

**NORTH MONTEREY COUNTY  
UNIFIED SCHOOL DISTRICT**

---

ANNUAL FINANCIAL REPORT

---

**JUNE 30, 2018**

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

---

### ***FINANCIAL SECTION***

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds - Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Proprietary Funds - Statement of Net Position	24
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	25
Proprietary Funds - Statement of Cash Flows	26
Fiduciary Funds - Statement of Net Position	27
Notes to Financial Statements	28

### ***REQUIRED SUPPLEMENTARY INFORMATION***

General Fund - Budgetary Comparison Schedule	70
Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program	71
Schedule of the District's Proportionate Share of the Net Pension Liability	72
Schedule of District Contributions	73
Notes to Required Supplementary Information	74

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	76
Local Education Agency Organization Structure	77
Schedule of Average Daily Attendance	78
Schedule of Instructional Time	79
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	80
Schedule of Financial Trends and Analysis	81
First Five Grant - Schedule of Revenues and Expenditures	82
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	83
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	84
Note to Supplementary Information	85

### ***INDEPENDENT AUDITOR'S 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 <i>Government Auditing Standards</i>	88
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	90
Report on State Compliance	92

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

---

### *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Summary of Auditor's Results	96
Financial Statement Findings	97
Federal Awards Findings and Questioned Costs	100
State Awards Findings and Questioned Costs	101
Summary Schedule of Prior Audit Findings	102
Management Letter	103

---

---

***FINANCIAL SECTION***

---

---



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
North Monterey County Unified School District  
Moss Landing, 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 North Monterey County Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 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 the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Monterey County Unified School District, as of June 30, 2018, 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.

## ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison schedule on page 70, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 71, schedule of the District's proportionate share of the net pension liability on page 72, and the schedule of District contributions on page 73, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Monterey County Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying 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 15, 2018, on our consideration of the North Monterey County Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of North Monterey County Unified School District's 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 North Monterey County Unified School District's internal control over financial reporting and compliance.

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2018



# North Monterey County Unified School District

◆ 8142 Moss Landing Road ◆ Moss Landing, California 95039-9617 ◆ (831) 633-3343

The discussion and analysis of North Monterey County Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018, with comparative information for the year ending June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report, notes to financial statements and the District's financial statements, as listed in the table of contents.

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

## FINANCIAL HIGHLIGHTS

- General Fund revenues and other sources exceeded expenditures by \$1.3 million. The Fund ended the year with available reserves of \$1.7 million meeting the State recommended reserve level of 3.0 percent.
- The total of the District's capital assets; land, land improvements, buildings, and equipment, valued on an acquisition cost basis, was \$109.0 million. After depreciation, the June 30, 2018 book value for capital assets totaled \$52.3 million.
- As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-and amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities \$18.6 million, Deferred Inflows from pension activities of \$1.9 million, and a Net Pension Liability of \$55.9 million.

## OVERVIEW OF FINANCIAL STATEMENTS

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



NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

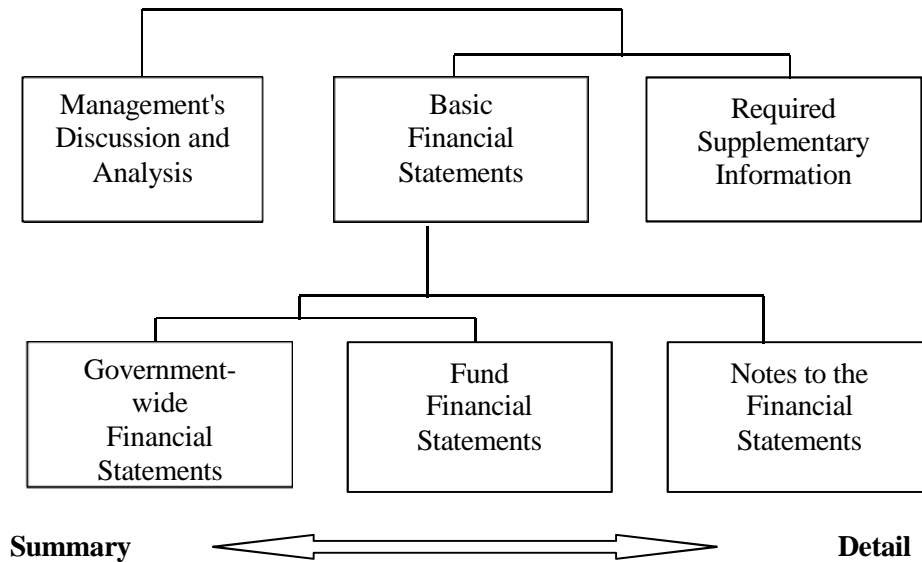
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Components of the Financial Section**



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

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

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Reporting the District as a Whole**

*Statement of Net Position and the Statement of Activities*

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole.

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

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

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

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

◆ Governmental Funds

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

◆ Proprietary Funds

Proprietary funds use the full accrual basis of accounting, the same as the District-wide statements. The District currently has one type of proprietary fund, an internal service fund. The internal service fund of the District is the Self-Insurance Fund used to account for the District's self-insured plan.

◆ Fiduciary Funds

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

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

*The District as a Whole*

The District's net position was a deficit of \$6.5 million at June 30, 2018. Of this amount \$7.2 million was restricted. Net investment in capital assets, account for \$15.1 million of the total net position. A comparative analysis of government-wide data is presented in Table 1.

**Table 1  
Comparative Statement of Net Position**

(Amounts in millions)	Governmental Activities		
	2018	2017, as Restated	Difference
<b>Assets</b>			
Current and other assets	\$ 26.0	\$ 32.6	\$ (6.6)
Capital assets	52.3	48.1	4.2
Total Assets	78.3	80.7	(2.4)
Deferred Outflows	18.6	11.1	7.5
<b>Liabilities</b>			
Current liabilities	3.9	3.6	(0.3)
Long-term obligations	41.5	43.4	1.9
Aggregate net pension liability	55.9	46.2	(9.7)
Total Liabilities	101.3	93.2	(8.1)
Deferred Inflows	2.1	1.4	(0.7)
<b>Net Position</b>			
Net investment in capital assets	15.1	15.2	(0.1)
Restricted	7.2	9.0	(1.8)
Unrestricted	(28.8)	(27.0)	(1.8)
Total Net Position	\$ (6.5)	\$ (2.8)	\$ (3.7)

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)**

*The District as a Whole (Continued)*

The District's net position was a deficit of \$6.5 million for the fiscal year ended June 30, 2018. Of this amount, a deficit of \$28.8 million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use that net position for day to day operations. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

The outstanding long-term obligations of \$41.5 million includes installments of voter-approved general obligation bonds. The voters authorized a total of \$20.8 million of bonded debt in 2002 and \$23.8 million in 2013. Long-term obligations also include liabilities for employee compensated absences and early retirement incentives. Additionally, the District has \$5.6 million in Certificates of Participation (COP) outstanding. (See Table 5 for details)

The District has completed major modernization and construction of new school facilities. The COP issuance provided the required matching funds for state construction grants. Of the \$7.2 million in restricted balances, \$0.2 million consists of developer fee funds restricted for projects.

The District's net position decreased \$3.7 million this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 79 percent of total expenses. The purely administrative activities of the District accounted for just seven percent of total costs. The remaining 14 percent was spent in the areas of plant services, interest on long-term obligations and other outgo and other expenses. (See Table 2)

The cost of all governmental activities this year was \$68.1 million. However, the amount our taxpayers ultimately financed through local taxes for activities other than debt service was only \$16.9 million. The amount that was financed by other government agencies and organizations that subsidized certain programs with grants and contributions was \$11.8 million.

The remaining revenue consisted of federal and state aid not restricted to a specific purpose of \$34.7 million, and of charges for services, other local grants, and interest income. Taxes levied for debt service accounted for \$1.0 million. This is based on General Obligation Bonds approved by the electorate in November 2002 and November 2013.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)**

*The District as a Whole (Concluded)*

**Table 2  
Comparative Statement of Changes in Net Position**

(Amounts in millions)	Governmental Activities		
	2018	2017	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.1	\$ 0.1	\$ -
Operating grants and contributions	11.8	12.4	(0.6)
General revenues:			
Federal and State aid not restricted	30.8	29.1	1.7
Property taxes	17.9	20.0	(2.1)
Other general revenues	3.8	3.0	0.8
Total Revenues	<u>64.4</u>	<u>64.6</u>	<u>(0.2)</u>
Expenses			
Instruction related	44.3	40.2	(4.1)
Pupil services	9.4	8.5	(0.9)
Administration	4.8	4.2	(0.6)
Plant services	6.2	5.7	(0.5)
Other	3.4	4.0	0.6
Total Expenses	<u>68.1</u>	<u>62.6</u>	<u>(5.5)</u>
Change in Net Position	<u>\$ (3.7)</u>	<u>\$ 2.0</u>	<u>\$ (5.7)</u>

