

**CAJON VALLEY UNION SCHOOL DISTRICT
COUNTY OF SAN DIEGO
EL CAJON, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2016

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Ave.
El Cajon, California**

Introductory Section

Cajon Valley Union School District
 Audit Report
 For The Year Ended June 30, 2016

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Financial Section

Independent Auditor's Report

To the Board of Trustees
Cajon Valley Union School District
El Cajon, 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 Cajon Valley Union School District ("the District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain 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 District'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 District'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 Cajon Valley Union School District as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As described in Note A to the financial statements, in 2016, Cajon Valley Union School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Cajon Valley Union School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Cajon Valley Union School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP*. 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, budgetary comparison information, schedule of funding progress for OPEB benefits, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents 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 Cajon Valley Union School District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 and is also not a required part of the basic financial statements.

The combining financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and other supplementary information and the schedule of expenditures of federal awards are 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, 2016 on our consideration of Cajon Valley Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cajon Valley Union School District's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 15, 2016

CAJON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016
(Unaudited)

This discussion and analysis of the Cajon Valley Union School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the district's financial performance.

USING THESE FINANCIAL STATEMENTS

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Cajon Valley Union School District as a complex financial entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. The Cajon Valley Union School District does not operate any business-type activities, so the information presented is solely for governmental activities.

The Statement of Net Position and Statement of Activities 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.

FINANCIAL HIGHLIGHTS

Key financial highlights and changes for 2015-2016 are as follows:

- The State Local Control Funding Formula is anticipated to generate additional funding for the next few years. In 2013-14, Cajon Valley received 72% of target funding, 79% of target funding in 2014-15, and 89% of target funding in 2015-16. We expect to receive 95% of LCFF target funding in 2016-17. LCFF. As we approach full target funding, we anticipate only cost-of-living (COLA) funding increases in subsequent years.
- STRS and PERS school employer pension rates are increasing each year until target rates are reached in 2020-21. The STRS employer pension contribution rate was 8.25% in 2013-14, 8.88% in 2014-15, 10.73% in 2015-16, and will be 12.58% in 2016-17. The PERS school employer pension contribution rate was 11.442% in 2013-14, 11.771% in 2014-15, 11.847% in 2015-16, and will be 13.888% in 2016-17.
- State funding for Cajon Valley in 2013-14 was slightly over 5% higher than the amount received in 2012-13. Funding for 2014-15 increased by 13% and funding for 2015-16 increased by 17% and funding for 2016-17 is expected to increase another 6%. A portion of these additional funds must be spent for activities that support goals to improve student learning, as outlined in the Local Control & Accountability Plan (LCAP).
- GASB Statement No. 68 requires new disclosures of future pension costs. Cajon Valley implemented the requirements of this GASB Statement in the 2014-15 year. As a result, a large net pension liability of approximately \$128 million is now included in the District's financial report. This has significantly changed the District's statement of net position. Notes and details regarding this change are included in the auditor's notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual audit report consists of several parts: Management's discussion and analysis (this section), the basic financial statements, required supplementary information, combining financial statements, and other supplementary information.

The basic financial statements include different kinds of statements which present both a view of the district as a whole, and individual fund statements that focus on various parts of the district's operations in more detail. The financial statements also include notes that explain some of the information presented 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. The combining financial statements compare balance sheets and revenue and expenditure information across groups of special purpose funds.

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

Statement of Net Position and Statement of Activities

While this document contains several funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during 2015-2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting records all of the current year's earned revenues and expenses regardless of when cash is received or disbursed.

These two statements report the district's net position and changes in net position. This change in net position is important because it tells the reader whether, for the district as a whole, the financial position of the district has improved or diminished.

In the Statement of Net Position and the Statement of Activities, the district is presented in just one kind of activity, Governmental Activities. All the district's programs and services are reported here including instructional, support services, and operation and maintenance of grounds and facilities. The district does not operate any business-type activities, so none are presented here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT INDIVIDUAL FUNDS

Fund Financial Statements

Major Funds: An analysis of the district's major funds is included in the audit report. Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the most significant funds. The major governmental fund, which accounts for most of the day-to-day programs and services provided by the district, is the General Fund.

Governmental Funds: Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the district's general government operations and the basic services it provides. Governmental fund information helps you determine the financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CAJON VALLEY UNION SCHOOL DISTRICT AS A COMPLETE FINANCIAL ENTITY

The Statement of Net Position provides a perspective of the district as a whole. Table I provides a summary of the district's net position as of June 30, 2016, compared with net position as of the end of the previous two fiscal years.

Table 1
Statement of Net Position

| | 6/30/16 | 6/30/15 | % Change 6/16 - 6/15 | 6/30/14 | % Change 6/15 - 6/14 |
|--------------------------------------|--------------------|--------------------|-------------------------|--------------------|-------------------------|
| Assets | | | | | |
| Cash | 88,574,072 | 76,979,127 | 15.06% | 72,171,053 | 6.66% |
| Investments | - | - | - | - | - |
| Receivables | 9,413,557 | 9,772,047 | -3.67% | 20,097,703 | -51.38% |
| Due from other funds | - | - | - | - | - |
| Stores | 539,982 | 566,715 | -4.72% | 497,218 | 13.98% |
| Prepaid expenses | 6,181 | 61,788 | -90.00% | 30,909 | 99.90% |
| Other current assets | - | - | - | - | - |
| Capital Assets: | | | | | |
| Land | 13,517,805 | 13,517,805 | 0.00% | 13,517,805 | 0.00% |
| Site improvements | 11,433,833 | 9,604,713 | 19.04% | 9,092,163 | 5.64% |
| Buildings and improvements | 298,412,522 | 296,032,761 | 0.80% | 294,971,174 | .36% |
| Equipment | 13,098,199 | 11,145,292 | 17.52% | 10,133,733 | 9.98% |
| Work in progress | 85,138,753 | 62,872,545 | 35.41% | 30,559,100 | 105.74% |
| Less accumulated depreciation | (121,431,659) | (113,610,490) | 6.88% | (106,050,869) | 7.13% |
| Total Assets | 398,703,245 | 366,942,302 | 8.66% | 345,019,989 | 6.35% |
| Deferred Outflow of Resources | 21,553,078 | 9,544,536 | 125.82% | 950,044 | 904.64% |

| | | | | | |
|--|--------------------|--------------------|----------------|--------------------|---------------|
| Liabilities | | | | | |
| Accounts payable and other current liabilities | 10,285,137 | 8,997,877 | 14.31% | 8,264,384 | 8.88% |
| Due to other funds | - | - | - | - | - |
| Unearned revenue | 2,061,595 | 2,855,697 | -27.81% | 1,986,995 | 43.72% |
| Long term liabilities: | | | | | |
| Due within one year | 8,977,793 | 10,542,083 | -14.84% | 9,413,267 | 11.99% |
| Due in more than one year | 336,331,094 | 297,040,997 | 13.23% | 175,059,517 | 69.68% |
| Total Liabilities | 357,655,619 | 319,436,654 | 11.96% | 194,724,163 | 64.05% |
| Deferred Inflows of Resources | 8,527,261 | 28,976,174 | -70.57% | - | - |

| | | | | | |
|---|-------------------|-------------------|---------------|--------------------|-----------------|
| Net Position | | | | | |
| Invested in capital assets, net of related debt | 102,708,967 | 102,616,696 | 0.09% | 88,297,943 | 16.22% |
| Restricted | 54,268,037 | 52,343,962 | 3.68% | 58,254,044 | (10.15%) |
| Unrestricted | (102,903,561) | (126,886,648) | (18.90%) | 4,693,883 | (2803.23%) |
| Total Net Position | 54,073,443 | 28,074,010 | 92.61% | 151,245,870 | (81.44%) |

REVENUE AND EXPENDITURES FOR GOVERNMENTAL ACTIVITIES

Revenue in the Governmental Funds is divided into general revenue, which funds the basic ongoing instructional program and related support services, and program revenue, which funds specific program activities that support the children enrolled in Cajon Valley's schools.

The primary sources of general revenue are the state Local Control Funding Formula (LCFF) sources and local property tax revenue. The primary sources of program revenue are the state of California and the federal government, which fund many programs operated by the district, and fees collected for meals and transportation. Table 2 shows revenue for the 2015-16 year, compared with revenue for the previous three years.

Table 2
Revenue – Governmental Activities

| | 2015-16 | 2014-15 | 2013-14 | 2012-13 |
|--|--------------------|--------------------|--------------------|--------------------|
| General Revenue | 161,677,448 | 136,188,315 | 119,639,039 | 106,290,531 |
| Program Revenue & Fees for Services | 40,286,601 | 35,390,668 | 37,266,479 | 38,179,180 |
| Total Revenue | 201,964,049 | 171,578,983 | 156,905,518 | 144,469,711 |

The primary activities that are required to operate our district schools can be summarized into the ten categories, or functions, listed below. Table 3 shows the expenditures for each function for the 2015-16 year, compared with expenditures for the previous three years.

Table 3
Expenditures – Governmental Activities

| | 2015-16 | 2014-15 | 2013-14 | 2012-13 |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
| Classroom Instruction | 119,872,798 | 105,873,877 | 100,463,697 | 93,975,619 |
| Instructional Related Services | 18,419,271 | 15,569,867 | 13,967,461 | 13,902,486 |
| Pupil Services | 24,256,358 | 20,359,859 | 18,905,004 | 18,279,596 |
| General Administration | 9,923,116 | 8,859,677 | 6,994,561 | 7,004,740 |
| Plant Services | 14,139,963 | 13,486,918 | 13,972,615 | 11,961,646 |
| Ancillary Services | 0 | 0 | 0 | 0 |
| Community Services | 188,335 | 185,610 | 147,234 | 94,900 |
| Enterprise Activities | 68 | 48 | -60 | -96 |
| Interest on Long Term Debt | 8,355,322 | 7,175,057 | 7,692,570 | 5,315,577 |
| Other Outgo | 602,831 | 483,612 | 189,826 | 194,817 |
| Total Expenditures | 195,758,062 | 171,994,525 | 162,332,908 | 150,729,285 |

This chart does not include interest payments on long-term general obligation bond debt to be paid from property tax collections in future years.

THE GENERAL FUND OPERATING BUDGET

Information about the district's major fund, the General Fund, is shown later in this report. This fund is accounted for using the modified accrual basis of accounting. The district's budget is prepared according to California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of the 2015-16 fiscal year, the district revised its general fund budget on occasion to better reflect new grants and awards, and to portray the most current state and federal budget projections, as that information became available. Budget revisions are presented to the Governing Board for review and approved at regularly scheduled Board meetings. A budgetary comparison schedule, showing the original and final budgets compared with actual income and expenditures, is shown in the "Required Supplementary Information" section of this audit report.

CAPITAL ASSETS

At the end of the 2015-16 fiscal year, the district had \$421,601,112 invested in land, buildings, work-in-progress, and capital equipment. Depreciation totaling \$121,431,659 was charged against the value of those assets for net capital assets of \$398,703,245. Net capital assets at the end of the 2014-15 were \$279,562,626, at the end of the 2013-14 year were \$252,223,106, and at the end of the 2012-13 year they were \$242,262,997.

In November, 2000, the El Cajon community approved Proposition X, which authorized the sale of \$75 million in general obligation bonds. Approximately 165 large and small capital improvement projects were completed, using a combination of bond funds and local and State matching funds. Major projects completed during the eight year period were construction of Los Cochés Creek Middle School, reconstruction of Cajon Valley Middle school, infrastructure upgrades, library and multipurpose room construction or remodels at several sites, playground and sports field improvements at several sites, modernization of older classroom buildings and relocatable buildings on many campuses, campus safety measures, playground improvements, lunch shade shelters and a variety of other school campus improvements. The District has issued all of the \$75 million in general obligation bonds that were authorized by the voters in 2000 and has received over \$36 million in state and local matching funds to complete these projects.

