting – Measurement Focus**

Government-Wide and Proprietary Financial Statements

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

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

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

Governmental Funds

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions, continued

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

Unearned Revenue

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

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

Expenses/Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

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

Investments

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

Inventories

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

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

Interfund Balances

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

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

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

Pensions

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

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

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

Fund Balance

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Interfund Activity

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

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

ENCINITAS UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

J. New Accounting Pronouncements

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

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

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

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities
Investment in county treasury	\$ 45,576,162	\$ 2,428,972	\$ 48,005,134
Cash on hand and in banks	20,000	-	20,000
Cash in revolving fund	10,000	-	10,000
Total cash and investments	\$ 45,606,162	\$ 2,428,972	\$ 48,035,134

B. Policies and Practices

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

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

The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$48,062,620 and an amortized book value of \$48,005,134. The average weighted maturity for this pool is 310 days.

E. Credit Risk

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (*continued*)

F. Custodial Credit Risk – Deposits

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

G. Fair Value

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

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

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

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

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

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

	<u>Uncategorized</u>
Investment in county treasury	\$ 48,062,620
Total fair market value of investments	<u>\$ 48,062,620</u>

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government						
Categorical aid	\$ 755,893	\$ -	\$ -	\$ 23,036	\$ -	\$ 778,929
State Government						
Apportionment	207,285	-	-	-	-	207,285
Categorical aid	67,492	-	-	1,570	-	69,062
Lottery	606,678	-	-	-	-	606,678
Local Government						
Other local sources	298,396	17,471	14,586	2,555	3,494	336,502
Total	\$ 1,935,744	\$ 17,471	\$ 14,586	\$ 27,161	\$ 3,494	\$ 1,998,456

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 20,468,378	\$ -	\$ -	\$ 20,468,378
Construction in progress	4,616,069	6,357,458	1,669,685	9,303,842
Total Capital Assets not Being Depreciated	25,084,447	6,357,458	1,669,685	29,772,220
Capital assets being depreciated				
Land improvements	2,663,700	166,780	-	2,830,480
Buildings & improvements	108,958,382	3,989,632	-	112,948,014
Furniture & equipment	14,286,662	1,549,796	-	15,836,458
Total Capital Assets Being Depreciated	125,908,744	5,706,208	-	131,614,952
Less Accumulated Depreciation				
Land improvements	2,619,600	11,489	-	2,631,089
Buildings & improvements	43,292,019	3,866,533	-	47,158,552
Furniture & equipment	4,017,848	1,272,879	-	5,290,727
Total Accumulated Depreciation	49,929,467	5,150,901	-	55,080,368
Governmental Activities				
Capital Assets, net	\$ 101,063,724	\$ 6,912,765	\$ 1,669,685	\$ 106,306,804

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

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

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

	Due From Other Funds		
	General Fund	Self-Insurance	Total
Due To Other Funds			
General Fund	\$ -	\$ 1,087,438	\$ 1,087,438
Special Reserve Fund for Capital Outlay Projects	43,416	-	43,416
Non-Major Governmental Funds	17,326	-	17,326
Self-Insurance Fund	222,776	-	222,776
Total Due From Other Funds	\$ 283,518	\$ 1,087,438	\$ 1,370,956

Due from the General Fund to the Self Insurance Fund to transfer OPEB for 2015-16 payroll.	\$	1,087,438
Due from the Cafeteria Special Revenue Fund to the General Fund for OPEB contributions.		17,326
Due from the Special Reserve Fund for Capital Outlay Projects to the General Fund for expenditure reimbursements.		43,416
Due from the Self Insurance Fund to the General Fund for OPEB contributions.		222,776
Total	\$	1,370,956

B. Operating Transfers

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

	Interfund Transfers In		
	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Interfund Transfers Out			
General Fund	\$ -	\$ 50,000	\$ 50,000
Building Fund	2,158,847	-	2,158,847
Total Interfund Transfers	\$ 2,158,847	\$ 50,000	\$ 2,208,847

Transfer from the General Fund to the Cafeteria Special Revenue Fund for Child Nutrition Service purposes.	\$	50,000
Transfer from the Building Fund to the Special Reserve Fund for Capital Outlay Projects to recover prior year transfer.		2,158,847
Total	\$	2,208,847