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

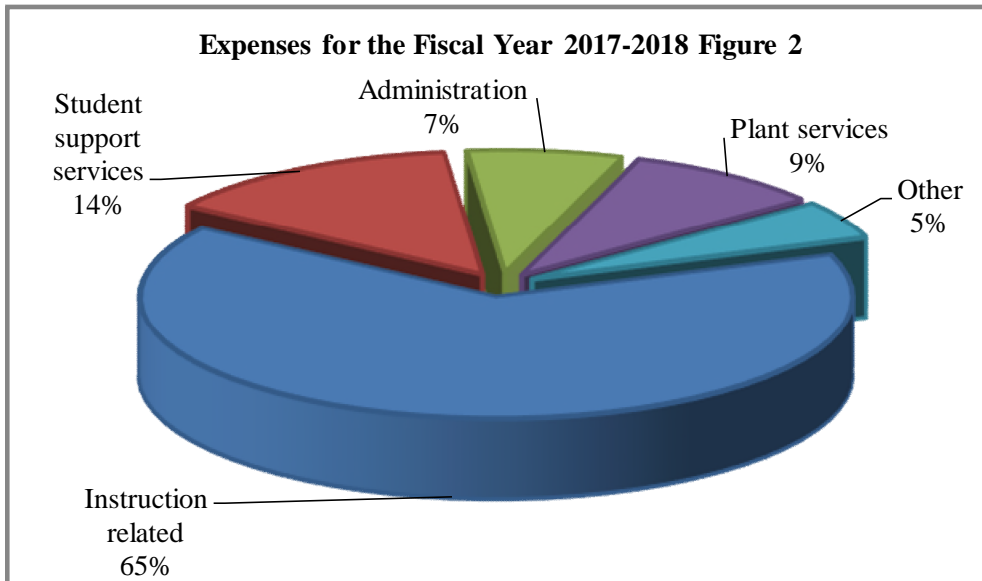
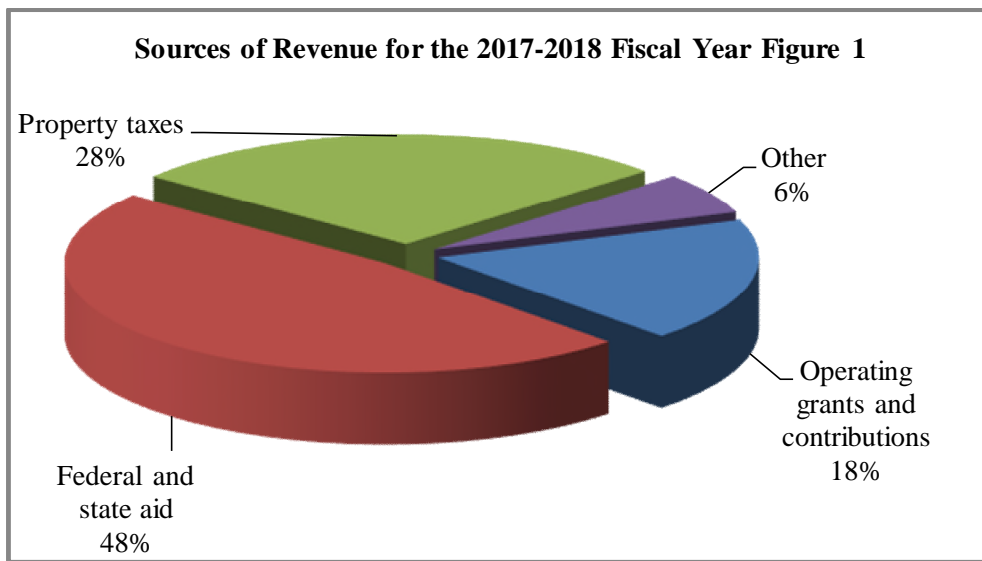
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONCLUDED)**

**Governmental Activities**

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$68.1 million. The amount that our local taxpayers financed for these activities through property taxes was \$17.9 million. Federal and State aid not restricted to specific purposes totaled \$30.8 million. State and Federal Categorical revenue totaled over \$12.7 million, or 18 percent of the revenue of the entire District (See Figure 1).



NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE FUND STATEMENTS**

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$22.0 million a decrease of \$6.9 million from the previous fiscal year's combined ending balance of \$28.9 million. The General Fund increased by \$1.3 million primarily due to increased State funding. The Building Fund decreased by \$6.0 million due to continued capital outlay costs. The District's Non-Major Governmental Funds decreased by \$2.2 million due primarily to continued debt service payments in the Bond Interest and Redemption Fund and the Debt Service Fund.

**Table 3  
District's Fund Balances**

(Amounts in millions)	Fund Balances		
	June 30, 2018	June 30, 2017	Difference
Major Governmental Funds			
General	\$ 11.5	\$ 10.2	\$ 1.3
Building	3.8	9.8	(6.0)
Non-Major Governmental Funds			
Adult Education	0.1	- <sup>1</sup>	0.1
Child Development	0.5	0.6	(0.1)
Cafeteria	1.6	1.8	(0.2)
Deferred Maintenance	0.8	0.9	(0.1)
Capital Facilities	0.2	0.2	-
Bond Interest and Redemption	1.6	2.9	(1.3)
Debt Service	1.9	2.5	(0.6)
Total	<u>\$ 22.0</u>	<u>\$ 28.9</u>	<u>\$ (6.9)</u>

<sup>1</sup> Balances of less than \$50,000 are rounded down to zero in this table.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Budget revisions approved throughout the year resulted in increases to Capital Outlay primarily for new construction and modernization projects.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.



NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District uses \$5,000 as its capitalization threshold. By the end of the 2017-2018 fiscal year, the District had invested \$109 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. Capital assets, net of \$56.7 million of accumulated depreciation, were \$52.3 million at June 30, 2018, which is an increase of \$4.2 million from the previous year.

**Table 4**  
**Comparative Schedule of Capital Assets (net of depreciation)**

(Amounts in millions)	Governmental Activities		
	2018	2017	Difference
Land and construction in process	\$ 2.7	\$ 9.2	\$ (6.5)
Buildings and improvements	47.6	36.6	11.0
Equipment	2.0	2.3	(0.3)
Total	<u>\$ 52.3</u>	<u>\$ 48.1</u>	<u>\$ 4.2</u>

**Long-Term Obligations**

At the end of this year, the District had \$41.5 million in obligations outstanding versus \$43.4 million last year, a decrease of \$1.9 million or 4.4 percent. Those obligations consisted of:

**Table 5**  
**Comparative Schedule of Outstanding Debt**

(Amounts in millions)	Governmental Activities		
	2018	2017, as Restated	Difference
General obligation bonds (Financed with property taxes)	\$ 35.4	\$ 36.5	\$ (1.1)
Certificates of participation	5.6	6.2	(0.6)
Other postemployment benefits	0.3	0.3	-
Other	0.2	0.4	(0.2)
Total	<u>\$ 41.5</u>	<u>\$ 43.4</u>	<u>\$ (1.9)</u>

The District continues to maintain sufficient credit ratings on its debt issues.

NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)**

**Long-Term Obligations (Concluded)**

The long-term obligations paid by the District in 2017-2018 were approximately \$1.9 million.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The Local Control Funding Formula (LCFF) is aimed at correcting historical inequities while decreasing previous constraints on restricted program expenses. The formula is intended to make funding more transparent and simple. With the new flexibility also come new requirements for accountability. The Local Control Accountability Plan (LCAP) is mandated and must be aligned and adopted with the District's 2017-2018 budget. The LCAP is expected to describe how the District intends to meet annual goals for all pupils, with specific activities to address state and local priorities identified during the LCAP development process.

The LCFF is the largest unknown for the District. Planning for the "out years" will be much more difficult and volatile under the LCFF funding formula. While previously it was thought that it would take eight years to bring the District to its target funding level, we now know that full implementation of the formula will occur in the 2018-2019 fiscal year. This now moves the district away from the large gap funding years and in to a cost of living adjustment, or COLA Only, environment. This shift will slow the future increased revenue stream tremendously. This shift could be unpredictable and unstable, thereby creating a need for a larger reserve than past years. The ongoing unpredictability of the District's supplemental and concentration funding under the LCFF will also create unstable budgets even after the district's target has been met in 2018-2019.

Future predictions and uncertainties with the changes to the State funding formula require management to plan carefully and prudently to provide the necessary resources to meet students' needs and continue to keep pace with inflation increases over the next several years.