In February, 2008 the community approved Proposition D, which authorized \$156.5 million in additional general obligation bonds to complete needed capital improvement projects. Three series of these bonds, totaling about \$68.1 million were issued. However, due to stagnant property values the remaining \$88.4 million in bonds authorized under Proposition D could not be issued within the original timelines unless costly Capital Appreciation Bonds were used, which was not a preferable option. Rather than putting the remaining projects on hold for several years or using a costly financing mechanism, the voters were given the option to reauthorize the remaining bonds. This reauthorization, Proposition C, was passed by the voters in November, 2012. This allows the district to complete all bond projects without delay and allows the voters who approved Proposition D to benefit from these projects in a timely manner without incurring additional debt. It also minimizes project cost escalation, saves taxpayers a significant amount of interest cost, and it provides local construction jobs when they are needed most.

Three series of Proposition C bonds have been sold; Series A bonds totaling \$31.2 million were sold in August, 2013, Series B bonds totaling \$1.8 million in short term (3-year) bonds for technology equipment were sold in October, 2013, and Series C bonds totaling \$20 million were sold in April, 2015. In addition, Series D bonds totaling \$17.88 million were sold in October 2015 after the close of the 2014-15 fiscal year.

District improvements funded by both Proposition D and Proposition C bond sales include security camera systems, electrical upgrades, HVAC replacement, new clock systems, waterline replacement at Meridian Elementary, multipurpose room expansion at Flying Hills Elementary, playground upgrades, security fencing, completion of remodeled buildings at Cajon Valley Middle School, and modernization at Rancho San Diego and Vista Grande elementary schools.

The improvements also include technology infrastructure upgrades, new gymnasium, theater, kitchen, classrooms and administrative offices at Greenfield Middle School. Reconstruction of Lexington Elementary School and renovations at Montgomery Middle School were recently completed. Renovations at Emerald Middle School and Magnolia Elementary School are currently under construction.

Details regarding the capital improvement program can be obtained at the Cajon Valley website www.cajonvalley.net by clicking on the "Bond Program" button under "Site Shortcuts" on the home page.

CURRENT FINANCIAL RELATED ACTIVITIES

Over the years, Cajon Valley Union School District has maintained a strong, financially responsible budget. Each year the district takes a very careful look at revenue and expenditure projections on a multi-year basis, and adjusts its budget accordingly, to maintain an acceptable and safe reserve balance. As the preceding information shows, assets are substantial and the amount of debt paid from general operating revenues is a very small percentage of the overall operating budget.

After several very lean years California's economy is slowly recovering. When the economy took a dramatic downturn in mid-2008, the State was facing huge budget deficits and began looking at ways to reduce its budget obligations. The 2008-09 budget contained a revenue limit deficit of 7.8%, which grew to 22.272% in 2011-12. The State also used cash deferrals (postponing the payments of funds due to school districts into the future fiscal year) as a method of balancing the State budget. This has created a strong awareness of the need for adequate reserves, to withstand temporary cash shortfalls that could occur during a lean year.

The November, 2012 passage of Proposition 30, the Governor's Tax Initiative, provided some stabilization for public education funding. This initiative provides a temporary boost in state sales tax revenue and an increase in state income taxes for higher tax brackets. Although passage of this measure has provided much needed support in education funding, the provisions of the initiative are temporary, and higher tax rates will begin to expire during the 2016-17 fiscal year. The resulting impact is unknown and will depend largely upon the State economy at that time. The District will need to carefully monitor its multiyear projections to be prepared for any downturn in revenues in the future

The new Local Control Funding Formula (LCFF) is expected to continue to boost Cajon Valley's state revenues over the next few years. Under this formula all districts receive a base amount per child, which varies by grade span, plus a supplemental allocation based upon the district's percentage of students who qualify for free/reduced price lunches or are English learners. Cajon Valley's districtwide population of students qualifying for supplemental funding is about 72% of total enrollment. The district is required to adopt regulations governing the expenditure of supplemental funds to increase or improve services for eligible students. A Local Control Accountability Plan (LCAP) has been in place for the last two years, with the latest version being adopted in June, 2016 for implementation in the 2016-17 year. The LCAP, which is reviewed and updated each year, describes the district's goals to serve eligible students and actions to be taken to achieve those goals.

CONTACTING THE DISTRICT'S FINANCIAL MANAGERS

This financial report is designed to provide our citizens, taxpayers, 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, contact Louise Gibson, Fiscal Services Director (gibson@cajonvalley.net) or Scott Buxbaum, Assistant Superintendent, Business Services (buxbaums@cajonvalley.net).

Basic Financial Statements

CAJON VALLEY UNION SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2016

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash | \$ 88,574,072 |
| Receivables | 9,413,557 |
| Stores | 539,982 |
| Prepaid Expenses | 6,181 |
| Capital Assets: | |
| Land | 13,517,805 |
| Improvements | 11,433,833 |
| Buildings | 298,412,522 |
| Equipment | 13,098,199 |
| Work in Progress | 85,138,753 |
| Less Accumulated Depreciation | (121,431,659) |
| Total Assets | <u>398,703,245</u> |
| DEFERRED OUTFLOWS OF RESOURCES | 21,553,078 |
| LIABILITIES | |
| Accounts Payable and Other Current Liabilities | 10,285,137 |
| Unearned Revenue | 2,061,595 |
| Long-Term Liabilities: | |
| Due Within One Year | 8,977,793 |
| Due in More Than One Year | 336,331,094 |
| Total Liabilities | <u>357,655,619</u> |
| DEFERRED INFLOWS OF RESOURCES | 8,527,261 |
| NET POSITION | |
| Net Investment in Capital Assets | 102,708,967 |
| Restricted for: | |
| Capital Projects | 22,252,531 |
| Debt Service | 11,608,966 |
| Educational Programs | 8,507,474 |
| Other Purposes (Expendable) | 6,299,642 |
| Other Purposes (Nonexpendable) | 5,599,424 |
| Unrestricted | (102,903,561) |
| Total Net Position | <u>\$ 54,073,443</u> |

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

| Functions | Expenses | Program Revenues | | | Net (Expense) |
|--|----------------|----------------------|------------------------------------|----------------------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Position |
| | | | | | Governmental Activities |
| Governmental Activities: | | | | | |
| Instruction | \$ 119,872,798 | \$ 1,903,417 | \$ 19,893,375 | \$ - | \$ (98,076,006) |
| Instruction-Related Services: | | | | | |
| Instructional Supervision and Administration | 5,826,010 | 134,226 | 3,323,940 | - | (2,367,844) |
| Instructional Library, Media and Technology | 1,010,232 | 7,097 | 97,435 | - | (905,700) |
| School Site Administration | 11,583,029 | 158,730 | 433,729 | - | (10,990,570) |
| Pupil Services: | | | | | |
| Home-to-School Transportation | 3,912,714 | - | - | - | (3,912,714) |
| Food Services | 8,809,877 | 826,963 | 7,242,113 | - | (740,801) |
| All Other Pupil Services | 11,533,767 | 90,976 | 2,831,430 | - | (8,611,361) |
| General Administration: | | | | | |
| Centralized Data Processing | 2,958,738 | - | - | - | (2,958,738) |
| All Other General Administration | 6,964,378 | 82,768 | 1,155,783 | - | (5,725,827) |
| Plant Services | 14,139,963 | 7,132 | 1,866,388 | - | (12,266,443) |
| Community Services | 188,335 | - | - | - | (188,335) |
| Enterprise Activities | 68 | - | - | - | (68) |
| Interest on Long-Term Debt | 8,355,322 | - | - | - | (8,355,322) |
| Other Outgo | 602,831 | 17,416 | 213,683 | - | (371,732) |
| Total Expenses | \$ 195,758,062 | \$ 3,228,725 | \$ 37,057,876 | \$ - | \$ (155,471,461) |

General Revenues:

Taxes and Subventions:

| | |
|---|-------------|
| Taxes Levied for General Purposes | 32,727,048 |
| Taxes Levied for Debt Service | 13,079,712 |
| Taxes Levied for Other Specific Purposes | 1,289,853 |
| Federal and State Aid Not Restricted to Specific Programs | 108,359,114 |
| Interest and Investment Earnings | 428,484 |
| Interagency Revenues | 257,625 |
| Miscellaneous | 5,535,612 |

Total General Revenues

\$ 161,677,448

Change in Net Position

6,205,987

Net Position Beginning - As Restated (See Note N)

47,867,456

Net Position Ending

\$ 54,073,443

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2016

| | General Fund | Building Fund |
|--------------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| ASSETS: | | |
| Cash in County Treasury | \$ 46,579,949 | \$ 16,524,613 |
| Cash on Hand and in Banks | - | - |
| Cash in Revolving Fund | 150,000 | - |
| Accounts Receivable | 6,676,759 | 167,984 |
| Due from Other Funds | 1,199,041 | 4,583,824 |
| Stores Inventories | 350,739 | - |
| Prepaid Expenditures | 6,181 | - |
| Total Assets | <u>54,962,669</u> | <u>21,276,421</u> |
| LIABILITIES AND FUND BALANCE: | | |
| Liabilities: | | |
| Accounts Payable | \$ 6,233,325 | \$ 800,196 |
| Due to Other Funds | 5,005,031 | (228) |
| Unearned Revenue | 2,036,942 | - |
| Total Liabilities | <u>13,275,298</u> | <u>799,968</u> |
| Fund Balance: | | |
| Nonspendable Fund Balances: | | |
| Revolving Cash | 150,000 | - |
| Stores Inventories | 350,739 | - |
| Prepaid Items | 6,181 | - |
| Restricted Fund Balances | 8,507,474 | - |
| Committed Fund Balances | - | - |
| Assigned Fund Balances | 14,786,860 | 20,476,453 |
| Unassigned: | | |
| Reserve for Economic Uncertainty | 5,053,261 | - |
| Other Unassigned | 12,832,856 | - |
| Total Fund Balance | <u>41,687,371</u> | <u>20,476,453</u> |
| Total Liabilities and Fund Balances | <u>\$ 54,962,669</u> | <u>\$ 21,276,421</u> |

The accompanying notes are an integral part of this statement.

| <u>Bond Interest & Redemption</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---|---|
| \$ 11,608,966 | \$ 8,874,069 | \$ 83,587,597 |
| - | 841,751 | 841,751 |
| - | - | 150,000 |
| - | 930,842 | 7,775,585 |
| - | 1,220 | 5,784,085 |
| - | 189,243 | 539,982 |
| - | - | 6,181 |
| <u>11,608,966</u> | <u>10,837,125</u> | <u>98,685,181</u> |
| | | |
| \$ - | \$ 64,204 | \$ 7,097,725 |
| - | 778,706 | 5,783,509 |
| - | 24,654 | 2,061,596 |
| <u>-</u> | <u>867,564</u> | <u>14,942,830</u> |
| | | |
| - | - | 150,000 |
| - | 189,243 | 539,982 |
| - | - | 6,181 |
| - | 1,062,305 | 9,569,779 |
| - | 436,891 | 436,891 |
| 11,608,966 | 8,281,122 | 55,153,401 |
| - | - | 5,053,261 |
| - | - | 12,832,856 |
| <u>11,608,966</u> | <u>9,969,561</u> | <u>83,742,351</u> |
| | | |
| <u>\$ 11,608,966</u> | <u>\$ 10,837,125</u> | <u>\$ 98,685,181</u> |