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 6 – ACCRUED LIABILITIES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities
Payroll	\$ 448,644	\$ -	\$ 20,665	\$ -	\$ -	\$ 469,309
Construction	-	1,300,585	415,846	-	-	1,716,431
Vendors payable	953,585	76,692	10,465	2,087	-	1,042,829
Unmatured interest	-	-	-	-	1,075,692	1,075,692
Total	\$ 1,402,229	\$ 1,377,277	\$ 446,976	\$ 2,087	\$ 1,075,692	\$ 4,304,261

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 31,837	\$ 8,794	\$ 40,631
Local sources	937,726	-	937,726
Total	\$ 969,563	\$ 8,794	\$ 978,357

NOTE 8 – LONG-TERM DEBT

	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 31,328,506	\$ 13,999,453	\$ 1,303,340	\$ 44,024,619	\$ 1,263,553
Unamortized premium	265,473	90,991	11,382	345,082	11,382
Accreted interest	19,550,988	1,172,407	-	20,723,395	-
Total general obligation bonds	51,144,967	15,262,851	1,314,722	65,093,096	1,274,935
Compensated absences	301,091	11,203	-	312,294	-
Net OPEB obligation	2,709,767	329,501	-	3,039,268	-
Net pension liability	39,665,760	5,707,332	-	45,373,092	-
Total	\$ 93,821,585	\$ 21,310,887	\$ 1,314,722	\$ 113,817,750	\$ 1,274,935

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

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$312,294. This amount is included as part of current liabilities in the government-wide financial statements.

B. Bonded Debt

The outstanding bonded debt of the District at June 30, 2016, including accreted interest of \$20,723,395, is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016
Election 1995	8/1/1996	8/1/2021	3.6 - 5.85%	\$ 2,950,000	\$ 22,712,577	\$ 152,978	\$ 1,303,340	\$ 21,562,215
Election 2010, Series 2011	4/20/2011	8/1/2035	5.4 - 6.7%	12,998,720	17,095,044	566,452	-	17,661,496
Election 2010, Series 2013	2/5/2013	8/1/2037	3.0 - 4.3%	9,998,411	11,071,873	233,131	-	11,305,004
Election 2010, Series 2015	9/3/2015	8/1/2039	2.49 - 4.61%	13,999,453	-	14,219,299	-	14,219,299
					\$ 50,879,494	\$ 15,171,860	\$ 1,303,340	\$ 64,748,014

Election of 1995

In August 1996 the District voters authorized \$29,500,000 in general obligation bonds to acquire, construct and improve grades kindergarten through six school facilities and associated support costs authorized by law. The issue consists of \$750,000 in serial bonds with a stated interest rate ranging between 3.6% and 4.3% which fully matured on August 1, 2001 and capital appreciation serial bonds of \$28,748,820 with approximate yields ranging from 4.75% to 5.85% and fully maturing on August 1, 2021. At June 30, 2016, the principal balance outstanding on these bonds was \$7,028,035, which does not include \$14,534,180 of accreted interest on the capital appreciation bonds.

Election of 2010

On April 20, 2011, Series 2011 bonds of Proposition P bond authorization were issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$12,998,720, with stated interest rates of 5.43% to 6.75% and maturing through August 1, 2035. At June 30, 2016, the principal balance outstanding on these bonds was \$12,998,720, which does not include \$4,662,776 of accreted interest on the capital appreciation bonds.

On February 5, 2013, Series 2013 bonds of Proposition P bond authorization were issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$9,998,411, with stated interest rates of 3.0% to 4.3% and maturing through August 1, 2037. At June 30, 2016, the principal balance outstanding on these bonds was \$9,998,411, which does not include \$1,306,593 of accreted interest on the capital appreciation bonds.

On September 3, 2015, Series 2015 bonds of Proposition P bond authorization were issued, which consisted of capital appreciation bonds with an initial par amount of \$13,999,453, with stated interest rates of 2.49% to 4.61% and maturing through August 1, 2039. At June 30, 2016, the principal balance outstanding on these bonds was \$13,999,453, which does not include \$219,846 of accreted interest on the capital appreciation bonds.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (*continued*)