Lastly, the on-going increases predicted for the State Teachers Retirement System (STRS) and Public Employees Retirement System (PERS), coupled with mandatory increases in step and column, is creating a strain on the district's ability to maintain sufficient reserve balances. On-going efforts to reduce spending in other areas will be required to ensure the fiscal stability of the district.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Liann Reyes, Assistant Superintendent of Business Services for the North Monterey County Unified School District 8142 Moss Landing Road; Moss Landing, CA 95039-9617.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 24,155,775
Receivables	1,771,610
Prepaid expenses	51,762
Stores inventories	18,060
Nondepreciable capital assets	2,684,114
Capital assets being depreciated	106,353,694
Accumulated depreciation	(56,781,677)
<b>Total Assets</b>	<b>78,253,338</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	18,577,016
<b>LIABILITIES</b>	
Accounts payable	3,437,934
Unearned revenue	509,109
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,635,299
Noncurrent portion of long-term obligations other than pensions	39,838,612
<b>Total Long-Term Obligations</b>	<b>41,473,911</b>
Aggregate net pension liability	55,850,755
<b>Total Liabilities</b>	<b>101,271,709</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows on refunding	145,779
Deferred inflows of resources related to pensions	1,909,004
<b>Total Deferred Inflows of Resources</b>	<b>2,054,783</b>
<b>NET POSITION</b>	
Net investment in capital assets	15,120,000
Restricted for:	
Debt service	3,427,623
Capital projects	247,570
Educational programs	1,907,504
Other activities	1,626,902
Unrestricted	(28,825,737)
<b>Total Net Position</b>	<b>\$ (6,496,138)</b>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expenses)</b>
		<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Revenues and Changes in Net Position Governmental Activities</b>
<b>Governmental Activities:</b>				
Instruction	\$ 36,666,252	\$ 35,799	\$ 6,225,528	\$ (30,404,925)
Instruction-related activities:				
Supervision of instruction	2,617,548	4,232	743,716	(1,869,600)
Instructional library, media, and technology	403,614	-	235	(403,379)
School site administration	4,635,261	8,450	448,404	(4,178,407)
Pupil services:				
Home-to-school transportation	2,480,028	-	-	(2,480,028)
Food services	2,942,713	105,911	2,344,129	(492,673)
All other pupil services	4,005,390	3,357	918,520	(3,083,513)
Administration:				
Data processing	1,068,854	-	-	(1,068,854)
All other administration	3,779,674	8,887	423,379	(3,347,408)
Plant services	6,214,645	757	91,916	(6,121,972)
Ancillary services	338,961	-	5,719	(333,242)
Enterprise services	32,486	-	2,465	(30,021)
Interest on long-term obligations	1,714,103	-	-	(1,714,103)
Other outgo	1,263,013	-	644,804	(618,209)
<b>Total Governmental Activities</b>	<b>\$ 68,162,542</b>	<b>\$ 167,393</b>	<b>\$ 11,848,815</b>	<b>(56,146,334)</b>
General revenues and subventions:				
Property taxes, levied for general purposes				16,890,079
Property taxes, levied for debt service				978,042
Federal and State aid not restricted to specific purposes				30,752,075
Interest and investment earnings				231,271
Miscellaneous				3,573,393
<b>Subtotal, General Revenues</b>				<b>52,424,860</b>
<b>Change in Net Position</b>				<b>(3,721,474)</b>
Net Position - Beginning as Restated				(2,774,664)
Net Position - Ending				<b>\$ (6,496,138)</b>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 13,891,348	\$ 4,106,064	\$ 6,117,714
Receivables	760,006	14,287	997,225
Due from other funds	179,649	-	42,306
Prepaid expenditures	5,621	-	5,651
Stores inventories	-	-	18,060
<b>Total Assets</b>	<b>\$ 14,836,624</b>	<b>\$ 4,120,351</b>	<b>\$ 7,180,956</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,946,552	\$ 293,674	\$ 197,708
Due to other funds	41,949	-	180,006
Unearned revenue	386,805	-	122,304
<b>Total Liabilities</b>	<b>3,375,306</b>	<b>293,674</b>	<b>500,018</b>
<b>Fund Balances:</b>			
Nonspendable	10,621	-	23,711
Restricted	1,607,111	3,826,677	5,214,338
Committed	-	-	750,311
Assigned	8,193,586	-	692,578
Unassigned	1,650,000	-	-
<b>Total Fund Balances</b>	<b>11,461,318</b>	<b>3,826,677</b>	<b>6,680,938</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,836,624</b>	<b>\$ 4,120,351</b>	<b>\$ 7,180,956</b>

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

---

**Total  
Governmental  
Funds**

---

\$ 24,115,126  
1,771,518  
221,955  
11,272  
18,060

---

**\$ 26,137,931**

---

\$ 3,437,934  
221,955  
509,109

---

**4,168,998**

---

34,332  
10,648,126  
750,311  
8,886,164  
1,650,000

---

**21,968,933**

---

**\$ 26,137,931**

---

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

**Total Fund Balance - Governmental Funds** **\$ 21,968,933**

**Amounts Reported for Governmental Activities in the  
Statement of Net Position are Different Because:**

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

The cost of capital assets is	\$ 109,037,808	
Accumulated depreciation is	(56,781,677)	
Net Capital Assets		52,256,131

An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 81,231

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:

Pension contributions subsequent to measurement date	5,005,986	
Net change in proportionate share of net pension liability	2,519,647	
Difference between projected and actual earnings on pension plan investments	625,677	
Differences between expected and actual experience in the measurement of the total pension liability.	787,628	
Changes of assumptions	9,638,078	
Total Deferred Outflows of Resources Related to Pensions		18,577,016

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	(31,629)	
Difference between projected and actual earnings on pension plan investments	(1,005,761)	
Differences between expected and actual experience in the measurement of the total pension liability.	(658,665)	
Changes of assumptions	(212,949)	
Total Deferred Inflows of Resources Related to Pensions		(1,909,004)

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION, Continued  
JUNE 30, 2018**

---

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (55,850,755)
Deferred amounts on refunding (the difference between the reacquisition price of the net carrying amount of the refunded debt) are capitalized and amortized over the remaining life of the new or old debt, whichever is shorter.		(145,779)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
General obligation bonds	\$ 33,505,000	
Bond premiums	1,897,808	
Certificates of participation	5,560,000	
Retiree benefits agreement	80,366	
Compensated absences	15,813	
Early retirement	103,901	
Net other postemployment benefits (OPEB) liability (Medicare Premium Payment Program)	311,023	
Total Long-Term Obligations		(41,473,911)
<b>Total Net Position - Governmental Activities</b>		<b>\$ (6,496,138)</b>

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



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>
<b>REVENUES</b>		
Local Control Funding Formula	\$ 45,444,812	\$ -
Federal sources	2,830,450	-
Other State sources	4,748,850	-
Other local sources	2,450,963	75,579
<b>Total Revenues</b>	<b>55,475,075</b>	<b>75,579</b>
<b>EXPENDITURES</b>		
Current		
Instruction	31,513,804	-
Instruction-related activities:		
Supervision of instruction	1,854,157	-
Instructional library, media and technology	351,246	-
School site administration	4,089,663	-
Pupil services:		
Home-to-school transportation	2,233,215	-
Food services	43,085	-
All other pupil services	3,439,401	-
Administration:		
Data processing	1,127,290	-
All other administration	3,257,369	-
Plant services	4,736,453	241,957
Ancillary services	331,968	-
Other outgo	1,263,013	-
Enterprise services	61,810	-
Facility acquisition and construction	672,197	5,812,095
Debt service		
Principal	17,178	-
Interest and other	2,171	-
<b>Total Expenditures</b>	<b>54,994,020</b>	<b>6,054,052</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>481,055</b>	<b>(5,978,473)</b>
<b>Other Financing Sources</b>		
Transfers in	-	-
Other sources	782,321	-
Transfers out	-	-
<b>Net Financing Sources</b>	<b>782,321</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,263,376</b>	<b>(5,978,473)</b>
<b>Fund Balance - Beginning</b>	<b>10,197,942</b>	<b>9,805,150</b>
<b>Fund Balance - Ending</b>	<b>\$ 11,461,318</b>	<b>\$ 3,826,677</b>

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

---

<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 500,000	\$ 45,944,812
2,910,687	5,741,137
2,208,487	6,957,337
1,926,805	4,453,347
<u>7,545,979</u>	<u>63,096,633</u>
1,459,723	32,973,527
282,804	2,136,961
-	351,246
265,748	4,355,411
-	2,233,215
2,671,620	2,714,705
146,442	3,585,843
-	1,127,290
262,347	3,519,716
723,533	5,701,943
-	331,968
-	1,263,013
(33,607)	28,203
672,101	7,156,393
1,575,000	1,592,178
1,711,932	1,714,103
<u>9,737,643</u>	<u>70,785,715</u>
<u>(2,191,664)</u>	<u>(7,689,082)</u>
357	357
-	782,321
<u>(357)</u>	<u>(357)</u>
-	782,321
<u>(2,191,664)</u>	<u>(6,906,761)</u>
8,872,602	28,875,694
<u>\$ 6,680,938</u>	<u>\$ 21,968,933</u>

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018**

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ (6,906,761)**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 7,374,853	
Depreciation expense	(3,207,035)	
Net Expense Adjustment		4,167,818

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and early retirement are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the early retirement obligations paid were more than that granted by \$84,548. Vacation earned was less than the amounts used by \$61,116.

145,664

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

(2,867,156)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability related to the Medicare Premium Payment Program during the year.

22,370

In the current year, a District retiree benefits agreement was recognized in the Government-Wide Financial Statements.

8,930

Governmental funds report the effect of premiums, discounts, and deferred amounts on refunding when the debt is first issued, however, the amounts are deferred and amortized on the statement of activities.