CAJON VALLEY UNION SCHOOL DISTRICT

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

| | | |
|--|----------------------|----------------------|
| Total fund balances, governmental funds | | \$ 83,742,351 |
| <p>Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:</p> | | |
| <p>Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.</p> | | |
| Capital assets relating to governmental activities, at historical cost: | 421,601,112 | |
| Accumulated depreciation | <u>(121,431,659)</u> | |
| | Net | 300,169,453 |
| <p>Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:</p> | | |
| | | (3,171,292) |
| <p>Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p> | | |
| General obligation bonds payable | 179,612,088 | |
| Net pension liability | 128,456,003 | |
| Net OPEB obligation | 16,212,476 | |
| Compensated absences payable | 1,125,260 | |
| Other general long-term debt | 14,062,029 | |
| Capital leases payable | 570,674 | |
| Certificates of participation payable | <u>4,865,000</u> | |
| | Total | (344,903,530) |
| <p>Deferred gain or loss on debt refunding: In the government wide financial statements deferred gain or loss on debt refunding is recognized as a deferred outflow of resources (for a loss) or deferred inflow of resources (for a gain) and subsequently amortized over the life of the debt. Deferred gain or loss on debt refunding recognized as a deferred outflow of resources or deferred inflow of resources on the statement of net position was:</p> | | |
| | | 3,531,298 |
| <p>Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.</p> | | |
| Deferred outflows of resources relating to pensions | | 18,014,296 |
| Deferred inflows of resources relating to pensions | | (8,520,795) |
| <p>Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds are:</p> | | |
| | | <u>5,211,662</u> |
| Total net position, governmental activities | | <u>\$ 54,073,443</u> |

The accompanying notes are an integral part of this statement.

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

| | <u>General Fund</u> | <u>Building Fund</u> |
|--|-------------------------|--------------------------|
| Revenues: | | |
| LCFF Sources: | | |
| State Apportionment or State Aid | \$ 80,827,765 | \$ - |
| Education Protection Account Funds | 20,093,202 | - |
| Local Sources | 29,013,839 | - |
| Federal Revenue | 11,206,192 | - |
| Other State Revenue | 21,502,683 | - |
| Other Local Revenue | 16,638,446 | 2,704,923 |
| Total Revenues | <u>179,282,127</u> | <u>2,704,923</u> |
| Expenditures: | | |
| Current: | | |
| Instruction | 107,940,272 | - |
| Instruction - Related Services | 15,742,055 | - |
| Pupil Services | 14,175,093 | - |
| Community Services | 172,430 | - |
| General Administration | 8,987,880 | - |
| Plant Services | 12,321,616 | 388,221 |
| Other Outgo | 596,066 | 6,765 |
| Capital Outlay | 4,878,804 | 21,939,724 |
| Debt Service: | | |
| Principal | 374,590 | 1,610,000 |
| Interest | 10,605 | 259,000 |
| Total Expenditures | <u>165,199,411</u> | <u>24,203,710</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>14,082,716</u> | <u>(21,498,787)</u> |
| Other Financing Sources (Uses): | | |
| Transfers In | 437,884 | 2,300,000 |
| Transfers Out | (7,737,884) | - |
| Proceeds From Sale of Bonds | - | 17,880,000 |
| Other Sources | - | - |
| Total Other Financing Sources (Uses) | <u>(7,300,000)</u> | <u>20,180,000</u> |
| Net Change in Fund Balance | 6,782,716 | (1,318,787) |
| Fund Balance, July 1 | 34,904,655 | 21,795,240 |
| Fund Balance, June 30 | <u>\$ 41,687,371</u> | <u>\$ 20,476,453</u> |

The accompanying notes are an integral part of this statement.

| <u>Bond Interest & Redemption</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---|---|
| \$ - | \$ - | \$ 80,827,765 |
| - | - | 20,093,202 |
| - | - | 29,013,839 |
| - | 7,218,513 | 18,424,705 |
| 127,186 | 2,436,732 | 24,066,601 |
| 12,988,710 | 1,897,519 | 34,229,598 |
| <u>13,115,896</u> | <u>11,552,764</u> | <u>206,655,710</u> |
| - | 1,592,471 | 109,532,743 |
| - | 216,914 | 15,958,969 |
| - | 8,095,834 | 22,270,927 |
| - | - | 172,430 |
| - | 477,226 | 9,465,106 |
| - | 107,837 | 12,817,674 |
| - | - | 602,831 |
| - | 1,609,468 | 28,427,996 |
| 6,317,898 | - | 8,302,488 |
| 6,975,460 | - | 7,245,065 |
| <u>13,293,358</u> | <u>12,099,750</u> | <u>214,796,229</u> |
| <u>(177,462)</u> | <u>(546,986)</u> | <u>(8,140,519)</u> |
| - | 5,000,000 | 7,737,884 |
| - | - | (7,737,884) |
| - | - | 17,880,000 |
| 719,129 | - | 719,129 |
| <u>719,129</u> | <u>5,000,000</u> | <u>18,599,129</u> |
| 541,667 | 4,453,014 | 10,458,610 |
| 11,067,299 | 5,516,547 | 73,283,741 |
| <u>\$ 11,608,966</u> | <u>\$ 9,969,561</u> | <u>\$ 83,742,351</u> |

CAJON VALLEY UNION SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Total change in fund balances, governmental funds \$ 10,458,610

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

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

| | | |
|---------------------------------|-----------------------------|------------|
| | 28,427,996 | |
| Expenditures for capital outlay | (7,821,168) | |
| Depreciation expense | <u> </u> | |
| Net | | 20,606,828 |

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 8,302,488

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that is incurred. Unmatured interest owing at the end of the period less matured interest paid during the period but owing from the prior period was: (530,310)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (97,146)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (4,203,380)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (18,599,129)

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (10,433,680)

Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or discount it is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding, for the period is: (579,947)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 549,768

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

731,885

Change in net position of governmental activities

\$ 6,205,987

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

JUNE 30, 2016

| | Nonmajor Internal Service Fund |
|--|--------------------------------------|
| | Self-Insurance Fund |
| ASSETS: | |
| Current Assets: | |
| Cash in County Treasury | \$ 3,974,726 |
| Cash with a Fiscal Agent/Trustee | 20,000 |
| Accounts Receivable | 1,637,971 |
| Total Current Assets | <u>5,632,697</u> |
| Total Assets | <u>5,632,697</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | |
| Deferred Outflows of Resources - Pension Related | 7,484 |
| Total Outflows of Resources | <u>\$ 7,484</u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts Payable | \$ 16,120 |
| Due to Other Funds | 576 |
| Total Current Liabilities | <u>16,696</u> |
| Noncurrent Liabilities: | |
| Net Pension Liability | 23,591 |
| Other Postemployment Benefits | 3,104 |
| Other General Long-Term Debt | 378,662 |
| Total Noncurrent Liabilities | <u>405,357</u> |
| Total Liabilities | <u>422,053</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Outflows of Resources - Pension Related | 6,466 |
| Total Inflows of Resources | <u>6,466</u> |
| NET POSITION: | |
| Unrestricted (Deficit) | 5,211,662 |
| Total Net Position | <u>\$ 5,211,662</u> |

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2016

| | Nonmajor Internal Service Fund |
|--|--------------------------------------|
| | <u>Self-Insurance Fund</u> |
| Operating Revenues: | |
| Local Revenue | \$ 18,417,648 |
| Total Revenues | <u>18,417,648</u> |
| Operating Expenses: | |
| Classified Personnel Salaries | 18,609 |
| Employee Benefits | 9,156 |
| Services and Other Operating Expenses | 17,657,998 |
| Total Expenses | <u>17,685,763</u> |
| Income (Loss) before Contributions and Transfers | 731,885 |
| Change in Net Position | <u>731,885</u> |
| Total Net Position - Beginning | 4,479,777 |
| Total Net Position - Ending | <u>\$ 5,211,662</u> |

The accompanying notes are an integral part of this statement.

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

| | Nonmajor Internal Service Fund |
|---|--------------------------------------|
| | Self-Insurance Fund |
| Cash Flows from Operating Activities: | |
| Cash Received from Interfund Services Provided | \$ 18,251,173 |
| Cash Payments to Employees for Services | (26,988) |
| Cash Payments to Other Suppliers for Goods and Services | (17,678,734) |
| Net Cash Provided (Used) by Operating Activities | <u>545,451</u> |
| Cash Flows from Investing Activities: | |
| Interest and Dividends on Investments | 21,119 |
| Net Cash Provided (Used) for Investing Activities | <u>21,119</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 566,570 |
| Cash and Cash Equivalents at Beginning of Year | 3,428,156 |
| Cash and Cash Equivalents at End of Year | <u>\$ 3,994,726</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income (Loss) | \$ 731,885 |
| Change in Assets and Liabilities: | |
| Decrease (Increase) in Receivables | (166,475) |
| Decrease (Increase) in Deferred Outflows of Resources | (5,385) |
| Increase (Decrease) in Accounts Payable | 142 |
| Increase (Decrease) in Due to Other Funds | 242 |
| Increase (Decrease) in Net OPEB Obligation | 802 |
| Increase (Decrease) in Net Pension Liability | 5,209 |
| Increase (Decrease) in Deferred Inflows of Resources | 150 |
| Total Adjustments | <u>(165,315)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 566,570</u> |

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

| | Agency Fund |
|---------------------------|-------------------------|
| | Student Body Fund |
| ASSETS: | |
| Cash on Hand and in Banks | \$ 242,117 |
| Total Assets | <u>242,117</u> |
| LIABILITIES: | |
| Due to Student Groups | \$ 242,117 |
| Total Liabilities | <u>242,117</u> |
| NET POSITION: | |
| Total Net Position | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Building Fund. This fund accounts for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Bond Interest and Redemption Fund. This fund is used to account for the accumulation of resources for, and the repayment of District bonds, interest, and related costs.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds: These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CAJON VALLEY UNION SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

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

4. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

5. Revenues and Expenses

a. Revenues - Exchange and Non-Exchange

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 year or 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 districts and so as to not 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 districts 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 are transactions in which the District receives value without directly giving equal value in return, including 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

b. 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 90 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 government-wide financial statements.

6. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

CAJON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

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 expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------|-----------------------------------|
| Buildings | 45-50 |
| Building Improvements | 20-25 |
| Vehicles | 3-15 |
| Office Equipment | 3-15 |
| Computer Equipment | 3-15 |

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

e. 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.

CAJON VALLEY UNION SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

i. Minimum Fund Balance

The District maintains a minimum reserve, within the general fund, an amount not less than the amount required by state law. The minimum reserve shall apply towards the established minimum Reserve for Economic Uncertainties or an amount that meets or exceeds the requirements by law. The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints in use, the Reserve for Economic Uncertainties consists of balances that are otherwise unassigned.

7. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net assets or net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net assets or net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

8. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 20 (Special Reserve Fund for Postemployment Benefits) are merged with the General Fund for purposes of presentation in the audit report.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2014 |
| Measurement Date (MD) | June 30, 2015 |
| Measurement Period (MP) | July 1, 2014 to June 30, 2015 |

10. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

11. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

- Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for an asset or liability.

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

12. Change in Accounting Policies

In February 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 72 Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has implemented the guidance under GASB Statement No. 72 into their accounting policies effective for the fiscal year ending June 30, 2016.