B. Bonded Debt (continued)

The annual requirements to amortize all general obligation bonds payable outstanding at June 30, 2016 were as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,263,553	\$ 2,581,660	\$ 3,845,213
2018	1,225,613	2,726,447	3,952,060
2019	1,188,020	2,874,387	4,062,407
2020	1,152,050	3,021,980	4,174,030
2021	1,116,438	3,172,950	4,289,388
2022 - 2026	7,234,225	8,915,257	16,149,482
2027 - 2031	8,427,949	8,999,157	17,427,106
2032 - 2036	12,210,390	7,304,384	19,514,774
2037 - 2040	10,206,381	14,158,618	24,364,999
Accretion	20,723,395	(20,723,395)	-
Total	<u>\$ 64,748,014</u>	<u>\$ 33,031,445</u>	<u>\$ 97,779,459</u>

C. Net Pension Liability

The District's beginning net pension liability was \$39,665,760 and increased by \$5,707,332 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$45,373,092. See Note 11 for additional information regarding the net pension liability.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Stores inventory	126,804	-	-	35,622	162,426
Total non-spendable	136,804	-	-	35,622	172,426
Restricted					
Permanent fund balance	-	-	-	106,114	106,114
Educational programs	1,790,688	-	-	-	1,790,688
Capital projects	-	3,975,758	10,104,507	1,045,262	15,125,527
Debt service	-	-	-	4,788,247	4,788,247
Food service	-	-	-	84,077	84,077
Total restricted	1,790,688	3,975,758	10,104,507	6,023,700	21,894,653
Assigned					
Other assignments	11,378,201	-	-	-	11,378,201
Deferred maintenance	305,206	-	-	-	305,206
Reserve for budget contingencies	4,455,236	-	-	-	4,455,236
Reserve for postemployment benefits	377,005	-	-	-	377,005
Total assigned	16,515,648	-	-	-	16,515,648
Unassigned					
Reserve for economic uncertainties	1,647,821	-	-	-	1,647,821
Remaining unassigned	2,463,501	-	-	-	2,463,501
Total unassigned	4,111,322	-	-	-	4,111,322
Total	\$ 22,554,462	\$ 3,975,758	\$ 10,104,507	\$ 6,059,322	\$ 42,694,049

The District maintains a minimum unassigned fund balance of not less than 10 percent of budgeted general fund expenditures and other financing uses as a Reserve for Economic Uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which Basic Aid districts such as this district are vulnerable. Because amounts in the non-spendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the Reserve for Economic Uncertainties consists of balances that are otherwise unassigned.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

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

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses.

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits	46
Active plan members	386
Total*	432
 Number of participating employers	 1

*As of July 1, 2015 actuarial study

The District provides postemployment health care benefits in accordance with District employment contracts and based on the age and the years of service. Certificated and Certificated Management employees may retire with District-paid benefits at the later of age 55 and 15 years of District service. Benefits are paid for five years after retirement. If this period extends beyond age 65, the retiree converts to a Medicare Supplement policy. Classified and Classified Management employees are eligible to retire with District-paid benefits at the later of age 50 and 14 years of District service. District benefits are paid for five years, or until age 65 if earlier. Assistant Superintendents follow certificated language except that they are subject to a 10 year service requirement (rather than 15 years) Superintendents' benefits are based on agreed-upon and Board approved contracts.

B. Funding Policy

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2015-16, the District contributed \$411,395 including subsidy.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

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

C. Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation to the Plan:

Annual required contribution	\$ 788,632
Interest on net OPEB obligation	107,090
Adjustment to annual required contribution	(154,826)
Annual OPEB cost (expense)	<u>740,896</u>
Contributions made	(411,395)
Increase (decrease) in net OPEB obligation	<u>329,501</u>
Net OPEB obligation, beginning of the year	<u>2,709,767</u>
Net OPEB obligation, end of the year	<u>\$ 3,039,268</u>

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

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 740,896	56%	\$ 3,039,268
2015	\$ 925,291	47%	\$ 2,709,767
2014	\$ 933,245	46%	\$ 2,217,398

D. Funded Status and Funding Progress

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

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 6,949,846	\$ 6,949,846	0%	\$ 30,867,680	23%

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a five percent investment rate of return per year (net of administrative expenses), based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The UAAL is being amortized as a level percentage of payroll over a period of 30 years. The remaining amortization period at June 30, 2016 was 30 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

Valuation Date	7/1/2015
Actuarial Cost Method	Project Unit Credit
Amortization Method	30-Year Level Dollar, Open
Remaining Amortization Period	30
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	8.0%
Inflation rate	1.0%