Amortization of debt premium		141,335
Amortization of deferred amount on refunding		13,153

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

**NORTH MONTEREY COUNTY UNIFIED 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, 2018**

---

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 995,000
Certificates of participation	580,000
Capital lease obligations	17,178

An internal service fund is used by the District's management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

	(39,005)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (3,721,474)</u></b>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

	<b>Self Insurance Internal Service Fund</b>
	<u>                    </u>
<b>ASSETS</b>	
Deposits and investments	\$          40,649
Receivables	92
Prepaid expenses	40,490
<b>Total Assets</b>	<u><u>          \$          81,231</u></u>
 <b>NET POSITION</b>	
Restricted	<u><u>          \$          81,231</u></u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

---

	<b>Self Insurance Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Self insurance premiums	\$ 445,574
<b>OPERATING EXPENSES</b>	
Services and other operating expenses	485,160
<b>Operating Loss</b>	<u>(39,586)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>581</u>
<b>Change in Net Position</b>	(39,005)
<b>Total Net Position - Beginning</b>	<u>120,236</u>
<b>Total Net Position - Ending</b>	<u>\$ 81,231</u>

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

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

---

	<b>Self Insurance Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts for self insurance premiums	\$ 468,830
Cash payments for services and other operating expenses	(485,280)
Net Cash Used for Operating Activities	<u>(16,450)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	581
Net Decrease in Cash and Cash Equivalents	(15,869)
Cash and Cash Equivalents - Beginning	56,518
Cash and Cash Equivalents - Ending	<u>\$ 40,649</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	\$ (39,586)
Changes in assets and liabilities:	
Receivables	23,256
Prepaid expenses	(120)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>\$ (16,450)</u>

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 234,352
<b>LIABILITIES</b>	
Due to student groups	\$ 234,352

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



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The North Monterey County Unified School District was organized on July 1, 1977, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District consists of four elementary schools, one middle school, one comprehensive high school, an independent study program, a continuation school and an adult education program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For North Monterey County Unified School District, this includes general operations, food service, and student related activities of the District.

#### **Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

#### **Major Governmental Funds**

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

**Building Fund** The Building 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.

#### **Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is 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).

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

**Debt Service Fund** The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on the District's certificates of participation.

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Fund** Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a Self Insurance Fund that is accounted for in an internal service fund that accounts for dental and vision coverage.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The District's fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. 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 the 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. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position 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 result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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 is defined as collectible within 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a 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 before the eligibility requirements are met 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 they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### **Investments**

Investments held at June 30, 2018, 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.

### **Prepaid Expenditures (Expenses)**

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

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. 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, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the Statement of Net Position.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accounts Payable and Long-Term Obligations**

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

### **Debt Premiums**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums are amortized over the life of the debt using the straight-line method.

In governmental fund financial statements, debt premiums, as well as issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for deferred charges on refunding of debt and for pension related items.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, the OPEB expense, and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent or designee may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

# **NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance Policy**

In the fiscal year 2011-2012, the Governing Board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$7,209,599 of restricted net position.

### **Interfund Activity**

Transfers between governmental activities on the government-wide financial statements are reported in the same manner as general revenues.

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

### **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.



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### 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 of Monterey bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

### **New Accounting Pronouncements**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 24,155,775
Fiduciary funds	<u>234,352</u>
Total Deposits and Investments	<u><u>\$ 24,390,127</u></u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 361,481
Cash in revolving	5,000
Investments	<u>24,023,646</u>
Total Deposits and Investments	<u><u>\$ 24,390,127</u></u>

#### 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; and collateralized mortgage obligations.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts 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.

### General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

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

### 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More Than 60 Months</u>
County Pool	\$ 23,942,806	\$ -	\$ 23,942,806	\$ -	\$ -

### 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 (unless so waived by the governmental unit). 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 agency. 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, 2018, none of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, 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 in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

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, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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 reasonably 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.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

Uncategorized - Investments in the Monterey 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.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 350,615	\$ -	\$ 601,526	\$ 952,141	\$ -	\$ 952,141
State Government						
State grants and entitlements	306,898	-	378,088	684,986	-	684,986
Local Sources	102,493	14,287	17,611	134,391	92	134,483
Total	<u>\$ 760,006</u>	<u>\$ 14,287</u>	<u>\$ 997,225</u>	<u>\$ 1,771,518</u>	<u>\$ 92</u>	<u>\$ 1,771,610</u>

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, is as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,061,512	\$ -	\$ -	\$ 1,061,512
Construction in process as restated	8,190,543	1,154,045	7,721,986	1,622,602
Total Capital Assets Not Being Depreciated	<u>9,252,055</u>	<u>1,154,045</u>	<u>7,721,986</u>	<u>2,684,114</u>
Capital Assets Being Depreciated				
Land improvements	9,905,651	9,408,275	-	19,313,926
Buildings and improvements	75,055,430	4,393,890	-	79,449,320
Furniture and equipment	7,449,819	140,629	-	7,590,448
Total Capital Assets Being Depreciated	<u>92,410,900</u>	<u>13,942,794</u>	<u>-</u>	<u>106,353,694</u>
Less Accumulated Depreciation				
Land improvements	7,859,238	317,046	-	8,176,284
Buildings and improvements	40,540,548	2,415,336	-	42,955,884
Furniture and equipment	5,174,856	474,653	-	5,649,509
Total Accumulated Depreciation	<u>53,574,642</u>	<u>3,207,035</u>	<u>-</u>	<u>56,781,677</u>
Governmental Activities Capital Assets, Net	<u>\$48,088,313</u>	<u>\$ 11,889,804</u>	<u>\$ 7,721,986</u>	<u>\$ 52,256,131</u>

Depreciation expense was charged to functional expenditures as follows:

Governmental Activities	
Instruction	\$ 1,731,799
Instructional supervision and administration	352,774
Instructional library, media, and technology	32,070
Home-to-school transportation	128,281
Food services	160,352
All other other pupil services	192,422
All other general administration	192,422
Plant services	416,915
Total Depreciation Expenses, Governmental Activities	<u>\$ 3,207,035</u>



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 6 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 179,649	\$ 41,949
Non-Major Governmental Funds		
Child Development	37,862	44,183
Cafeteria	4,444	135,823
Total Non-Major Governmental Funds	<u>42,306</u>	<u>180,006</u>
Total All Governmental Funds	<u>\$ 221,955</u>	<u>\$ 221,955</u>

The General Fund owes the Child Development Non-Major Governmental Fund for a reclassification of expenditures that were coded to the after school program.	\$ 37,862
The General Fund owes the Cafeteria Non-Major Governmental Fund for a café bad debt.	4,087
The Child Development Non-Major Governmental Fund owes the General Fund for after school program indirect costs.	42,413
The Child Development Non-Major Governmental Fund owes the General Fund for a reclassification of expenditures that were coded to the after school program.	1,413
The Child Development Non-Major Governmental Fund owes the Cafeteria Non-Major Governmental Fund for a reclassification of expenditures.	357
The Cafeteria Non-Major Governmental Fund owes the General Fund for indirect costs.	135,823
Total	<u>\$ 221,955</u>

**Operating Transfers**

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The Child Development Non-Major Governmental Fund transferred to the Cafeteria Non-Major Governmental Fund for reclassification of an ending balance.	<u>\$ 357</u>
---	---------------

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

---

**NOTE 7 - PREPAID EXPENDITURES (EXPENSES)**

Prepaid expenditures (expenses) at June 30, 2018, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Membership dues and fees	\$ 5,621	\$ 5,651	\$ 11,272	\$ 40,490	\$ 51,762

**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2018, consists of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Vendor payables	\$ 318,785	\$ 293,674	\$ 44,424	\$ 656,883
Accrued payroll	1,981,681	-	153,284	2,134,965
State principal apportionment	646,086	-	-	646,086
Total	<u>\$ 2,946,552</u>	<u>\$ 293,674</u>	<u>\$ 197,708</u>	<u>\$ 3,437,934</u>

**NOTE 9 - UNEARNED REVENUE**

Unearned revenue at June 30, 2018, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 171,108	\$ 2,430	\$ 173,538
State financial assistance	215,697	119,874	335,571
Total	<u>\$ 386,805</u>	<u>\$ 122,304</u>	<u>\$ 509,109</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General Obligation Bonds	\$ 34,500,000	\$ -	\$ 995,000	\$ 33,505,000	\$ 980,000
Bond premiums	2,039,143	-	141,335	1,897,808	-
Certificates of Participation	6,140,000	-	580,000	5,560,000	585,000
Capital leases	17,178	-	17,178	-	-
Retiree Benefits Agreement	89,296	-	8,930	80,366	8,037
Compensated absences	76,929	-	61,116	15,813	-
Early retirement	188,449	23,810	108,358	103,901	62,262
Other postemployment benefits (Medicare Premium Payment Program)	333,393	-	22,370	311,023	-
<b>Total</b>	<b>\$43,384,388</b>	<b>\$ 23,810</b>	<b>\$ 1,934,287</b>	<b>\$ 41,473,911</b>	<b>\$ 1,635,299</b>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local tax revenues. Payments for the Certificates of Participation are made by the Debt Service Fund. The capital leases are paid by the General Fund. The compensated absences, other postemployment benefits obligation, and early retirement obligation will be paid by the fund for which the employee worked.

#### Bonded Debt

On October 23, 2012, the District issued 2012 General Obligation Refunding Bonds in the principal amount of \$4,425,000. The Bonds were issued to refund, on an advance basis, the portion of the District's outstanding Election of 2002, Series A General Obligation Bonds maturing on and after August 1, 2014, and to pay the costs of issuance of the Bonds. The Bonds mature through August 1, 2027.

On May 14, 2014, the District issued Election of 2013, Series A General Obligation Bonds in the principal amount of \$15,500,000. The Bonds were issued to finance the acquisition and construction of educational facilities and projects, and to pay the costs of issuance of the Bonds. The bonds were issued as current interest bonds with interest payable semiannually on May 1 and November 1 of each year, commencing November 1, 2014. The Bonds mature through May 1, 2044.