In June 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The District has implemented the guidance under GASB Statement No. 76 into their accounting policies effective for the fiscal year ending June 30, 2016.

In June 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statement 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The District has adopted the provisions of GASB Statement No. 73 effective for the year ending June 30, 2016.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

| Violation | Action Taken |
|---------------|----------------|
| None reported | Not applicable |

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

| Fund Name | Deficit Amount | Remarks |
|---------------|----------------|----------------|
| None reported | Not applicable | Not applicable |

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$87,562,323 as of June 30, 2016). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$87,562,323. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 investments in the pool is reported in the accounting financial statements as 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 the 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.

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$1,083,868 as of June 30, 2016) and in the revolving fund (\$150,000) are insured up to \$250,000 by the Federal Depository Insurance Corporation.

3. Investments:

The District's investments at June 30, 2016 are shown below.

| <u>Investment or Investment Type</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--------------------------------------|-----------------|-------------------|
| Short Term Cash Investments | <30 Days | \$ 20,000 |
| Total Investments | | \$ 20,000 |

4. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

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

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

5. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The San Diego County Investment Pool is rated AAAsf/S1 by Standard & Poors. At year end the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

As of June 30, 2016, the District's bank balances (including revolving cash) of \$591,750 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

6. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Accounts Receivable

Accounts receivable as of June 30, 2016 consisted of:

| | Major Governmental Funds | | | | |
|---------------------------|--------------------------|---------------------------|-------------------------------------|-----------------------------------|--------------------------------|
| | General Fund | Building Fund | Bond Interest Redemption Fund | Nonmajor Governmental Funds | Total Governmental Funds |
| Federal Government: | | | | | |
| Federal programs | \$ 3,092,767 | \$ - | \$ - | \$ 472,761 | \$ 3,565,528 |
| State Government: | | | | | |
| Lottery | 1,782,897 | - | - | - | 1,782,897 |
| Other state programs | 387,742 | - | - | 253,649 | 641,391 |
| Local Sources: | | | | | |
| Interest | 72,351 | 27,978 | - | 7,635 | 107,964 |
| Special education | 605,244 | - | - | - | 605,244 |
| Other local sources | 735,758 | 140,006 | - | 196,797 | 1,072,561 |
| Totals | \$ 6,676,759 | \$ 167,984 | \$ - | \$ 930,842 | \$ 7,775,585 |
| | | Self Insurance Fund | | | |
| Local Sources: | | | | | |
| Interest | | \$ 5,687 | | | |
| Employee benefit premiums | | 1,632,284 | | | |
| Totals | | \$ 1,637,971 | | | |

All accounts receivable are considered to be collectible in full and as such no allowance for doubtful accounts has been established.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

E. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|----------------------|---------------------|-----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 13,517,805 | \$ - | \$ - | \$ 13,517,805 |
| Work in progress | 62,872,545 | 26,475,089 | 4,208,881 | 85,138,753 |
| Total capital assets not being depreciated | <u>76,390,350</u> | <u>26,475,089</u> | <u>4,208,881</u> | <u>98,656,558</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 296,032,761 | 2,379,761 | - | 298,412,522 |
| Improvements | 9,604,713 | 1,829,120 | - | 11,433,833 |
| Equipment | 11,145,292 | 1,952,907 | - | 13,098,199 |
| Total capital assets being depreciated | <u>316,782,766</u> | <u>6,161,788</u> | <u>-</u> | <u>322,944,554</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (98,914,979) | (6,642,428) | - | (105,557,407) |
| Improvements | (6,368,806) | (331,704) | - | (6,700,510) |
| Equipment | (8,326,706) | (847,036) | - | (9,173,742) |
| Total accumulated depreciation | <u>(113,610,491)</u> | <u>(7,821,168)</u> | <u>-</u> | <u>(121,431,659)</u> |
| Total capital assets being depreciated, net | <u>203,172,275</u> | <u>(1,659,380)</u> | <u>-</u> | <u>201,512,895</u> |
| Governmental activities capital assets, net | <u>\$ 279,562,625</u> | <u>\$ 24,815,709</u> | <u>\$ 4,208,881</u> | <u>\$ 300,169,453</u> |

Depreciation was charged to functions as follows:

| | |
|------------------------------|---------------------|
| Instruction | \$ 5,252,809 |
| Instruction-Related Services | 799,194 |
| Pupil Services | 629,934 |
| Community Services | 8,617 |
| General Administration | 486,940 |
| Plant Services | 643,674 |
| | <u>\$ 7,821,168</u> |

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2016, consisted of the following:

| Due To Fund | Due From Fund | Amount | Purpose |
|------------------------|-------------------------|---------------------|-------------------------------|
| General Fund | Child Development Fund | \$ 291,934 | Indirect costs |
| General Fund | Cafeteria Fund | 465,872 | Indirect costs, OPEB |
| General Fund | Capital Facilities Fund | 3,003 | Reimbursement of expenses |
| General Fund | Self Insurance Fund | 576 | OPEB costs |
| General Fund | General Fund | 437,884 | Support OPEB reserve |
| Child Development Fund | General Fund | 860 | Special education charges |
| Cafeteria Fund | General Fund | 360 | OPEB costs |
| Building Fund | General Fund | 4,565,698 | Facility improvement projects |
| Building Fund | Capital Facilities Fund | 17,898 | Facility improvement projects |
| | Total | <u>\$ 5,784,085</u> | |

All amounts due are scheduled to be repaid within one year.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2016, consisted of the following:

| Transfers From | Transfers To | Amount | Reason |
|----------------|----------------------|---------------------|-------------------------------|
| General Fund | General Fund | \$ 437,884 | Contributions to OPEB reserve |
| General Fund | Building Fund | 2,300,000 | Facility improvement projects |
| General Fund | Special Reserve Fund | 5,000,000 | Facility improvement projects |
| | Total | <u>\$ 7,737,884</u> | |

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Accounts Payable

Accounts payable as of June 30, 2016 consisted of:

| | Major Governmental Funds | | | Nonmajor Governmental Funds | Total Governmental Funds |
|------------------------------|--------------------------|-------------------|-------------------------------|-----------------------------|--------------------------|
| | General Fund | Building Fund | Bond Interest Redemption Fund | | |
| Vendor payables | \$ 3,888,167 | \$ 798,268 | \$ - | \$ 28,957 | \$ 4,715,392 |
| LCFF state aid | 809,234 | - | - | - | 809,234 |
| Charter schools payable | 329,399 | - | - | - | 329,399 |
| Pension liabilities | 933,814 | 1,905 | - | 34,681 | 970,400 |
| Payroll and related benefits | 272,711 | 23 | - | 566 | 273,300 |
| Totals | <u>\$ 6,233,325</u> | <u>\$ 800,196</u> | <u>\$ -</u> | <u>\$ 64,204</u> | <u>\$ 7,097,725</u> |
| | Self Insurance Fund | | | | |
| Vendor payables | \$ 15,941 | | | | |
| Pension liabilities | 177 | | | | |
| Payroll and related benefits | 2 | | | | |
| Totals | <u>\$ 16,120</u> | | | | |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. Unearned Revenue

Unearned revenue as of June 30, 2016 consisted of:

| | <u>Major Fund</u> | <u>Nonmajor Fund</u> | <u>Total</u> |
|----------------------|---------------------|-----------------------|---------------------------|
| | <u>General Fund</u> | <u>Cafeteria Fund</u> | <u>Governmental Funds</u> |
| Federal Government: | | | |
| Categorical programs | \$ 189,527 | \$ 24,654 | \$ 214,181 |
| State Government: | | | |
| Other state programs | 184,921 | - | 184,921 |
| Local Sources: | | | |
| Webster grant | 1,202,211 | - | 1,202,211 |
| Other local sources | 460,283 | - | 460,283 |
| Totals | <u>\$ 2,036,942</u> | <u>\$ 24,654</u> | <u>\$ 2,061,596</u> |

J. Deferred Outflows of Resources

In accordance with GASB Statement No. 68 & 71, payments made subsequent to the net pension liability measurement date are recorded as deferred outflows of resources.

A summary of the deferred outflows of resources as of June 30, 2016 is as follows:

| <u>Description</u> | <u>Issue Date</u> | <u>Amortization Term</u> | <u>Balance July 1, 2015</u> | <u>Additions</u> | <u>Current Year Amortization</u> | <u>Balance June 30, 2016</u> |
|--------------------------------------|-------------------|--------------------------|-----------------------------|----------------------|----------------------------------|------------------------------|
| Refunding Loss | 05/06/2014 | 22 Years | \$ 906,531 | \$ - | \$ 43,513 | \$ 863,018 |
| Refunding Loss | 03/31/2016 | 16 Years | - | 2,710,634 | 42,354 | 2,668,280 |
| Pension Related | Varies | Varies | 8,692,675 | 19,805,891 | 10,476,786 | 18,021,780 |
| Total Deferred Outflows of Resources | | | <u>\$ 9,599,206</u> | <u>\$ 22,516,525</u> | <u>\$ 10,562,653</u> | <u>\$ 21,553,078</u> |

Future amortization of deferred outflows of resources is as follows:

| <u>Year Ending June 30</u> | <u>Refunding Loss</u> | <u>Refunding Loss</u> | <u>Pension Related</u> | <u>Total</u> |
|----------------------------|-----------------------|-----------------------|------------------------|----------------------|
| 2017 | \$ 43,513 | \$ 169,415 | \$ 12,669,445 | \$ 12,882,373 |
| 2018 | 43,513 | 169,415 | 1,784,111 | 1,997,039 |
| 2019 | 43,513 | 169,415 | 1,784,111 | 1,997,039 |
| 2020 | 43,513 | 169,415 | 1,784,113 | 1,997,041 |
| 2021 | 43,513 | 169,415 | - | 212,928 |
| 2022-2026 | 217,565 | 847,075 | - | 1,064,640 |
| 2027-2031 | 217,565 | 847,075 | - | 1,064,640 |
| 2032-2036 | 210,323 | 127,055 | - | 337,378 |
| Total | <u>\$ 863,018</u> | <u>\$ 2,668,280</u> | <u>\$ 18,021,780</u> | <u>\$ 21,553,078</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

K. Deferred Inflows of Resources

In accordance with GASB Statement No. 68 & 71, payments received subsequent to the net pension liability measurement date are recorded as deferred inflows of resources.