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS

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

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 37,648,203	\$ 2,644,631	\$ 5,125,931	\$ 2,677,519
PERS Pension	7,724,889	1,454,471	745,732	803,304
Total	<u>\$ 45,373,092</u>	<u>\$ 4,099,102</u>	<u>\$ 5,871,663</u>	<u>\$ 3,480,823</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

CalSTRS 2% at 60

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (*continued*)

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

Benefits provided (*continued*)

CalSTRS 2% at 62

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$2,644,631 for the year ended June 30, 2016.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$1,867,922 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

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

District's proportionate share of the net pension liability	\$ 37,648,203
State's proportionate share of the net pension liability associated with the District	19,911,696
Total	\$ 57,559,899

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was .056% percent, which was a decrease of .002% percent from its proportion measured as of June 30, 2014.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$2,677,519. In addition, the District recognized pension expense and revenue of \$1,541,974 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 3,068,940
Differences between expected and actual experience	-	629,111
Changes in proportion and differences between District contributions and proportionate share of contributions	-	1,427,880
District contributions subsequent to the measurement date	2,644,631	-
	<u>\$ 2,644,631</u>	<u>\$ 5,125,931</u>

The \$2,644,631 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 1,110,067
2018	1,110,067
2019	1,110,067
2020	1,110,067
2021	342,832
2022	342,831
	<u>\$ 5,125,931</u>

Actuarial assumptions

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

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

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (*continued*)

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

Actuarial assumptions (*continued*)

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	100%	

* 10-year geometric average

Discount rate

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 56,845,856	\$ 37,648,203	\$ 21,693,404

Pension plan fiduciary net position

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

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

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

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$749,787 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$7,724,889 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was .052% percent, which was an increase of .002% percent from its proportion measured as of June 30, 2014.

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$803,304. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 264,507
Differences between expected and actual experience	441,488	-
Changes in assumptions	-	474,638
Changes in proportion and differences between District contributions and proportionate share of contributions	263,196	6,587
District contributions subsequent to the measurement date	749,787	-
	<u>\$ 1,454,471</u>	<u>\$ 745,732</u>

The \$749,787 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 242,994	\$ 231,991
2018	242,994	231,991
2019	218,696	215,624
2020	-	66,126
	<u>\$ 704,684</u>	<u>\$ 745,732</u>

ENCINITAS UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

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

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

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

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

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

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

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

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

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

* An expected inflation of 2.5% used for this period

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

Discount rate

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 12,572,900	\$ 7,724,889	\$ 3,693,443

Pension plan fiduciary net position

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Construction Commitments

As of June 30, 2016, the District had commitments with respect to unfinished capital projects of \$4,010,500.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in one joint venture under a joint powers authority (JPA), the San Diego County Schools Risk Management JPA. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of the JPA independent of any influence by the District beyond the District's representation on the governing board.

The JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the governing board. Member districts share surpluses and deficits proportionately to their participation in the JPA. The audited financial statements are available from the JPA.

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 13, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Postemployment Benefits

The District self-insures for postemployment benefits; providing a maximum of five years of post-employment health care benefits, in accordance with District employment contracts, to all qualified employees. Certificated employees are eligible that retire from the District on or after attaining age 55, with at least 15 years of service. Classified employees that retire from the District on or after attaining age 50 and before age 65, with at least 14 years of service, are eligible.

Expenditures amounting to \$411,395 for post-employment benefits were recorded in the governmental funds, which in turn contributed an equal amount of cash to the Self Insurance Fund. An actuarial study determined as of July 1, 2015, estimates the District's future retiree health care benefit liability for the 46 current and 386 future retirees to be \$11,579,030.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**ENCINITAS UNION SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 41,676,276	\$ 43,824,158	\$ 44,291,536	\$ 467,378
Federal sources	1,614,000	2,017,671	1,908,962	(108,709)
Other state sources	4,324,412	4,726,651	7,084,895	2,358,244
Other local sources	3,742,408	6,103,676	7,032,394	928,718
Total Revenues	51,357,096	56,672,156	60,317,787	3,645,631
EXPENDITURES				
Certificated salaries	23,618,257	24,039,713	25,211,612	(1,171,899)
Classified salaries	7,251,021	7,519,922	8,224,606	(704,684)
Employee benefits	9,871,471	10,028,646	12,071,830	(2,043,184)
Books and supplies	4,369,081	6,726,563	1,439,616	5,286,947
Services and other operating expenditures	8,069,751	10,170,629	7,316,475	2,854,154
Capital outlay	44,838	44,838	371,765	(326,927)
Other outgo				
Excluding transfers of indirect costs	-	-	241,466	(241,466)
Total Expenditures	53,224,419	58,530,311	54,877,370	3,652,941
Excess (Deficiency) of Revenues				
Over Expenditures	(1,867,323)	(1,858,155)	5,440,417	7,298,572
Other Financing Sources (Uses)				
Transfers out	-	-	(50,000)	(50,000)
Net Financing Sources (Uses)	-	-	(50,000)	(50,000)
NET CHANGE IN FUND BALANCE	(1,867,323)	(1,858,155)	5,390,417	7,248,572
Fund Balance - Beginning	12,026,598	12,026,598	12,026,598	-
Fund Balance - Ending	\$ 10,159,275	\$ 10,168,443	\$ 17,417,015	\$ 7,248,572