On August 3, 2016, the District issued Election of 2013, Series B General Obligation Bonds in the principal amount of \$8,300,000. The Series B Bonds represent the second and last issue of bonds under the 2013 Authorization. The Bonds were issued to finance the acquisition and construction of educational facilities and projects, and to pay the costs of issuance of the Bonds. The bonds were issued as current interest bonds with interest payable semiannually on May 1 and November 1 of each year, commencing February 1, 2017. The Bonds mature through May 1, 2044.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

On August 3, 2016, the District issued \$8,340,000 of 2016 General Obligation Refunding Bonds. The bonds were issued for the purpose of refunding, on a current basis, the District's outstanding General Obligation Bonds, Election of 2002, Series B. The refunding bonds were issued as current interest bonds with interest payable semiannually on February 1 and August 1 of each year, commencing February 1, 2017. The Bonds mature through August 1, 2029.

The outstanding general obligation bonded debt is as follows:

Year Issued	Maturity Year	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2017	Bonds Redeemed	Bonds Outstanding June 30, 2018
2013	2028	2.50	\$ 4,425,000	\$ 3,560,000	\$ 285,000	\$ 3,275,000
2014	2044	2.00-4.00	15,500,000	14,480,000	60,000	14,420,000
2017	2044	2.50	8,300,000	8,120,000	100,000	8,020,000
2017	2030	2.00-4.00	8,340,000	8,340,000	550,000	7,790,000
Total				<u>\$ 34,500,000</u>	<u>\$ 995,000</u>	<u>\$ 33,505,000</u>

### Debt Service Requirements to Maturity

The 2012 General Obligation Bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 290,000	\$ 78,250	\$ 368,250
2020	295,000	70,937	365,937
2021	310,000	63,375	373,375
2022	315,000	55,563	370,563
2023	325,000	47,562	372,562
2024-2028	1,740,000	110,999	1,850,999
Total	<u>\$ 3,275,000</u>	<u>\$ 426,686</u>	<u>\$ 3,701,686</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The 2013, Series A General Obligation Bonds mature through 2044 as follows:

Maturity	Principal	Interest to Maturity	Total
2019	\$ 80,000	\$ 610,856	\$ 690,856
2020	100,000	607,656	707,656
2021	120,000	603,656	723,656
2022	145,000	601,256	746,256
2023	165,000	597,994	762,994
2024-2028	1,245,000	2,906,826	4,151,826
2029-2033	2,190,000	2,603,325	4,793,325
2034-2038	3,625,000	1,927,500	5,552,500
2039-2043	5,480,000	943,600	6,423,600
2044	1,270,000	50,800	1,320,800
Total	<u>\$ 14,420,000</u>	<u>\$ 11,453,469</u>	<u>\$ 25,873,469</u>

The 2013, Series B General Obligation Bonds mature through 2044 as follows:

Maturity	Principal	Interest to Maturity	Total
2019	\$ 100,000	\$ 237,974	\$ 337,974
2020	110,000	235,976	345,976
2021	120,000	233,774	353,774
2022	130,000	231,376	361,376
2023	145,000	228,774	373,774
2024-2028	930,000	1,076,376	2,006,376
2029-2033	1,360,000	905,152	2,265,152
2034-2038	1,895,000	657,760	2,552,760
2039-2043	2,545,000	340,650	2,885,650
2044	685,000	20,550	705,550
Total	<u>\$ 8,020,000</u>	<u>\$ 4,168,362</u>	<u>\$ 12,188,362</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The 2016 General Obligation Refunding Bonds mature through 2030 as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 510,000	\$ 342,800	\$ 852,800
2020	525,000	324,650	849,650
2021	550,000	303,150	853,150
2022	575,000	280,650	855,650
2023	605,000	257,050	862,050
2024-2028	3,420,000	838,350	4,258,350
2029-2030	1,605,000	81,375	1,686,375
Total	<u>\$ 7,790,000</u>	<u>\$ 2,428,025</u>	<u>\$ 10,218,025</u>

### Certificates of Participation

On July 14, 2010, the District issued 2010 Certificates of Participation in the principal amount of \$10,000,000. The Certificates are designated as Qualified School Construction Bonds under which the District receives Federal subsidy payments which are pledged to the payment of interest on the Certificates. The Certificates were issued to finance various capital projects of the District, to fund a reserve fund surety for the lease payments, and to pay costs of executing and delivering the Certificates. Interest on the Certificates ranges from 5.75 to 7.00 percent and is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2010.

The 2010 Certificates of Participation mature through 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 585,000	\$ 377,250	\$ 962,250
2020	595,000	339,224	934,224
2021	600,000	300,550	900,550
2022	610,000	300,550	910,550
2023	620,000	221,900	841,900
2024-2027	2,550,000	887,600	3,437,600
Total	<u>\$ 5,560,000</u>	<u>\$ 2,427,074</u>	<u>\$ 7,987,074</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Capital Leases

The District has entered into an agreement to lease equipment. The agreement is, in substance, a purchase (capital leases) and is reported as a capital lease obligation. The District's liability on the lease agreement is summarized below:

	Capital Leases
Balance, July 1, 2017	\$ 17,178
Payments	17,178
Balance, June 30, 2018	<u>\$ -</u>

### Retiree Benefits Agreement

The District has an agreement with one former District employee in which the former employee continues to receive health and welfare benefits. At June 30, 2018, the obligation was calculated to be \$80,366.

### Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$15,813.

### Early Retirement Obligations

The Governing Board has offered early retirement incentive programs to certificated and classified employees meeting certain negotiated criteria. The early retirement incentives were implemented as a cost savings strategy and required no further services to be performed by the retiree.

In the current year, seven certificated employees accepted early retirement incentives. A total of 17 retirees are currently receiving benefits under various agreements. The projected costs for current participants for future years are accrued as long-term obligations in the District's Government-wide financial statements are as follows:

Year Ending June 30,	Obligation
2019	\$ 62,262
2020	28,756
2021	12,883
Total	<u>\$ 103,901</u>

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

---

**Net Other Postemployment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2018, the District reported net OPEB liability and OPEB expense for the following plan:

OPEB Plan	Net OPEB Liability	OPEB Expense
Medicare Premium Payment (MPP) Program	\$ 311,023	\$ (22,370)

The details of the plan are as follows:

**Medicare Premium Payment (MPP) Program**

**Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB**

At June 30, 2018, the District reported a liability of \$311,023 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0739 percent, and 0.0712 percent, resulting in a net increase in the proportionate share of 0.0027 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(22,370).

### **Actuarial Methods and Assumptions**

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

### **Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.58%)	\$ 344,324
Current discount rate (3.58%)	311,023
1% increase (4.58%)	278,630

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates*

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

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 281,057
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	311,023
1% increase (4.7% Part A and 5.1% Part B)	340,690

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>				
Revolving cash	\$ 5,000	\$ -	-	\$ 5,000
Stores inventory	-	-	18,060	18,060
Prepaid expenditures	5,621	-	5,651	11,272
Total Reserved	<u>10,621</u>	<u>-</u>	<u>23,711</u>	<u>34,332</u>
<b>Restricted</b>				
Educational programs	1,607,111	-	-	1,607,111
Food service	-	-	1,238,752	1,238,752
Child development program	-	-	186,610	186,610
Capital projects	-	3,826,677	247,570	4,074,247
Debt service	-	-	3,427,623	3,427,623
Adult education program	-	-	113,783	113,783
Total Restricted	<u>1,607,111</u>	<u>3,826,677</u>	<u>5,214,338</u>	<u>10,648,126</u>
<b>Committed</b>				
Deferred maintenance program	-	-	750,311	750,311
<b>Assigned</b>				
Supplemental (0940) textbooks	112,575	-	-	112,575
ROP carryover	264,838	-	-	264,838
Credit recovery program	6,406	-	-	6,406
Textbooks inc. 8551	141,244	-	-	141,244
Land asset valuation inc. 8552	166,796	-	-	166,796
Bus barn repairs inc. 50XX	334,195	-	-	334,195
Tech devices	320,000	-	-	320,000
Special Education contingency	354,000	-	-	354,000
CalSTRS and CalPERS increase 18-19 through 21-22	1,972,569	-	-	1,972,569
Water filter/connections	450,000	-	-	450,000
Site security cameras	100,000	-	-	100,000
License renewals - tech	200,000	-	-	200,000
Science pilot materials	30,000	-	-	30,000
ELA professional development	50,000	-	-	50,000
ELA K-6 materials	625,000	-	-	625,000
Math 7-12 materials	325,000	-	-	325,000
Science K-8 materials	377,894	-	-	377,894
Social Studies 7-12 materials	235,000	-	-	235,000
18-19 Employee set side	1,584,000	-	-	1,584,000
Teacher budgets per AFT MOU	122,500	-	-	122,500
Classroom math materials	271,569	-	-	271,569
Classroom furniture	100,000	-	-	100,000
Athletic budget contingencies	50,000	-	-	50,000
Child development program	-	-	328,139	328,139
Enterprise expenditures	-	-	364,439	364,439
Total Assigned	<u>8,193,586</u>	<u>-</u>	<u>692,578</u>	<u>8,886,164</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	1,650,000	-	-	1,650,000
Total	<u>\$ 11,461,318</u>	<u>\$ 3,826,677</u>	<u>\$ 6,680,938</u>	<u>\$ 21,968,933</u>

# **NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

### **NOTE 12 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Monterey and San Benito Counties Property/Liability Joint Powers Authority (MC/SB P&L JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

For fiscal year 2018, the District participated in the Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS). The intent of PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in PIPS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of PIPS. Participation in PIPS is limited to districts that can meet PIPS selection criteria.