A summary of the deferred inflows of resources as of June 30, 2016 is as follows:

| Description | Issue Date | Amortization Term | Balance July 1, 2015 | Additions | Current Year Amortization | Balance June 30, 2016 |
|-------------------------------------|------------|-------------------|----------------------|--------------|---------------------------|-----------------------|
| Pension related | Varies | Varies | \$ 8,404,862 | 2,779,519 | 2,657,120 | 8,527,261 |
| Total Deferred Inflows of Resources | | | \$ 8,404,862 | \$ 2,779,519 | \$ 2,657,120 | \$ 8,527,261 |

Future amortization of deferred inflows of resources is as follows:

| Year Ending June 30 | Pension Related |
|---------------------|-----------------|
| 2017 | \$ 2,657,120 |
| 2018 | 2,657,120 |
| 2019 | 2,657,120 |
| 2020 | 555,901 |
| Total | \$ 8,527,261 |

L. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2016, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|-------------------|----------------|---------------|----------------|-----------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 169,524,986 | \$ 41,480,000 | \$ 31,392,898 | \$ 179,612,088 | \$ 6,120,194 |
| Bond premiums | 5,694,940 | 5,276,875 | 381,189 | 10,590,626 | 588,303 |
| Accreted interest | 1,318,262 | 503,836 | - | 1,822,098 | - |
| Certificates of participation | 6,475,000 | - | 1,610,000 | 4,865,000 | 215,000 |
| Capital leases | 945,943 | - | 375,269 | 570,674 | 379,268 |
| IBNR liability | 378,662 | 1,916,478 | 1,916,478 | 378,662 | - |
| PARS retirement | 2,199,073 | - | 549,768 | 1,649,305 | 549,768 |
| Net pension liability | 108,839,238 | 51,903,446 | 32,263,090 | 128,479,594 | - |
| Compensated absences * | 1,028,114 | 97,146 | - | 1,125,260 | 1,125,260 |
| Net OPEB obligation | 12,011,398 | 5,354,303 | 1,150,121 | 16,215,580 | - |
| Total governmental activities | \$ 308,415,616 | \$ 106,532,084 | \$ 69,638,813 | \$ 345,308,887 | \$ 8,977,793 |

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

| Liability | Activity Type | Fund |
|----------------------|---------------|---------|
| Compensated absences | Governmental | General |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

2. Debt Service Requirements

Debt service requirements on long-term debt, net of bond premium, net pension liability, and net OPEB obligation, as of June 30, 2016 are as follows:

| Year Ending June 30, | Governmental Activities | | | |
|----------------------|-------------------------|---------------------|----------------------|-----------------------|
| | Principal | Accreted Interest | Interest | Total |
| 2017 | \$ 8,389,490 | \$ - | \$ 7,022,015 | \$ 15,411,505 |
| 2018 | 8,980,719 | 17,519 | 7,166,358 | 16,164,596 |
| 2019 | 8,993,026 | 102,461 | 6,725,867 | 15,821,354 |
| 2020 | 7,017,864 | 141,482 | 6,365,945 | 13,525,291 |
| 2021 | 6,022,319 | 268,691 | 5,932,404 | 12,223,414 |
| 2022-2026 | 38,624,606 | 1,857,880 | 24,610,197 | 65,092,683 |
| 2027-2031 | 49,997,965 | 5,362,035 | 12,147,797 | 67,507,797 |
| 2032-2036 | 35,795,000 | - | 7,952,590 | 43,747,590 |
| 2037-2041 | 24,380,000 | - | 2,395,825 | 26,775,825 |
| Totals | <u>\$ 188,200,989</u> | <u>\$ 7,750,068</u> | <u>\$ 80,318,998</u> | <u>\$ 276,270,055</u> |

Note: Amounts represented in the repayment schedule for accreted interest are reflective of 100% of amounts to be repaid. Amounts represented as accreted interest in the debt summary are reflective of amounts that have accrued as of June 30, 2016.

Accreted interest is the process of systematically increasing the carrying amount of capital appreciation bonds to their estimated value at the maturity date of the bond. The district imputes the effective interest rate, using the present value, the face value, and the period of the bond and multiplies the effective interest rate by the book value of the debt at the end of the period.

3. General Obligation Bonds

General obligation bonds at June 30, 2016 consisted of the following:

| | Date of Issue | Interest Rate | Maturity Date | Amount of Original Issue |
|------------------------|---------------|---------------|---------------|--------------------------|
| 2008 Election Series A | 07/09/08 | 3.00-5.00% | 08/01/32 | \$ 35,000,000 |
| 2010 Refunding Bonds | 02/10/10 | 3.00-5.00% | 08/01/31 | 24,670,000 |
| 2008 Election Series B | 05/25/11 | 4.00% | 08/01/25 | 13,093,060 |
| 2012 Refunding Bonds | 06/28/12 | 2.00 - 5.00% | 08/01/32 | 13,690,000 |
| 2008 Election Series C | 08/01/12 | 2.00 - 5.00% | 08/01/32 | 19,999,932 |
| 2012 Election Series A | 08/28/13 | 4.00 - 5.00% | 08/01/37 | 31,200,000 |
| 2012 Election Series B | 10/17/13 | 1.45% | 08/01/16 | 1,815,000 |
| 2014 Refunding Bonds | 05/06/14 | 3.00 - 5.00% | 08/01/35 | 23,565,000 |
| 2012 Election Series C | 04/14/15 | 3.25 - 5.00% | 08/01/40 | 20,000,000 |
| 2012 Election Series D | 10/07/15 | 3.00 - 5.00% | 08/01/40 | 17,880,000 |
| 2016 Refunding Bonds | 03/31/16 | 2.00 - 5.00% | 08/01/32 | 23,600,000 |
| Total GO Bonds | | | | <u>\$ 224,512,992</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

| | Beginning Balance | Issued Current Year | Redeemed Current Year | Ending Balance |
|------------------------|-----------------------|------------------------|--------------------------|-----------------------|
| 2008 Election Series A | \$ 29,745,000 | \$ - | \$ 26,155,000 | \$ 3,590,000 |
| 2010 Refunding Bonds | 21,365,000 | - | 880,000 | 20,485,000 |
| 2008 Election Series B | 12,300,054 | - | 682,898 | 11,617,156 |
| 2012 Refunding Bonds | 12,560,000 | - | 470,000 | 12,090,000 |
| 2008 Election Series C | 19,269,932 | - | - | 19,269,932 |
| 2012 Election Series A | 29,800,000 | - | 1,915,000 | 27,885,000 |
| 2012 Election Series B | 1,210,000 | - | 605,000 | 605,000 |
| 2014 Refunding Bonds | 23,275,000 | - | 685,000 | 22,590,000 |
| 2012 Election Series C | 20,000,000 | - | - | 20,000,000 |
| 2012 Election Series D | - | 17,880,000 | - | 17,880,000 |
| 2016 Refunding Bonds | - | 23,600,000 | - | 23,600,000 |
| Total GO Bonds | <u>\$ 169,524,986</u> | <u>\$ 41,480,000</u> | <u>\$ 31,392,898</u> | <u>\$ 179,612,088</u> |

The annual requirements to amortize bonds outstanding at June 30, 2016 are as follows:

| Year Ending June 30, | Principal | Accreted Interest | Interest | Total |
|----------------------|-----------------------|----------------------|----------------------|-----------------------|
| 2017 | \$ 6,120,194 | \$ - | \$ 6,821,487 | \$ 12,941,681 |
| 2018 | 6,240,883 | 17,519 | 6,979,167 | 13,237,569 |
| 2019 | 6,758,257 | 102,461 | 6,604,667 | 13,465,385 |
| 2020 | 5,672,864 | 141,482 | 6,312,145 | 12,126,491 |
| 2021 | 6,022,319 | 268,691 | 5,932,404 | 12,223,414 |
| 2022-2026 | 38,624,606 | 1,857,880 | 24,610,197 | 65,092,683 |
| 2027-2031 | 49,997,965 | 5,362,035 | 12,147,797 | 67,507,797 |
| 2032-2036 | 35,795,000 | - | 7,952,590 | 43,747,590 |
| 2037-2041 | 24,380,000 | - | 2,395,825 | 26,775,825 |
| Totals | <u>\$ 179,612,088</u> | <u>\$ 7,750,068</u> | <u>\$ 79,756,279</u> | <u>\$ 267,118,435</u> |

4. 2016 General Obligation Bonds

In October 2015 the District issued \$17,880,000 2012 Election, Series D, General Obligation Reauthorization Bonds in order to finance the repair and renovation of school facilities, increase student access to technology, improve energy efficiency, and reduce overall borrowing costs for the District. The issue consisted of \$17,880,000 in Serial Bonds with interest rates ranging from 3.00% to 5.00% with annual maturities from August 2019 through August 2040. Principal payments on the bonds are due August 1 of each year beginning August 1, 2019 while interest is payable semi-annually on February 1 and August 1 of each year through maturity. Net proceeds of \$17,880,000 were deposited into the Building Fund after premium and issuance costs while remaining funds of \$709,503 were deposited into the Bond Interest and Redemption Fund to be utilized for subsequent debt service on the bonds.

5. 2016 General Obligation Refunding Bonds

In March 2016, the District issued \$23,600,000 of 2016 General Obligation Refunding Bonds. The general obligation refunding bonds bear fixed interest rates of 2.00% to 5.00% with annual maturities from August 2016 through August 2032. Interest is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2016. The net proceeds of \$27,785,634 (after premium of \$4,185,634) were used to partially refund \$25,075,000 of the District's outstanding 2008 Election, Series A General Obligation Bonds in addition to paying the costs relating to the execution and delivery of the refunding bonds as associated with the refunding plan.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

The net proceeds of \$27,510,635 (after issuance costs of \$274,999) was deposited into a separate escrow fund for the partial refunding of the 2008 Election, Series A Bonds. The partial refunding of the 2008 Election, Series A Bonds will occur on the call date of August 1, 2018.

Refunding Bond Calculation of Gain/Loss on Refunding:

New Bonds: 2016 General Obligation Refunding Bonds

Refunding: 2008 General Obligation Bonds, Series A

Net Carrying Amount of Debt:

| | |
|----------------------------|----------------------|
| Maturity Value of Old Debt | \$ <u>25,075,000</u> |
|----------------------------|----------------------|

Reacquisition Price:

| | |
|--------------------------|------------------|
| Face Value of New Debt | \$ 23,600,000 |
| Bond Premium of New Debt | <u>4,185,634</u> |

| | |
|-------|----------------------|
| Total | \$ <u>27,785,634</u> |
|-------|----------------------|

| | |
|-----------------------------|-----------------------|
| Gain or (Loss) on Refunding | \$ <u>(2,710,634)</u> |
|-----------------------------|-----------------------|

Refunding Bond Calculation of Economic Gain/Loss:

The refunding decreased the District's total debt service payments by \$4,871,841.

Decrease in Debt Service Payments:

| | |
|--|-------------------|
| 2016 General Obligation Refunding Bonds | \$ 33,025,470 |
| Old Debt – 2008 General Obligation Bonds, Series A | <u>37,897,311</u> |

| | |
|-----------------------------------|-----------------------|
| Decrease in Debt Service Payments | \$ <u>(4,871,841)</u> |
|-----------------------------------|-----------------------|

Present Value Used as Effective Rate Target:

| | |
|--|------------------|
| Face Amount of 2016 General Obligation Refunding Bonds | \$ 23,600,000 |
| Bond Premium | 4,185,634 |
| All Costs Not Recoverable Through Escrow Rate Earnings | <u>(274,998)</u> |

| | |
|---|----------------------|
| Present Value Used as Effective Rate Target | \$ <u>27,510,636</u> |
|---|----------------------|

Economic Gain:

| | |
|--|-------------------|
| Present Value of Old Debt | \$ 31,157,091 |
| Present Value of 2016 General Obligation Refunding Bonds | <u>27,510,636</u> |

| | |
|--------------------------|---------------------|
| Calculated Economic Gain | \$ <u>3,646,455</u> |
|--------------------------|---------------------|

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

6. Certificates of Participation

Certificates of participation at June 30, 2016 consisted of the following:

| | <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Original Issue Amount</u> |
|-----------|----------------------|----------------------|----------------------|------------------------------|
| 2003 COPS | 09/17/03 | 2.50-4.00% | 05/01/16 | \$ 10,180,000 |
| 2007 COPS | 02/23/07 | 4.00% | 03/01/20 | 7,835,000 |
| Total | | | | <u>\$ 18,015,000</u> |

| | <u>Beginning Balance</u> | <u>Issued Current Year</u> | <u>Redeemed Current Year</u> | <u>Ending Balance</u> |
|-----------|--------------------------|----------------------------|------------------------------|-----------------------|
| 2003 COPS | \$ 1,405,000 | \$ - | \$ 1,405,000 | \$ - |
| 2007 COPS | 5,070,000 | - | 205,000 | 4,865,000 |
| Total | <u>\$ 6,475,000</u> | <u>\$ -</u> | <u>\$ 1,610,000</u> | <u>\$ 4,865,000</u> |