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

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

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 6,949,846	\$ 6,949,846	0%	\$ 30,867,680	23%
July 1, 2013	\$ -	\$ 8,425,182	\$ 8,425,182	0%	\$ 30,972,302	27%
July 1, 2011	\$ -	\$ 12,635,911	\$ 12,635,911	0%	\$ 34,560,083	37%

See accompanying note to required supplementary information.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.056%	0.058%
District's proportionate share of the net pension liability	\$ 37,648,203	\$ 33,981,002
States's proportionate share of the net pension liability associated with the District	19,911,696	20,519,196
Total	<u>\$ 57,559,899</u>	<u>\$ 54,500,198</u>
District's covered-employee payroll	\$ 24,546,360	\$ 25,298,486
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	153.4%	134.3%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.052%	0.050%
District's proportionate share of the net pension liability	\$ 7,724,889	\$ 5,684,758
District's covered-employee payroll	\$ 6,321,320	\$ 5,816,930
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	122.2%	97.7%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,644,631	\$ 2,252,144
Contributions in relation to the contractually required contribution*	(2,644,631)	(2,252,144)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 24,546,360	\$ 25,298,486
Contributions as a percentage of covered-employee payroll	10.77%	8.90%

*Amounts do not include on behalf contributions

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 749,787	\$ 684,254
Contributions in relation to the contractually required contribution	(749,787)	(684,254)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 6,321,320	\$ 5,816,930
Contributions as a percentage of covered-employee payroll	11.86%	11.76%

See accompanying note to required supplementary information.

**ENCINITAS UNION SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

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

Schedule of District Contributions

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

**ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
 FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 24,039,713	\$ 25,211,612	\$ 1,171,899
Classified salaries	\$ 7,519,922	\$ 8,224,606	\$ 704,684
Employee benefits	\$ 10,028,646	\$ 12,071,830	\$ 2,043,184
Capital outlay	\$ 44,838	\$ 371,765	\$ 326,927
Other outgo			
Excluding transfers of indirect costs	\$ -	\$ 241,466	\$ 241,466

**SUPPLEMENTARY
INFORMATION**

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 585,501
Title II, Part A, Teacher Quality	84.367	14341	121,247
Title III			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	5,274
Title III, Immigrant Education Program	84.365	15146	1,112
Subtotal Title III			<u>6,386</u>
Special Education Cluster [1]			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	780,016
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	9,706
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	91,622
Part B, Preschool Grants	84.173	13430	33,847
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	66,700
Preschool Staff Development	84.173A	13431	373
Subtotal Special Education Cluster			<u>982,264</u>
Total U. S. Department of Education			<u><u>1,695,398</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	13390	35,895
National School Lunch Program	10.555	13391	299,125
USDA Commodities [2]	10.555	*	25,075
Subtotal Child Nutrition Cluster			<u>360,095</u>
Nutrition Network	10.574	15332	3,446
Total U. S. Department of Agriculture			<u><u>363,541</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Health Services:</i>			
Medicaid			
Medi-Cal Billing Option	93.778	10013	24,956
Medi-Cal Administrative Activities	93.778	10060	140,936
Subtotal Medicaid			<u>165,892</u>
Total U. S. Department of Health & Human Services			<u>165,892</u>
Total Federal Expenditures			<u><u>\$ 2,224,831</u></u>