#### **Employee Medical Benefits**

The District is a member of California's Valued Trust (CVT). CVT is a Joint Powers Authority formed out of the California Government Code which allows public agencies to jointly maintain and operate an agency that serves a common purpose. One of the programs offered by CVT that the District participates in is Vision and Dental benefits for school employees. Some of the programs are self-insured while others are fully-insured or a combination of both. The coverage year for the Vision and Dental programs run from January 1 through December 31. The District also self-insures all non-CSEA employees and all retirees for Dental and Vision Benefits and has contracted with Keenan & Associates to provide administration for related claims.

### **NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

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

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 37,764,034	\$ 11,789,666	\$ 1,664,426	\$ 4,151,591
CalPERS	18,086,721	6,787,350	244,578	3,721,551
Total	\$ 55,850,755	\$ 18,577,016	\$ 1,909,004	\$ 7,873,142

The details of each plan are as follows:

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

**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$3,262,447.

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

At June 30, 2018, the District reported a liability 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:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 37,764,034
State's proportionate share of the net pension liability associated with the District	22,340,884
Total	<u>\$ 60,104,918</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0408 percent and 0.0401 percent, resulting in a net increase in the proportionate share of 0.0007 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$4,151,591. In addition, the District recognized pension expense and revenue of \$2,248,824 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,262,447	\$ -
Net change in proportionate share of net pension liability	1,391,336	-
Difference between projected and actual earnings on pension plan investments	-	1,005,761
Differences between expected and actual experience in the measurement of the total pension liability	139,655	658,668
Changes of assumptions	6,996,228	-
Total	<u>\$ 11,789,666</u>	<u>\$ 1,664,429</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (836,126)
2020	632,701
2021	91,231
2022	(893,567)
Total	<u>\$ (1,005,761)</u>



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,341,571
2020	1,341,571
2021	1,341,571
2022	1,341,568
2023	1,227,732
Thereafter	1,274,541
Total	<u>\$ 7,868,554</u>

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 55,449,592
Current discount rate (7.10%)	37,764,034
1% increase (8.10%)	23,411,006

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$1,743,539.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$18,086,721. The net pension liability was measured as of June 30, 2017. 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. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0758 percent and 0.0699 percent, resulting in a net increase in the proportionate share of 0.0059 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$3,721,551. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,743,539	\$ -
Net change in proportionate share of net pension liability	1,128,311	31,629
Difference between projected and actual earnings on pension plan investments	625,677	-
Differences between expected and actual experience in the measurement of the total pension liability	647,973	-
Changes of assumptions	2,641,850	212,949
Total	<u>\$ 6,787,350</u>	<u>\$ 244,578</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (16,954)
2020	721,895
2021	263,355
2022	(342,619)
Total	<u>\$ 625,677</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,509,369
2020	1,526,674
2021	1,137,513
Total	<u>\$ 4,173,556</u>

### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

### Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 26,611,362
Current discount rate (7.15%)	18,086,721
1% increase (8.15%)	11,014,817

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminated employees.

### Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,841,198 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### 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, 2018.

### Litigation

The District is involved in one case of litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### Operating Leases

The District has entered into various operating leases for equipment with no lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
LED lighting retrofit	\$ 71,604	October 2018
Access control project	1,571,991	March 2019
Total	<u>\$ 1,643,595</u>	

### NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Monterey and San Benito Counties Property/Liability Joint Powers Authority (MC/SB P&L JPA), the Protected Insurance Program for Schools and Community Colleges Joint Powers Authority (PIPS), and California's Valued Trust (CVT) public entity risk pools. The District pays an annual premium to the pools for its property/liability, workers' compensation, and health and welfare coverage. The relationships between the District and the pools are such that the pools are not component units of the District for financial reporting purposes.

The pools have budgeting and financial reporting requirements independent of their member units and their financial statements are not presented in these financial statements; however, fund transactions between the pools and the District are included in these statements.

During the year ended June 30, 2018, the District made payments of \$307,563 to MC/SB P&L JPA for property/liability coverage, \$1,116,728 to PIPS for workers' compensation coverage, and \$5,797,527 to CVT for health and welfare coverage.



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

#### **Government-Wide Financial Statements**

Net Position - Beginning	\$ (2,441,271)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(333,393)</u>
Net Position - Beginning as Restated	<u><u>\$ (2,774,664)</u></u>

---

---

***REQUIRED SUPPLEMENTARY INFORMATION***

---

---

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable</b>
				<b>(Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 44,680,985	\$ 45,444,812	\$ 45,444,812	\$ -
Federal sources	2,836,941	2,849,071	2,830,450	(18,621)
Other State sources	3,745,545	4,797,204	4,748,850	(48,354)
Other local sources	1,965,306	2,422,231	2,450,963	28,732
<b>Total Revenues</b>	<b>53,228,777</b>	<b>55,513,318</b>	<b>55,475,075</b>	<b>(38,243)</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	22,687,922	22,917,038	22,567,039	349,999
Classified salaries	10,952,179	10,909,474	10,799,868	109,606
Employee benefits	13,238,318	13,183,923	13,000,336	183,587
Books and supplies	2,684,024	3,833,891	2,427,640	1,406,251
Services and operating expenditures	4,589,652	5,132,054	4,392,883	739,171
Other outgo	862,499	987,072	1,000,667	(13,595)
Capital outlay	386,381	1,337,294	786,238	551,056
Debt service - principal	16,337	17,866	17,178	688
Debt service - interest	1,313	1,483	2,171	(688)
<b>Total Expenditures</b>	<b>55,418,625</b>	<b>58,320,095</b>	<b>54,994,020</b>	<b>3,326,075</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(2,189,848)</b>	<b>(2,806,777)</b>	<b>481,055</b>	<b>3,287,832</b>
<b>Other Financing Sources</b>				
Other sources	-	782,348	782,321	(27)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,189,848)</b>	<b>(2,024,429)</b>	<b>1,263,376</b>	<b>3,287,805</b>
<b>Fund Balance - Beginning</b>	<b>10,197,942</b>	<b>10,197,942</b>	<b>10,197,942</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 8,008,094</b>	<b>\$ 8,173,513</b>	<b>\$ 11,461,318</b>	<b>\$ 3,287,805</b>

See accompanying note to required supplementary information.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

---

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.0739%
District's proportionate share of the net OPEB liability	\$ 311,023
District's covered-employee payroll	N/A <sup>1</sup>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

---

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0408%</u>	<u>0.0401%</u>
District's proportionate share of the net pension liability	\$ 37,764,034	\$ 32,396,266
State's proportionate share of the net pension liability associated with the District	<u>22,340,884</u>	<u>18,442,616</u>
Total	<u>\$ 60,104,918</u>	<u>\$ 50,838,882</u>
District's covered - employee payroll	<u>\$ 21,998,005</u>	<u>\$ 20,284,995</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>171.67%</u>	<u>159.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.0758%</u>	<u>0.0699%</u>
District's proportionate share of the net pension liability	<u>\$ 18,086,721</u>	<u>\$ 13,797,307</u>
District's covered - employee payroll	<u>\$ 9,771,457</u>	<u>\$ 8,518,773</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>185.10%</u>	<u>161.96%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

---

<u>2016</u>	<u>2015</u>
<u>0.0398%</u>	<u>0.0376%</u>
\$ 26,815,220	\$ 22,206,059
<u>14,182,295</u>	<u>13,408,018</u>
<u>\$ 40,997,515</u>	<u>\$ 35,614,077</u>
<u>\$ 19,105,518</u>	<u>\$ 16,916,123</u>
<u>140.35%</u>	<u>131.27%</u>
<u>74%</u>	<u>77%</u>
<u>0.0644%</u>	<u>0.0653%</u>
<u>\$ 9,492,836</u>	<u>\$ 7,413,140</u>
<u>\$ 7,490,740</u>	<u>\$ 6,876,402</u>
<u>126.73%</u>	<u>107.81%</u>
<u>79%</u>	<u>83%</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 3,262,447	\$ 2,767,349
Contributions in relation to the contractually required contribution	<u>3,262,447</u>	<u>2,767,349</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 22,608,780</u>	<u>\$ 21,998,005</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 1,743,539	\$ 1,357,060
Contributions in relation to the contractually required contribution	<u>1,743,539</u>	<u>1,357,060</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 11,226,186</u>	<u>\$ 9,771,457</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

*Note:* In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

---

<u>2016</u>	<u>2015</u>
\$ 2,176,580	\$ 1,696,570
<u>2,176,580</u>	<u>1,696,570</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 20,284,995	\$ 19,105,518
<u>10.73%</u>	<u>8.880%</u>
\$ 1,009,219	\$ 881,735
<u>1,009,219</u>	<u>881,735</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 8,518,773	\$ 7,490,740
<u>11.847%</u>	<u>11.771%</u>



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

#### **Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program**

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* - There were no changes in the benefit terms since the previous valuation.