Future commitments for certificates of participation as of June 30, 2016 are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|-------------------|---------------------|
| 2017 | \$ 215,000 | \$ 194,600 | \$ 409,600 |
| 2018 | 1,620,000 | 186,000 | 1,806,000 |
| 2019 | 1,685,000 | 121,200 | 1,806,200 |
| 2020 | 1,345,000 | 53,800 | 1,398,800 |
| Totals | <u>\$ 4,865,000</u> | <u>\$ 555,600</u> | <u>\$ 5,420,600</u> |

7. 2011 Qualified School Construction Bonds

On May 25, 2011 the District issued \$18,000,000 of 2011 Qualified School Construction Bonds (QSCB). The QSCB are structured as direct interest subsidy bonds which entitles the issuer to receive semi-annual interest subsidy payments directly from the United States Treasury. Proceeds of the QSCB were used to purchase the District's General Obligation Bonds, Election 2008, Series B in the amount of \$13,093,060. Additional proceeds, net of cost of issuance, were issued as California Qualified School Joint Powers Authority Bonds in an amount equal to \$4,551,940. The QSCB are structured as a single term bond with mandatory sinking fund redemptions to occur each September 1, commencing on September 1, 2013, and through September 2025 with an interest subsidy rate of 5.02%. The General Obligation Bonds are current interest bonds, which bear a fixed interest rate of 4.00%, and mature August 1, 2025. The remaining Authority Bonds are current interest bonds and represent an additional contribution towards the financing for qualified purposes. The General Obligation Bonds shall be secured by the District's property tax levy and shall provide sufficient revenues, together with available interest subsidy payments, to pay the principal and interest when due on the QSCB. The proceeds of the QSCB will be used to finance the construction, rehabilitation or repair of public school facilities.

8. Early Retirement Incentive

On March 11, 2014 the district offered an early retirement incentive through the Public Agency Retirement Services (PARS) for which eligible employees received a retirement incentive program supplementing STRS/PERS in exchange for early retirement. The incentive was utilized for fifty three employees. The district elected to defer payments on the service credits over a five year period with no interest. Total principal incurred for the service credits was \$2,748,841.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Early retirement incentive at June 30, 2016 is summarized as follows:

| | Date of Issue | Interest Rate | Maturity Date | Issue Amount |
|-----------|-------------------|---------------------|-----------------------|----------------|
| 2014 PARS | 03/11/14 | 0% | 06/30/19 | \$ 2,748,841 |
| | Beginning Balance | Issued Current Year | Redeemed Current Year | Ending Balance |
| 2014 PARS | \$ 2,199,073 | \$ - | \$ 549,768 | \$ 1,649,305 |

Future commitments for early retirement incentives as of June 30, 2016 are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|--------------|----------|--------------|
| 2017 | \$ 549,768 | \$ - | \$ 549,768 |
| 2018 | 549,768 | - | 549,768 |
| 2019 | 549,769 | - | 549,769 |
| Totals | \$ 1,649,305 | \$ - | \$ 1,649,305 |

9. Bond Premium

Bond premium arises when the market rate of interest is higher than the stated interest rate on the bond. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the bond and then amortize the premium over the life of the bond. The premiums are amortized over the life of the bond using the effective interest rate method.

The following bonds were issued at a premium resulting in effective interest as follows:

| | 2010 Refunding Bonds | 2012 Refunding Bonds | 2008 Series C Bonds | 2012 Series D Bonds |
|-------------------------|----------------------|----------------------|---------------------|---------------------|
| Total Interest | \$ 14,946,702 | \$ 5,873,465 | \$ 14,679,779 | \$ 13,166,792 |
| Less Bond Premium | (1,085,735) | (418,286) | (315,532) | (1,091,241) |
| Net Interest | \$ 13,860,967 | \$ 5,455,179 | \$ 14,364,247 | \$ 12,075,551 |
| Par Amount of Bonds | \$ 24,670,000 | \$ 13,690,000 | \$ 19,999,932 | \$ 17,880,000 |
| Periods | 22 | 21 | 20 | 25 |
| Effective Interest Rate | 2.55% | 1.90% | 3.59% | 2.70% |

| | 2012 Series A Bonds | 2014 Refunding Bonds | 2015 Series C Bonds | 2016 Refunding Bonds |
|-------------------------|---------------------|----------------------|---------------------|----------------------|
| Total Interest | \$ 22,117,998 | \$ 13,552,500 | \$ 13,711,649 | \$ 9,425,470 |
| Less Bond Premium | (1,170,175) | (2,452,485) | (853,717) | (4,185,634) |
| Net Interest | \$ 20,947,823 | \$ 11,100,015 | \$ 12,857,932 | \$ 5,239,836 |
| Par Amount of Bonds | \$ 31,200,000 | \$ 23,565,000 | \$ 20,000,000 | \$ 23,600,000 |
| Periods | 24 | 22 | 26 | 16 |
| Effective Interest Rate | 2.80% | 2.14% | 2.47% | 1.39% |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

10. Capital Leases

In December 2014, the District entered into a capital master lease-purchase agreement with PNC Equipment Finance, LLC to finance the cost of eight school busses. The total amount to be financed is \$1,130,823 and shall be for a period of three years at a fixed interest rate of 2.5% per year with semi-annual payments of principal and interest due June 11 and December 11 of each year, with the first payment due June 11, 2015.

Commitments under the capitalized agreement for the vehicles provide for minimum lease payments as of June 30, 2016 are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------|-------------------|-----------------|-------------------|
| 2017 | \$ 379,268 | \$ 5,928 | \$ 385,196 |
| 2018 | 191,406 | 1,191 | 192,597 |
| Totals | <u>\$ 570,674</u> | <u>\$ 7,119</u> | <u>\$ 577,793</u> |

M. Components of Beginning Fund Balance

As of June 30, 2016 components of ending fund balance consisted of:

| | Major Governmental Funds | | | Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------|----------------------|-------------------------------|-----------------------------|--------------------------|
| | General Fund | Building Fund | Bond Interest Redemption Fund | | |
| Nonspendable Fund Balances | | | | | |
| Revolving Cash | \$ 150,000 | \$ - | \$ - | \$ - | \$ 150,000 |
| Stores Inventory | 350,739 | - | - | 189,243 | 539,982 |
| Prepaid Expenses | 6,181 | - | - | - | 6,181 |
| Restricted Fund Balances | | | | | |
| Educational Programs | 8,507,474 | - | - | - | 8,507,474 |
| Child Nutrition Program | - | - | - | 1,062,305 | 1,062,305 |
| Committed Fund Balances | | | | | |
| Deferred Maintenance | - | - | - | 436,891 | 436,891 |
| Assigned Fund Balances | | | | | |
| Educational Programs | 9,906,895 | - | - | - | 9,906,895 |
| Post Employment Benefits | 4,419,985 | - | - | - | 4,419,985 |
| Capital Projects | - | 20,476,453 | - | 8,281,122 | 28,757,575 |
| Debt Service | - | - | 11,608,966 | - | 11,608,966 |
| Unassigned Fund Balances | | | | | |
| Economic Uncertainty | 5,053,261 | - | - | - | 5,053,261 |
| Other Unassigned | 13,292,836 | - | - | - | 13,292,836 |
| Total Fund Balance | <u>\$ 41,687,371</u> | <u>\$ 20,476,453</u> | <u>\$ 11,608,966</u> | <u>\$ 9,969,561</u> | <u>\$ 83,742,351</u> |

N. Adjustment to Beginning Balance

With the implementation of GASB Statement No 68 & 71 the District relied upon information provided by CalSTRS and CalPERS in order to calculate their proportion of the net pension liability, deferred outflows of resources - pension related, and deferred inflows of resources - pension related. Proportionate share was determined based on the calculated proportionate share provided by CalSTRS and CalPERS. During the current year the district calculated proportionate share by taking contributions to the CalSTRS and CalPERS plans and dividing by plan total contributions. The result was a small change to proportionate share based on rounding variances in the proportionate share. Additionally, CalSTRS auditors made audit adjustments to CalSTRS records which affected beginning net position for the District and is also being adjusted.

CAJON VALLEY UNION SCHOOL DISTRICT
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In addition, the Self-Insurance fund was adjusted to reflect beginning balances for net pension liability, deferred outflows of resources - pension related, deferred inflows of resources - pension related, and net OPEB obligation attributable to the fund.

Beginning net position was adjusted as follows:

| | Government Wide | Self Insurance Fund |
|--|----------------------|------------------------|
| Net Position, Beginning (As Originally Stated) | \$ 28,074,010 | \$ 4,504,678 |
| Adjustments for: | | |
| Net OPEB Obligation Correction | - | (2,298) |
| Net Pension Liability Corrections | (832,536) | (18,382) |
| Deferred Outflows of Resources - Pension Related Corrections | 54,670 | 2,095 |
| Deferred Inflows of Resources - Pension Related Corrections | 20,571,312 | (6,316) |
| Net Position, Beginning (As Restated) | <u>\$ 47,867,456</u> | <u>\$ 4,479,777</u> |

O. Joint Ventures (Joint Powers Agreements)

The District participates in three joint powers agreements (JPA) entities, the San Diego County Schools Risk Management (SDCSRM) the Protected Insurance Program for Schools (PIPS) and the Southern California Relief Property and Liability Insurance (SCR). The relationship between the District and the JPA's is such that the JPA's are not component units of the District.

The JPA's arrange for and provide for various types of insurances for its member districts as requested. The JPA's are governed by a board consisting of a representative from each member district. The board controls the operations of the JPA's, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA's

Combined condensed unaudited financial information of the District's share of the Southern California Relief Property and Liability Insurance JPA and the Protected Insurance Program for Schools (PIPS) for the year ended June 30, 2016 can be obtained by contacting Keenan & Associates located at P.O. Box 4328, Torrance, California 90510.

Combined condensed unaudited financial information of the District's share of the San Diego County Schools Risk Management JPA for the year ended June 30, 2016 is as follows:

| | Workers Compensation | Property & Liability | Miscellaneous Property | Total SDCSRM |
|----------------------------|-------------------------|-------------------------|---------------------------|-----------------|
| Total Assets | \$ 2,057,578 | \$ 449,990 | \$ 29,406 | \$ 2,536,974 |
| Total Liabilities | 830,995 | 47,406 | - | 878,401 |
| Total Fund Balance | 1,226,583 | 402,584 | 29,406 | 1,658,573 |
| Total Cash Receipts | 88,703 | 47,910 | 167 | 136,780 |
| Total Cash Disbursements | 33,772 | 73,418 | - | 107,190 |
| Net Change in Fund Balance | 54,931 | (25,508) | 167 | 29,590 |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

P. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

b. Benefits Paid

CalSTRS and CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

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

| | CalSTRS | |
|---|------------------------|-----------------------------|
| | Before Jan. 1, 2013 | On or After Jan. 1, 2013 |
| Hire Date | | |
| Benefit Formula | 2% at 60 | 2% at 62 |
| Benefit Vesting Schedule | 5 Years | 5 Years |
| Benefit Payments | Monthly for Life | Monthly for Life |
| Retirement Age | 50-62 | 55-67 |
| Monthly benefits, as a % of eligible compensation | 1.1 - 2.4% | 1.0 - 2.4%* |
| Required employee contribution rates (at June 30, 2015) | 8.150% | 8.150% |
| Required employer contribution rates (at June 30, 2015) | 8.880% | 8.880% |
| Required state contribution rates (at June 30, 2015) | 5.679% | 5.679% |
| Required employee contribution rates (at June 30, 2016) | 9.200% | 8.56%** |
| Required employer contribution rates (at June 30, 2016) | 10.73% | 10.73% |
| Required state contribution rates (at June 30, 2016) | 7.126% | 7.126% |

*Amounts are limited to 120% of Social Security Wage Base.