[1] - Major Program

[2] - In-Kind Contribution

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

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2016**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	2,812.44	2,817.78
Extended Year Special Education	15.13	15.13
Special Education - Nonpublic Schools	1.35	1.98
Extended Year Special Education - Nonpublic Schools	0.11	0.11
Total TK/K through Third	2,829.03	2,835.00
Fourth through Sixth		
Regular ADA	2,239.66	2,241.38
Extended Year Special Education	10.39	10.39
Special Education - Nonpublic Schools	1.91	2.04
Extended Year Special Education - Nonpublic Schools	0.19	0.19
Total Fourth through Sixth	2,252.15	2,254.00
TOTAL SCHOOL DISTRICT	5,081.18	5,089.00
BASIC AID "District of Choice" ADA		
TK/K through Third	20.04	20.08
Fourth through Sixth	17.43	17.71
Total District of Choice	37.47	37.79
TOTAL ADA	5,118.65	5,126.79

See accompanying note to supplementary information.

**ENCINITAS UNION SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	Minutes Requirement	2015-16 Actual Minutes	Number of Days	Status
Kindergarten	36,000	54,415	180	Complied
Grade 1	50,400	54,415	180	Complied
Grade 2	50,400	54,415	180	Complied
Grade 3	50,400	54,415	180	Complied
Grade 4	54,000	54,415	180	Complied
Grade 5	54,000	54,415	180	Complied
Grade 6	54,000	54,415	180	Complied

See accompanying note to supplementary information.

**ENCINITAS UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 54,269,847	\$ 60,317,787	\$ 53,561,634	\$ 51,589,533
Expenditures And Other Financing Uses	53,875,110	54,927,370	52,449,302	49,610,867
Net change in Fund Balance	\$ 394,737	\$ 5,390,417	\$ 1,112,332	\$ 1,978,666
Ending Fund Balance	\$ 17,811,753	\$ 17,417,015	\$ 12,026,598	\$ 10,914,266
Available Reserves*	\$ 16,021,065	\$ 4,111,324	\$ 3,118,090	\$ 9,632,851
Available Reserves As A Percentage Of Outgo	29.74%	7.49%	5.94%	19.42%
Long-term Debt	\$ 112,542,815	\$ 113,817,750	\$ 93,821,588	\$ 54,650,819
Average Daily Attendance At P-2	5,036	5,081	5,217	5,207

The General Fund balance has increased by \$6,502,749 over the past two years. The fiscal year 2016-17 budget projects a further increase of \$394,737. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2016-17 fiscal year. Total long term obligations have increased by \$59,166,931 over the past two years, mostly due to the implementation of GASB Statement No. 68.

Average daily attendance has decreased by 126 ADA over the past two years. A further decrease of 45 ADA is anticipated during the 2016-17 fiscal year.

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

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve for Other than Capital Outlay Fund and Special Reserve for Postemployment Benefits Fund, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

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

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
June 30, 2016, annual financial and budget report fund balance	\$ 17,417,015	\$ 305,206	\$ 4,455,236	\$ 377,005
Adjustments and reclassifications:				
Increase (decrease) in total fund balances:				
Fund balance transfer (GASB 54)	5,137,447	(305,206)	(4,455,236)	(377,005)
Net adjustments and reclassifications	5,137,447	(305,206)	(4,455,236)	(377,005)
June 30, 2016, audited financial statement fund balance	\$ 22,554,462	\$ -	\$ -	\$ -

See accompanying note to supplementary information.

ENCINITAS UNION SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2016

	Cafeteria Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Foundation Permanent Fund	Non-Major Governmental Funds
ASSETS					
Cash and investments	\$ 111,520	\$ 1,463,906	\$ 4,788,247	\$ 105,962	\$ 6,469,635
Accounts receivable	24,807	2,202	-	152	27,161
Stores inventory	35,622	-	-	-	35,622
Total Assets	\$ 171,949	\$ 1,466,108	\$ 4,788,247	\$ 106,114	\$ 6,532,418
LIABILITIES					
Accrued liabilities	\$ 26,130	\$ 420,846	\$ -	\$ -	\$ 446,976
Due to other funds	17,326	-	-	-	17,326
Unearned revenue	8,794	-	-	-	8,794
Total Liabilities	52,250	420,846	-	-	473,096
FUND BALANCES					
Non-spendable	35,622	-	-	-	35,622
Restricted	84,077	1,045,262	4,788,247	106,114	6,023,700
Total Fund Balances	119,699	1,045,262	4,788,247	106,114	6,059,322
Total Liabilities and Fund Balance	\$ 171,949	\$ 1,466,108	\$ 4,788,247	\$ 106,114	\$ 6,532,418

See accompanying note to supplementary information.