*Changes of Assumptions* - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

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

*Changes in Benefit Terms* - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

*Changes of Assumptions* - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

#### **Schedule of District Contributions**

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

---

---

***SUPPLEMENTARY INFORMATION***

---

---

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Identification Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education:			
Title I - Part A, Basic Grant	84.010	14329	\$ 735,631
Title I - Part C, Migrant Education	84.011	14838	464,743
Title I - Part C, Migrant Education Summer	84.011	10005	335,019
Title I - Part G, Advance Placement Fee Program	84.330B	14831	2,188
Title II - Supporting Effective Instruction	84.367	14341	142,796
Title III - English Language Acquisition -LEP	84.365	14346	108,365
Vocational Programs: Technology Secondary II C	84.048	14894	34,038
Special Education - Basic Local Assistance	84.027	13379	740,630
Special Education - Supporting Inclusive Practices	84.027A	13693	46,375
Total U.S. Department of Education			<u>2,609,785</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	28,820
Medi-Cal Administrative Activities	93.778	10060	191,845
Total U.S. Department of Health and Human Services			<u>220,665</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through California Department of Education:			
Child and Adult Care Food Program	10.558	13393	39,564
Fresh Fruit and Vegetable Program	10.582	14968	44,014
Child Nutrition Cluster:			
National School Lunch	10.555	13391	1,561,271
Especially Needy Breakfast	10.553	13526	678,422
Meals Supplements - Snacks	10.555	13391	46,529
Summer Food Program	10.559	13004	69,920
Food Distribution - Commodities	10.555	13391	158,996
Subtotal Child Nutrition Cluster			<u>2,515,138</u>
Total U.S. Department of Agriculture			<u>2,598,716</u>
Total Expenditures of Federal Awards			<u>\$ 5,429,166</u>

See accompanying note to supplementary information.

# **NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

## **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**

**JUNE 30, 2018**

---

### **ORGANIZATION**

North Monterey County Unified School District was organized on July 1, 1977, following a unification election in the former North Monterey County Union School District. The District consists of four elementary schools, one middle school, one comprehensive high school, an independent study program, a continuation school and an adult education program.

### **GOVERNING BOARD**

<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Martha Chavarria	President	2019
Adrian Ayala	Vice President	2021
Elizabeth Samuels	Clerk	2019
Lillian Mulvey	Member	2019
Kyle Samuels	Member	2021

### **ADMINISTRATION**

Kari Yeater	Superintendent and Secretary of Board
Liann Reyes	Assistant Superintendent Business Services

See accompanying note to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2018**

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	1,399.04	1,401.62
Fourth through sixth	1,008.75	1,009.49
Seventh and eighth	652.93	652.04
Ninth through twelfth	1,302.94	1,295.88
Total Regular ADA	<u>4,363.66</u>	<u>4,359.03</u>
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.98	0.98
Ninth through twelfth	0.90	0.91
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.88</u>	<u>1.89</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.22	0.22
Ninth through twelfth	0.21	0.21
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.43</u>	<u>0.43</u>
Total ADA	<u><u>4,365.97</u></u>	<u><u>4,361.35</u></u>

See accompanying note to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-1987	2017-2018	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,366	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,056	180	N/A	Complied
Grade 2		55,056	180	N/A	Complied
Grade 3		55,056	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,056	180	N/A	Complied
Grade 5		55,056	180	N/A	Complied
Grade 6		55,056	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,714	180	N/A	Complied
Grade 8		55,714	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,801	180	N/A	Complied
Grade 10		64,801	180	N/A	Complied
Grade 11		64,801	180	N/A	Complied
Grade 12		64,801	180	N/A	Complied

N/A - Not Applicable

See accompanying note to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget)			
	2019 <sup>1</sup>	2018	2017 <sup>4</sup>	2016 <sup>3</sup>
<b>GENERAL FUND</b>				
Revenues	\$ 56,807,746	\$ 55,475,075	\$ 54,134,191	\$ 53,458,844
Other sources and transfers in	-	782,321	-	239,989
Total Revenues and Other Sources	56,807,746	56,257,396	54,134,191	53,698,833
Expenditures	57,615,452	54,994,020	53,576,963	49,141,066
Other uses and transfers out	-	-	598,492	1,074,755
Total Expenditures and Other Uses	57,615,452	54,994,020	54,175,455	50,215,821
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>	<u>\$ (807,706)</u>	<u>\$ 1,263,376</u>	<u>\$ (41,264)</u>	<u>\$ 3,483,012</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 10,653,612</u>	<u>\$ 11,461,318</u>	<u>\$ 10,197,942</u>	<u>\$ 10,239,206</u>
<b>AVAILABLE RESERVES <sup>2</sup></b>	<u>\$ 1,729,000</u>	<u>\$ 1,650,000</u>	<u>\$ 1,607,998</u>	<u>\$ 1,499,300</u>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>	<u>3.0%</u>
<b>LONG-TERM OBLIGATIONS <sup>4</sup></b>	<u>Not Available</u>	<u>\$ 41,473,911</u>	<u>\$ 43,384,388</u>	<u>\$ 38,438,934</u>
<b>AVERAGE DAILY ATTENDANCE AT P-2</b>	<u>4,345</u>	<u>4,366</u>	<u>4,297</u>	<u>4,298</u>

The General Fund balance has increased by \$1,222,112 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$807,706 (7.0 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$3,034,977 over the past two years.

Average daily attendance has increased by 68 over the past two years. A decline of 21 ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Adult Education, and the Deferred Maintenance Funds as required by GASB Statement No. 54.

<sup>4</sup> The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.



# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## FIRST FIVE GRANT SCHEDULE OF REVENUES AND EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2018

---

Revenues:		
First Five Monterey County	\$	209,419
District contributions		<u>36</u>
Total Revenues		<u>209,455</u>
Expenditures:		
Personnel		149,656
Benefits		40,619
Program expenses		2,250
Program support expenses		6,956
Indirect cost		<u>9,974</u>
Total Expenditures		<u>209,455</u>
Excess of revenues over expenditures	\$	<u><u>-</u></u>

See accompanying note to supplementary information.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 67,927	\$ 491,322	\$ 1,139,794
Receivables	79,070	263,989	643,711
Due from other funds	-	37,862	4,444
Prepaid expenses	-	-	5,651
Stores inventories	-	-	18,060
<b>Total Assets</b>	<b>\$ 146,997</b>	<b>\$ 793,173</b>	<b>\$ 1,811,660</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 33,214	\$ 114,367	\$ 46,505
Due to other funds	-	44,183	135,823
Unearned revenue	-	119,874	2,430
<b>Total Liabilities</b>	<b>33,214</b>	<b>278,424</b>	<b>184,758</b>
<b>Fund Balances:</b>			
Nonspendable	-	-	23,711
Restricted	113,783	186,610	1,238,752
Committed	-	-	-
Assigned	-	328,139	364,439
<b>Total Fund Balances</b>	<b>113,783</b>	<b>514,749</b>	<b>1,626,902</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 146,997</b>	<b>\$ 793,173</b>	<b>\$ 1,811,660</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 751,300	\$ 246,764	\$ 1,572,762	\$ 1,847,845	\$ 6,117,714
2,633	806	-	7,016	997,225
-	-	-	-	42,306
-	-	-	-	5,651
-	-	-	-	18,060
<u>\$ 753,933</u>	<u>\$ 247,570</u>	<u>\$ 1,572,762</u>	<u>\$ 1,854,861</u>	<u>\$ 7,180,956</u>
\$ 3,622	\$ -	\$ -	\$ -	\$ 197,708
-	-	-	-	180,006
-	-	-	-	122,304
<u>3,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>500,018</u>
-	-	-	-	23,711
-	247,570	1,572,762	1,854,861	5,214,338
750,311	-	-	-	750,311
-	-	-	-	692,578
<u>750,311</u>	<u>247,570</u>	<u>1,572,762</u>	<u>1,854,861</u>	<u>6,680,938</u>
\$ 753,933	\$ 247,570	\$ 1,572,762	\$ 1,854,861	\$ 7,180,956

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>REVENUES</b>			
Local Control Funding Formula	\$ -	\$ -	\$ -
Federal sources	-	39,564	2,559,152
Other State sources	520,617	1,487,704	193,832
Other local sources	(458)	477,821	236,117
<b>Total Revenues</b>	<b>520,159</b>	<b>2,005,089</b>	<b>2,989,101</b>
<b>EXPENDITURES</b>			
Current			
Instruction	247,637	1,212,086	-
Instruction-related activities:			
Supervision of instruction	88,361	194,443	-
School site administration	36,427	229,321	-
Pupil services:			
Food services	-	44,727	2,626,893
All other pupil services	-	146,442	-
Administration:			
All other administration	22,625	103,899	135,823
Plant services	29,800	36,448	4,220
Enterprise services	-	-	(33,607)
Facility acquisition and construction	-	80,134	387,795
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>424,850</b>	<b>2,047,500</b>	<b>3,121,124</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>95,309</b>	<b>(42,411)</b>	<b>(132,023)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	357
Transfers out	-	(357)	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(357)</b>	<b>357</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>95,309</b>	<b>(42,768)</b>	<b>(131,666)</b>
<b>Fund Balance - Beginning</b>	<b>18,474</b>	<b>557,517</b>	<b>1,758,568</b>
<b>Fund Balance - Ending</b>	<b>\$ 113,783</b>	<b>\$ 514,749</b>	<b>\$ 1,626,902</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
-	-	-	311,971	2,910,687
-	-	6,334	-	2,208,487
10,069	173,320	996,452	33,484	1,926,805
<u>510,069</u>	<u>173,320</u>	<u>1,002,786</u>	<u>345,455</u>	<u>7,545,979</u>
-	-	-	-	1,459,723
-	-	-	-	282,804
-	-	-	-	265,748
-	-	-	-	2,671,620
-	-	-	-	146,442
-	-	-	-	262,347
619,587	33,478	-	-	723,533
-	-	-	-	(33,607)
71,116	133,056	-	-	672,101
-	-	995,000	580,000	1,575,000
-	-	1,294,619	417,313	1,711,932
<u>690,703</u>	<u>166,534</u>	<u>2,289,619</u>	<u>997,313</u>	<u>9,737,643</u>
<u>(180,634)</u>	<u>6,786</u>	<u>(1,286,833)</u>	<u>(651,858)</u>	<u>(2,191,664)</u>
-	-	-	-	357
-	-	-	-	(357)
-	-	-	-	-
<u>(180,634)</u>	<u>6,786</u>	<u>(1,286,833)</u>	<u>(651,858)</u>	<u>(2,191,664)</u>
930,945	240,784	2,859,595	2,506,719	8,872,602
<u>\$ 750,311</u>	<u>\$ 247,570</u>	<u>\$ 1,572,762</u>	<u>\$ 1,854,861</u>	<u>\$ 6,680,938</u>