**The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

CAJON VALLEY UNION SCHOOL DISTRICT
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| | CalPERS | |
|---|------------------------|-----------------------------|
| | Before Jan. 1, 2013 | On or After Jan. 1, 2013 |
| Hire Date | | |
| Benefit Formula | 2% at 55 | 2% at 62 |
| Benefit Vesting Schedule | 5 Years | 5 Years |
| Benefit Payments | Monthly for Life | Monthly for Life |
| Retirement Age | 50-62 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.1 - 2.5% | 1.0 - 2.5% |
| Required employee contribution rates (at June 30, 2015) | 7.00% | 6.00% |
| Required employer contribution rates (at June 30, 2015) | 11.771% | 11.771% |
| Required employee contribution rates (at June 30, 2016) | 7.00% | 6.00% |
| Required employer contribution rates (at June 30, 2016) | 11.847% | 11.847% |

*Amounts are limited to 120% of Social Security Wage Base.

c. Contributions - CalPERS

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. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 11.771% of annual payroll. For the fiscal year ending June 30, 2016, the average active employee contribution rate is 6.974%, and the employer's contribution rate is 11.847%.

d. Contributions - CalSTRS

For the measurement period ended June 30, 2015 (measurement date), Section 22950 of the California Education code requires members to contribute monthly to the system 8.15% of the creditable compensation upon which members' contributions under this part are based. In addition the employer required rates established by the CalSTRS Board have been established at 8.88% of creditable compensation. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Beginning in the fiscal year 2021-22 and for each fiscal year thereafter, the CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary. For the fiscal year ended June 30, 2016 required employee rate is 9.20% if the employee started before January 1, 2013 and 8.56% if the employee started on or after January 1, 2013. For the fiscal year ended June 30, 2016 the required employer contribution rate is 10.730%.

e. On Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the measurement period ended June 30, 2015 (measurement date) the State contributed 5.678848% of salaries creditable to CalSTRS. For the fiscal year ended June 30, 2016 the State contribution rate was 7.126% of salaries creditable to CalSTRS. 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. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the General Fund Budgetary Comparison Schedule.

CAJON VALLEY UNION SCHOOL DISTRICT
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f. Contributions Recognized

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

| | CalSTRS | CalPERS | Total |
|--|----------------------|---------------------|----------------------|
| Contributions - Employer | \$ 5,892,437 | \$ 2,800,238 | \$ 8,692,675 |
| Contributions - Employee | 5,744,140 | 1,684,958 | 7,429,098 |
| Contributions - State On Behalf Payments | 3,499,762 | - | 3,499,762 |
| Total Contributions | <u>\$ 15,136,339</u> | <u>\$ 4,485,196</u> | <u>\$ 19,621,535</u> |

g. Pension Expense

| | CalSTRS | CalPERS | Total |
|---|----------------------|---------------------|----------------------|
| Change in Net Pension Liability | \$ 12,508,585 | \$ 7,131,771 | \$ 19,640,356 |
| Increases/(Decreases) Resulting from Changes in Deferred Outflows and Deferred Inflows of Resources for: | | | |
| Contributions made subsequent to measurement date | (1,798,427) | (394,232) | (2,192,659) |
| Difference between actual and expected experience | (18,837) | (1,938,812) | (1,957,649) |
| Changes in assumptions | - | 2,084,390 | 2,084,390 |
| Changes in proportionate share | 16,023 | 92,094 | 108,117 |
| Net Difference between projected and actual experience | 25,941 | (7,274,846) | (7,248,905) |
| Total Pension Expense | <u>\$ 10,733,285</u> | <u>\$ (299,635)</u> | <u>\$ 10,433,650</u> |

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

| | Proportionate Share of Net Pension Liability |
|-----------------------------|---|
| CalSTRS | \$ 96,947,587 |
| CalPERS | 31,532,007 |
| Total Net Pension Liability | <u>\$ 128,479,594</u> |

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

| | CalSTRS | | | CalPERS |
|------------------------------|--------------------------------------|-----------------------------------|------------------------------------|-----------------|
| | District's Proportionate Share | State's Proportionate Share | Total for District Employees | |
| Proportion - June 30, 2014 | 0.1436% | 0.0914% | 0.2350% | 0.2149% |
| Proportion - June 30, 2015 | 0.1436% | 0.0853% | 0.2289% | 0.2139% |
| Change - Increase (Decrease) | <u>-</u> | <u>-0.0061%</u> | <u>-0.0061%</u> | <u>-0.0010%</u> |

For the year ended June 30, 2016, the District recognized pension expense of \$10,433,650.

CAJON VALLEY UNION SCHOOL DISTRICT
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YEAR ENDED JUNE 30, 2016

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension contributions subsequent to measurement date | \$ 10,885,334 | \$ - |
| Differences between actual and expected experience | 1,957,649 | - |
| Changes in assumptions | - | (2,084,390) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | (108,117) |
| Net difference between projected and actual earnings on plan investments | <u>5,178,797</u> | <u>(6,334,754)</u> |
| Total | <u>\$ 18,021,780</u> | <u>\$ (8,527,261)</u> |

\$10,885,334 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Deferred Outflows | Deferred Inflows | Net Effect on Expenses |
|-----------------------|----------------------------|------------------------------|------------------------------|
| 2017 | \$ 1,784,111 | \$ (2,657,120) | \$ (873,009) |
| 2018 | 1,784,111 | (2,657,120) | (873,009) |
| 2019 | 1,784,111 | (2,657,120) | (873,009) |
| 2020 | 1,784,113 | (555,901) | 1,228,212 |
| Total | <u>\$ 7,136,446</u> | <u>\$ (8,527,261)</u> | <u>\$ (1,390,815)</u> |

a. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| | <u>CalSTRS</u> | <u>CalPERS</u> |
|---------------------------|---|--------------------|
| Valuation Date | June 30, 2014 | June 30, 2014 |
| Measurement Date | June 30, 2015 | June 30, 2015 |
| Actuarial Cost Method | Entry Age - Normal Cost Method for both CalSTRS & CalPERS | |
| Actuarial Assumptions: | | |
| Discount Rate | 7.60% | 7.65% |
| Inflation | 3.0% | 2.75% |
| Payroll Growth | 3.75% | 3.00% |
| Projected Salary Increase | 0.05%-5.6% (1) | 3.20%-10.80% (1) |
| Investment Rate of Return | 7.60% (2) | 7.65% (2) |
| Mortality | .013%-0.435% (3) | .00125-.45905% (3) |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Industry standard published by the Society of Actuaries

CAJON VALLEY UNION SCHOOL DISTRICT
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b. Discount Rate

The discount rate used to measure the total pension liability was 7.6000% for CalSTRS and 7.6500% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

The CalPERS discount rate was increased from 7.50% in 2015 to correct for an adjustment to exclude administrative expenses.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in the accounting valuations is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalSTRS and CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalSTRS and CalPERS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalSTRS and CalPERS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalSTRS and CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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

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

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

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| CalSTRS | | |
|---------------------|------------------------|----------------------------------|
| Asset Class | Allocation 06/30/15 | Long Term Expected Return* |
| Global Equity | 57.40% | 4.50% |
| Private Equity | 10.10% | 6.20% |
| Real Estate | 12.70% | 4.35% |
| Inflation Sensitive | 0.80% | 3.20% |
| Fixed Income | 15.70% | 0.20% |
| Absolute Return | 1.50% | - |
| Liquidity | 1.80% | - |

*10 year geometric average used for long term expected real rate of return

| CalPERS | | | |
|---------------------|------------------------|--------------------------------|-------------------------------|
| Asset Class | Allocation 06/30/15 | Real Return (Years 1-10)(1) | Real Return (Years 11+)(2) |
| Global Equity | 53.80% | 5.25% | 5.71% |
| Global Fixed Income | 17.60% | 0.99% | 2.43% |
| Inflation Sensitive | 5.20% | 0.45% | 3.36% |
| Private Equity | 9.60% | 6.83% | 6.95% |
| Real Estate | 10.50% | 4.50% | 5.13% |
| Absolute Return | 0.40% | - | - |
| Plan Level | 0.40% | - | - |
| Liquidity | 2.50% | -0.55% | -1.05% |

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

c. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | CalSTRS | CalPERS |
|-----------------------|----------------|---------------|
| 1% Decrease | 6.60% | 6.65% |
| Net Pension Liability | \$ 145,966,323 | \$ 51,320,969 |
| Current Discount Rate | 7.60% | 7.65% |
| Net Pension Liability | \$ 96,947,587 | \$ 31,532,007 |
| 1% Increase | 8.60% | 8.65% |
| Net Pension Liability | \$ 55,703,382 | \$ 15,076,164 |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

d. Total Pension Liability, Pension Plan Fiduciary Net Position and Net Pension Liability

CalSTRS

| | Increase (Decrease) | | | | |
|---|--------------------------------------|--|--|---|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | State's Share of Net Pension Liability (c) | District's Share of Net Pension Liability (a) - (b) - (c) |
| Balance at June 30, 2015 (Previously Reported) | \$ 585,097,913 | \$ 447,734,408 | \$ 137,363,505 | \$ 53,433,153 | \$ 83,930,352 |
| Adjustment for CalSTRS Audit Adjustments | - | (370,567) | 370,567 | (138,082) | 508,649 |
| Balance at June 30, 2015 (As Adjusted) | <u>585,097,913</u> | <u>447,363,841</u> | <u>137,734,072</u> | <u>53,295,071</u> | <u>84,439,001</u> |
| Changes for the year: | | | | | |
| Change in proportionate share | (15,399,630) | (11,784,258) | (3,615,372) | (3,595,345) | (20,027) |
| Service cost | 12,716,375 | - | 12,716,375 | 4,738,431 | 7,977,944 |
| Interest | 42,470,313 | - | 42,470,313 | 15,825,472 | 26,644,841 |
| Differences between expected and actual experience | (3,002,859) | - | (3,002,859) | (1,118,938) | (1,883,921) |
| Contributions: | | | | | |
| Employer | - | 5,892,437 | (5,892,437) | (2,283,773) | (3,608,664) |
| Employee | - | 5,744,140 | (5,744,140) | (2,140,406) | (3,603,734) |
| State On Behalf | - | 3,499,762 | (3,499,762) | (1,215,989) | (2,283,773) |
| Net investment income | - | 17,421,260 | (17,421,260) | (6,491,585) | (10,929,675) |
| Other income | - | 9,006 | (9,006) | (3,356) | (5,650) |
| Benefit payments, including refunds of employee contributions | (28,757,400) | (28,757,400) | - | - | - |
| Administrative expenses | - | (352,651) | 352,651 | 131,406 | 221,245 |
| Net Changes | <u>8,026,799</u> | <u>(8,327,704)</u> | <u>16,354,503</u> | <u>3,845,917</u> | <u>12,508,586</u> |
| Balance at June 30, 2016 | <u>\$ 593,124,712</u> | <u>\$ 439,036,137</u> | <u>\$ 154,088,575</u> | <u>\$ 57,140,988</u> | <u>\$ 96,947,587</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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CalPERS

| | Increase (Decrease) | | |
|--|-----------------------------|----------------------------------|-----------------------------------|
| | Total | Plan | Net |
| | Pension Liability (a) | Fiduciary Net Position (b) | Pension Liability (a) - (b) |
| Balance at June 30, 2015 (Previously Reported) | \$ 146,784,410 | \$ 122,384,174 | \$ 24,400,236 |
| Changes for the year: | | | |
| Adjustment for Change in Proportionate Share | (692,507) | (577,390) | (115,117) |
| Service cost | 3,476,186 | - | 3,476,186 |
| Interest | 11,022,265 | - | 11,022,265 |
| Differences between expected and actual experience | 2,423,515 | - | 2,423,515 |
| Changes in assumptions | (2,605,488) | - | (2,605,488) |
| Contributions - Employer | - | 2,800,238 | (2,800,238) |
| Contributions - Employee | - | 1,684,958 | (1,684,958) |
| Net plan to plan resource movement | - | (276) | 276 |
| Net investment income | - | 2,721,845 | (2,721,845) |
| Benefit payments, including refunds of employee contributions | (7,132,265) | (7,132,265) | - |
| Administrative expenses | - | (137,175) | 137,175 |
| Net Changes | <u>6,491,706</u> | <u>(640,065)</u> | <u>7,131,771</u> |
| Balance at June 30, 2016 | <u>\$ 153,276,116</u> | <u>\$ 121,744,109</u> | <u>\$ 31,532,007</u> |