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

	Cafeteria Fund	Capital Facilities Fund	Bond Interest & Redemption Fund	Foundation Permanent Fund	Non-Major Governmental Funds
REVENUES					
Federal sources	\$ 363,541	\$ -	\$ -	\$ -	\$ 363,541
Other state sources	22,981	-	23,392	-	46,373
Other local sources	522,387	613,724	4,065,659	610	5,202,380
Total Revenues	908,909	613,724	4,089,051	610	5,612,294
EXPENDITURES					
Current					
Instruction	-	-	-	423	423
Pupil services					
Food services	885,054	-	-	-	885,054
General administration					
All other general administration	-	5,000	-	-	5,000
Plant services	47,927	-	-	-	47,927
Facilities acquisition and maintenance	-	1,269,829	-	-	1,269,829
Debt service					
Principal	-	-	1,303,340	-	1,303,340
Interest and other	-	-	2,581,660	-	2,581,660
Total Expenditures	932,981	1,274,829	3,885,000	423	6,093,233
Excess (Deficiency) of Revenues					
Over Expenditures	(24,072)	(661,105)	204,051	187	(480,939)
Other Financing Sources (Uses)					
Transfers in	50,000	-	-	-	50,000
Other sources	-	-	3,849	-	3,849
Net Financing Sources (Uses)	50,000	-	3,849	-	53,849
NET CHANGE IN FUND BALANCE	25,928	(661,105)	207,900	187	(427,090)
Fund Balance - Beginning	93,771	1,706,367	4,580,347	105,927	6,486,412
Fund Balance - Ending	\$ 119,699	\$ 1,045,262	\$ 4,788,247	\$ 106,114	\$ 6,059,322

See accompanying note to supplementary information.

**ENCINITAS UNION SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2016**

Encinitas Union School District was formed in 1944 and is located in the north-coastal portion of San Diego County. There were no changes in the boundaries of the District during the current year. The District currently operates nine elementary schools.

GOVERNING BOARD

Member	Office	Term Expires
Emily Andrade	President	2018
Gregg Sonken	Vice President	2018
Patricia Sinay	Clerk	2016
Marla Strich	Member	2018
Carol Skiljan	NCCSE Representative	2016

DISTRICT ADMINISTRATORS

Dr. Timothy Baird
Superintendent

Dr. Leighangela Brady
Assistant Superintendent, Educational Services

Angelica Lopez
Assistant Superintendent, Administrative Services

Dannielle Brook
Assistant Superintendent, Business Services

ENCINITAS UNION SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The District has not elected to use the 10 percent de minimis indirect cost rate for the year ended June 30, 2016.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2016 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2016.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 2,272,503
Medi-Cal Billing Option	93.778	<u>(47,672)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 2,224,831</u>

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

ENCINITAS UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Encinitas Union School District
Encinitas, 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 Encinitas Union School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Encinitas Union 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 Encinitas Union 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 Encinitas Union School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Encinitas Union School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 7, 2016

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Encinitas Union School District
Encinitas, California

Report on Compliance for Each Major Federal Program

We have audited Encinitas Union School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Encinitas Union School District's major federal programs for the year ended June 30, 2016. Encinitas Union 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 Encinitas Union 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 Encinitas Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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 Encinitas Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Encinitas Union 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 Encinitas Union 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 Encinitas Union 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 Encinitas Union 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.



San Diego, California
December 7, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Encinitas Union School District
Encinitas, California

Report on State Compliance

We have audited Encinitas Union School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Encinitas Union School District's state programs for the fiscal year ended June 30, 2016, as identified below.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on State Compliance

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2016-1 and #2016-2. Our opinion on state compliance is not modified with respect to these matters.

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

Procedures Performed

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

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

Procedures Performed (continued)

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

We did not perform testing for the Educator Effectiveness program because there were no expenditures of program funds during the year ended June 30, 2016.

We did not perform testing for the California Clean Energy Jobs Act because there were no expenditures of program funds during the year ended June 30, 2016.