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### 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 ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of a Qualified School Construction Bond Federal Subsidy.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 5,741,137
Reconciling items:		
Qualified School Construction Bond Federal Subsidy	N/A	(311,971)
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,429,166</u>

#### 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.

#### 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

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

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

### **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 Unaudited Actual Financial Report to the audited financial statements.

### **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.

### **First Five Grant**

This schedule discloses the District's revenues and expenditures that occurred during the fiscal year to support the First 5 Program. The program is funded from the Tobacco tax money referred to as Proposition 10 money. The program's objectives are to provide early care and educational services with Kindergarten transition programs, provide parenting and family support services, provide health and social services, and to assist in the school's capacity to prepare children and families for school success.

### **Non-Major Governmental Funds - Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

---

---

***INDEPENDENT AUDITOR'S REPORTS***

---

---





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

Governing Board  
North Monterey County Unified School District  
Moss Landing, 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 North Monterey County Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise North Monterey County Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2018.

***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Monterey County Unified School District's financial statements are free from 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*.

We noted certain matters that we reported to management of North Monterey County Unified School District in a separate letter dated December 15, 2018.

### **North Monterey County Unified School District's Response to Finding**

North Monterey County Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. North Monterey County Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2018



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

Governing Board  
North Monterey County Unified School District  
Moss Landing, California

**Report on Compliance for Each Major Federal Program**

We have audited North Monterey County Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of North Monterey County Unified School District's major Federal programs for the year ended June 30, 2018. North Monterey County Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, North Monterey County Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2018



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
North Monterey County Unified School District  
Moss Landing, California

### **Report on State Compliance**

We have audited North Monterey County Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the North Monterey County Unified School District's State government programs as noted below for the year ended June 30, 2018.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the North Monterey County Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about North Monterey County Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of North Monterey County Unified School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, North Monterey County Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to Independent Study - Course Based.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2018

---

---

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

---

---



**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	
Identification of major Federal programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.011</u>	<u>Migrant Education Programs</u>
<u>84.027, 84.027A</u>	<u>Special Education Programs</u>

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**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
---	-------------------

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

---

The following finding represents a significant deficiency related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2018-001      30000

### ***NORTH MONTEREY COUNTY HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

#### **Criteria**

School districts have a fiduciary responsibility over student body funds, therefore, they should ensure that school sites that maintain such accounts are following proper and sufficient internal control procedures to safeguard the collection of funds and to ensure the expenditures of those funds are appropriate.

#### **Condition**

During our audit, we noted the following:

- Teachers/advisors are not consistently using sub-receipt books or a class roster to document when they receive funds and are not preparing a cash count sheet when the funds are turned in to the ASB bookkeeper. This documentation supports how much was received, when it was received, and from whom it was received. Without this supporting documentation, neither the bookkeeper nor the auditor can determine if deposits to the bookkeeper are intact (all the money collected was turned in) or if the teachers are forwarding the funds to the bookkeeper in a timely manner.
- Spirit items for sale did not have an inventory available for review. The software used by the bookkeeper does have an inventory module, but the inventory information in the system is inaccurate and incomplete. When inventory is not tracked and reconciled to sales made, it is difficult to determine if all money received for products sold was deposited and to determine if inventory is missing.
- Revenue potential forms supply an element of internal control over fundraising without which it is difficult to track money as it is spent and received and difficult to determine the success of a fundraiser. We found that revenue potential forms are on file for fundraising activities, but with only preliminary "potential" income reported. The "recap" portion of the form that lists actual collections, compares actual income to the potential income, and provides for discrepancies, is not being completed.
- Purchase orders should be prepared and approved prior to purchases being made in order to ensure that purchases are allowable and that the clubs/accounts have sufficient funds to make desired purchases. We found several purchase orders that were dated after the date on the invoice.

# NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

---

### **Questioned Cost**

There is no specific questioned costs associated with this finding however the potential of loss or misuse of student body funds is elevated.

### **Context**

The finding impacts all student body activities of the High School.

### **Effect**

The lack of sufficient internal controls puts the student body funds at a high risk of loss, theft, or misuse.

### **Cause**

Typically, a lack of training and minimal administrative support and oversight is the cause of this condition. Although there is tenure and consistency in the position, poor adherence to procedures, lack of professional standards, and lack of on-going training and monitoring contributed to the condition.

### **Recommendation**

It is vital to have strong internal controls in place in order to properly manage ASB funds. Regarding the specific conditions noted:

- Pre-numbered receipts or a class roster should be used for all collections by teachers/advisors and cash count sheets should be prepared when those funds are turned in to the bookkeeper.
- Whenever items are purchased in bulk to be sold at a later date, a process must be in place to track items on hand and items sold, and reconcile that to the amount of money received. The site should utilize the inventory module in its software correctly and update the information to accurately track the items that are available for sale to ensure all items and revenue are accounted for. Quarterly blind inventory counts should be performed and any discrepancies noted should be documented and sufficiently explained.
- The site should implement procedures in which all revenue potential forms are completed in full.
- The site should take the necessary steps to ensure that expenditures are approved prior to the purchase of any item or service.

In addition, the site should review procedures outlined in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at [www.fcmat.org](http://www.fcmat.org), and ensure proper implementation of procedures to address the concerns noted.

# **NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

## **FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018**

---

### **Corrective Action Plan**

Management has hired a temporary accountant to fully implement the new ASBWorks software that the ASB Accountant was not utilizing, including all functionality of the software. This individual has completely caught up the office paperwork. Controls have been re-established between the accountant and ASB Administrator and Principal. Written procedures were provided as reminders and new internal documents produced. Inventory is now being taken on. The employee has been trained on a one on one basis for several weeks and has been assisted to catch up all bank reconciliations. Employee is registered to attend two workshops; one for ASBWorks and the second for ASB specific training. Additional audits will be conducted by the District to ensure adherence to standards employee is now trained on.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

None reported.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

None reported.

**NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board  
North Monterey County Unified School District  
Moss Landing, California

In planning and performing our audit of the financial statements of North Monterey County Unified School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2018, on the government-wide financial statements of the District.

***NORTH MONTEREY COUNTY MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

***Cash Receipts***

**Observation**

During our audit of the cash receipts system, we discovered the ASB Bookkeeper is not issuing receipts to teachers/advisors immediately upon receipt of funds. This puts the site at risk because the site does not know the amount of funds that should be on hand; the site only knows how much is on hand.

We also discovered that teachers/advisors are not consistently using subreceipt books or a class roster (there is no supporting documentation) to document when funds are being turned in, how much, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding the funds to the ASB Bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the ASB Bookkeeper cannot reconcile the funds back to any documentation to determine the accuracy of the cash count sheet and the actual amount of funds turned in.

**Recommendation**

Upon receipt of funds from teachers/advisors, the ASB Bookkeeper should immediately verify the funds turned in and issue a receipt to the individual. This ensures funds have changed hands completely intact.

Also, prenumbered receipts should be issued for all cash collections by teachers/advisors which would include a specific description of the source of the funds. A copy of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.



### ***Cash Disbursements***

#### **Observation**

During our audit of cash disbursements procedures, we found a purchase order that was dated after the date on the receipt.

#### **Recommendation**

All invoices/receipts should be accompanied by a purchase authorization form that is dated before the purchase date, indicating that the item has been approved before the purchase was made. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures.

### ***Revenue Potentials***

#### **Observation**

Revenue potential forms are not consistently completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

#### **Recommendation**

The revenue potential form is a vital internal control tool; it should be used to document potential revenues and expenditures and also to document actual revenue and expenditures. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all funds due and so forth. The revenue potential form used at the site should contain four major elements. These are:

- Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from the fundraiser if all the items were sold and all the funds were turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks costs so profits can be determined.
- Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor from the bookkeeper, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure all postings were correct.
- Analysis-This section is used to compare the potential income as calculated in the potential income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
- Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Governing Board  
North Monterey County Unified School District

We will review the status of the current year comments during our next audit engagement.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2018