Christy White Associates

San Diego, California
December 7, 2016

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

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

STATE AWARDS

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

ENCINITAS UNION SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no financial statement findings for the year ended June 30, 2016.

ENCINITAS UNION SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no audit findings or questioned costs related to federal awards for the year ended June 30, 2016.

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

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2016-01: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: School Accountability Report Cards (SARCs), prepared on annual basis for each school site within the District and posted in February, should contain information regarding school facilities conditions, as indicated in the most recently prepared facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002(d).

Condition: During testing of a representative sample of SARCs, we found the information reported under the School Facility Conditions and Planned Improvements (Most Recent Year) section presented facilities inspection data from February 2014 FIT forms. For the SARC information to be timely and accurate, the facilities inspection data should come from FIT forms prepared in the current fiscal year. This discrepancy was noted in the following SARCs:

- El Camino Creek Elementary School
- Mission Estancia Elementary School
- Park Dale Lane Elementary School

Effect: The District is not in compliance with related sections of California Education Code.

Cause: Likely due to clerical error in preparation of the SARCs.

Questioned Costs: None. There is no State funding source directly related to SARCs.

Recommendation: We recommend that the District implement procedures to ensure that all information presented on the SARCs is contemporaneous and complete.

District Response: The District agrees and the correct FIT forms were used from the site visits in February of 2016 for the related SARC.

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

FINDING #2016-02: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

State Funding Source: After School Education and Safety (ASES) (Proposition 49)

Criteria: Per Education Code Section 8483.7(a)(1)(A), each school that establishes a program pursuant to this article is subject to semiannual attendance reporting requirements. Amounts reported to the California Department of Education for the semi-annual attendance reports should be supported by written contemporaneous documentation that is accurate and reported in accordance with the related sections of Education Code 8483.

Condition: During the testing of ASES program attendance for the 1st Half Base Attendance reporting period, we noted the following discrepancies based on reconciliation of students served for the month of November 2015:

- The total students served amount that was reported to San Diego County Office of Education (SDCOE) based on previous revisions was 2,628, while the adjusted total that should have been reported was 2,652.

Effect: The result is an underreporting of 24 students served for the month of November 2015.

Cause: The reason for this error in reporting appears to be a deviation in controls related to manual attendance adjustments due to the automated attendance scanner not recording any 6th grade students in attendance for that day.

Questioned Costs: None. The ASES program funding is not affected as long as the pupil participation level is maintained at 85% of the projected attendance or greater. Since the finding noted a net understatement of 24 student days of attendance, program attendance did not fall below 85% of the target annual attendance; therefore, there are no questioned costs.

Recommendation: We recommended that the District revise the related ASES attendance records and reflect the corrected amounts in the 2nd Half Base Attendance report. In addition, the District should implement procedures to allow for proper review and analysis of attendance reports prior to submitting future reports.

District Response: The District has put processes in place to ensure that manual attendance adjustments are entered into the system when the manual attendance is needed. In addition, two additional bar code scanners were purchased to reduce the likelihood that a child would have to sign in manually.

ENCINITAS UNION SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-01: INSTRUCTIONAL MATERIALS (70000)

State Funding Source: Instructional Materials Funding Realignment Program (IMFRP)

Criteria: The District must hold an annual public hearing regarding sufficiency of instructional materials and the determination of sufficiency instructional materials must be made at a regularly scheduled board meeting in accordance with *California Education Code Section 60119 (b)*. The governing board of the district shall hold the annual sufficiency of instructional materials hearing at a time that will encourage the attendance of teachers and parents and guardians of pupils who attend the schools in the school district and shall not take place during or immediately following school hours.

Condition: Based on review of agenda and meeting minutes related to the public hearing held on September 30, 2014, it appears the meeting was held at 2:30pm, which falls immediately after school is released.

Effect: The District was not in compliance with the applicable section of California Education Code related to instructional materials.

Cause: Administrative oversight related to the time of the public hearing and with regards to adopted the resolution on the sufficiency of textbooks and instructional materials.

Questioned Costs: None. Based on an LEA advisory from the *California State Controller* dated October 1, 2014, the requirements are verified for compliance only and a finding does not result in disallowance of funds.

Recommendation: We recommend that the District ensure the public hearing is held at the correct time, not immediately after school hours regarding sufficiency of textbooks and instructional materials.

District Response: The District agrees with the response, the meeting in 2015-16 was held at the appropriate time.

Current Status: Implemented.