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

Q. Postemployment Benefits Other Than Pension Benefits

Plan Description

The Cajon Valley School District (District) administers a single-employer healthcare plan (Plan). The plan provides medical benefits to eligible retirees to age 65. Some employees are eligible for a \$50 per month reimbursement for post-65 coverage. An employee must have at least 10 years of District service at retirement and retire on or after age 55 to be eligible for retiree health benefits. In general, the District's contribution for retiree health coverage is equivalent to a similarly situated active employee.

Benefit Plan Provisions

The District provides retiree medical (including prescription drug benefits) and dental benefits to eligible retirees and their eligible dependents until the retiree turns age 65. An eligible retiree is only eligible for the level of coverage (retiree only, retiree plus spouse, or retiree plus family) they are receiving at retirement. Retired employees pay the same cost for coverage as an active employee. This cost varies based on the plans and level of coverage enrolled in. Classified part-time employees are only eligible for District-paid retiree only medical coverage but may elect and pay for dependent coverage. Employees in the management, supervisory, and classified non-management units who are hired after July 1, 2015 will be eligible for retiree health/dental benefits for the retiring employee only. Family members will not be covered. The District does not provide for any retiree medical or dental benefits beyond age 65; except, certain management employees and supervisors may continue on the Kaiser Senior Advantage Plan and receive a maximum District contribution equal to \$50 per month.

Employees who retired prior to December 1, 2006 are eligible for a monthly amount (\$100) if they have waived medical benefits. No new retirees may elect this benefit in the future except an active employee who had waived coverage at December 1, 2006 and retirees with this same coverage in place.

CAJON VALLEY UNION SCHOOL DISTRICT
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Eligibility for retiree health coverage requires retirement on or after age 55 with at least 10 years of District service. A surviving spouse can continue coverage upon the death of the retiree until they attain age 65 for the same rate the retiree would pay for single coverage. The District currently provides health benefits to approximately 223 retired employees and 1,460 active employees.

Premium Rates

The District joined the Southern California Schools VEBA as of December 1, 2006. The VEBA is considered a community-rated plan. Premium rates may vary by plans selected, coverage tier, and Medicare eligibility. The District currently offers a Kaiser HMO, four United Healthcare HMO plans, a United Healthcare PPO Plan, and a SIMNSA health plan based in Mexico. The District also offers a self insured Delta Dental Plan and a fully insured MetLife Prepaid Dental Plan.

Funding Policy

Beginning in the 2007-08 fiscal year, the District began to accrue the retiree health benefits in accordance with GASB Statement No. 45. The expense is generally accrued over the working career of employees. Under accrual accounting in accordance with GASB Statement No. 45 the District's expense for the fiscal year ended June 30, 2016 was \$1,150,121.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefits (OPEB) cost (expense) is based on the annual required contribution of the employer (ARC). The District's expense is comprised of the present value of benefits accruing in the current year (normal cost) plus a 30 year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

| | |
|--|----------------------|
| Annual required contribution (ARC) | \$ 6,175,881 |
| Interest on Net OPEB obligation | 69,186 |
| Adjustment to ARC | (890,764) |
| Annual OPEB cost | <u>5,354,303</u> |
| Employer contributions | <u>(1,150,121)</u> |
| Increase in Net OPEB obligation | 4,204,182 |
| Net OPEB obligations-beginning of year | 12,011,398 |
| Net OPEB obligations-end of year | <u>\$ 16,215,580</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2014, 2015, and June 30, 2016 are as follows:

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------------------|---------------------|--|---------------------------|
| 2014 | \$ 3,000,202 | 46.73% | \$ 10,520,845 |
| 2015 | 2,974,650 | 49.89% | 12,011,398 |
| 2016 | 5,354,303 | 21.48% | 16,215,580 |

CAJON VALLEY UNION SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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

The following assumptions were made:

Retirement eligibility age: The earliest retirement age assumed for employees is age 55.

Participation rate: 95% of future active employees are assumed to elect retiree health coverage at retirement. Of those electing coverage, approximately 60% are assumed to elect coverage for their spouse. Spouses are assumed to be the same age as the retiree. 20% of eligible (for reimbursement) retirees are assumed to continue on the Kaiser Senior Advantage Plan upon reaching age 65.

Claim cost development: The valuation was based on the medical premiums furnished by the District. The District participates in the Southern California Schools VEBA which was considered a community-rated plan. It was assumed that withdrawal for the District from VEBA would not materially change the premiums charged to the participating employers of the VEBA. The average annual premium costs used in the valuation for an under 65 retiree is \$8,522

Medical trend rates: The expected rate of increase in healthcare insurance premiums ranged from a rate of 7.0 percent initially, reduced to a rate of 5.0 percent after five years, was used.

Actuarial Cost Method: The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the year. All employees eligible as of the measurement date in accordance with the provisions of the plan listed in the data provided by the District were included in the valuation.

Actuarial value of assets: Any assets of the plan will be valued on a market value basis.

R. Risk Management

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. The District has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss and its self-insured dental plan.

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of \$378,662 is included in the liabilities under general long-term debt and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2016 are indicated below:

CAJON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

| Internal Service Fund: | Beginning Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claims Payments and Adjustments | Ending Fiscal Year Liability |
|------------------------|---------------------------------------|---|--|------------------------------------|
| Year 2015-16 | \$ 378,662 | \$ 1,916,478 | \$ 1,916,478 | \$ 378,662 |

S. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

T. Construction Commitments

As of June 30, 2016 the District had the following commitments with respect to unfinished capital projects:

| | Commitment | *Expected Date of Final Completion |
|--|------------|--|
| Construction in Process: | | |
| Security Cameras | \$ 11,000 | September 2017 |
| HVAC | 2,150,759 | October 2017 |
| Technology Infrastructure | 150,819 | December 2017 |
| Lexington Elementary Rebuild | 5,499 | July 2016 |
| Emerald Gym/MPR/Kitchen & Administration | 1,275,872 | December 2016 |
| Fencing | 8,994 | July 2016 |
| Window Replacement | 2,600 | December 2016 |
| Magnolia Classroom/Renovations | 503,209 | September 2017 |

*Expected date of final completion subject to change

U. Subsequent Events

New Accounting Pronouncements

GASB Statement No. 74

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 interperiod equity, and creating additional transparency.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

The District has adopted the provisions of GASB Statement No. 74 effective for the 2016-17 fiscal year.

GASB Statement No. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, Tax Abatement Disclosures. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.

The gross dollar amount of taxes abated during the period.

Commitments made by a government, other than to abate taxes, as a part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

The names of the governments that entered into the agreements

The specific taxes being abated

The gross dollar amount of taxes abated during the period

The District has adopted the provisions of GASB Statement No. 77 effective for the 2016-17 fiscal year.

GASB Statement No. 78

In December 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has adopted the provisions of GASB Statement No. 78 effective for the 2016-17 fiscal year.

GASB Statement No. 79

In December 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 79 Certain External Investment Pools and Pool Participants This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has adopted the provisions of GASB Statement No. 79 effective for the 2016-17 fiscal year.

GASB Statement No. 80

In January 2016 the Governmental Accounting Standards Board (GASB) issued Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District has adopted the provisions of GASB Statement No. 80 effective for the 2016-17 fiscal year.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CAJON VALLEY UNION SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| LCFF Sources: | | | | |
| State Apportionment or State Aid | \$ 87,347,201 | \$ 81,125,241 | \$ 80,827,765 | \$ (297,476) |
| Education Protection Account Funds | 17,975,733 | 20,296,849 | 20,093,202 | (203,647) |
| Local Sources | 24,592,071 | 27,996,411 | 29,013,839 | 1,017,428 |
| Federal Revenue | 10,270,194 | 13,089,413 | 11,206,192 | (1,883,221) |
| Other State Revenue | 7,886,929 | 17,165,931 | 21,502,683 | 4,336,752 |
| Other Local Revenue | 13,101,973 | 17,068,008 | 16,616,351 | (451,657) |
| Total Revenues | <u>161,174,101</u> | <u>176,741,853</u> | <u>179,260,032</u> | <u>2,518,179</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 69,442,686 | 79,737,560 | 72,774,655 | 6,962,905 |
| Classified Salaries | 25,589,254 | 29,508,935 | 27,084,659 | 2,424,276 |
| Employee Benefits | 29,592,307 | 31,928,035 | 33,783,807 | (1,855,772) |
| Books And Supplies | 6,774,193 | 14,479,957 | 7,874,814 | 6,605,143 |
| Services And Other Operating Expenditures | 21,764,814 | 24,000,075 | 18,298,637 | 5,701,438 |
| Other Outgo | 184,418 | 495,554 | 596,066 | (100,512) |
| Direct Support/Indirect Costs | 39 | 383,471 | (477,226) | 860,697 |
| Capital Outlay | 672,589 | 4,351,231 | 4,878,804 | (527,573) |
| Debt Service: | | | | |
| Principal | 373,964 | 374,590 | 374,590 | - |
| Interest | 10,605 | 10,605 | 10,605 | - |
| Total Expenditures | <u>154,404,869</u> | <u>185,270,013</u> | <u>165,199,411</u> | <u>20,070,602</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>6,769,232</u> | <u>(8,528,160)</u> | <u>14,060,621</u> | <u>22,588,781</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (642,840) | (5,142,840) | (7,737,884) | (2,595,044) |
| Other Sources | - | 2,707,444 | - | (2,707,444) |
| Total Other Financing Sources (Uses) | <u>(642,840)</u> | <u>(2,435,396)</u> | <u>(7,737,884)</u> | <u>(5,302,488)</u> |
| Net Change in Fund Balance | 6,126,392 | (10,963,556) | 6,322,737 | 17,286,293 |
| Fund Balance, July 1 | 30,944,649 | 30,944,649 | 30,944,649 | - |
| Fund Balance, June 30 | <u>\$ 37,071,041</u> | <u>\$ 19,981,093</u> | <u>\$ 37,267,386</u> | <u>\$ 17,286,293</u> |

CAJON VALLEY UNION SCHOOL DISTRICTREQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS-OPEB PLAN
YEAR ENDED JUNE 30, 2016

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Estimated Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|--|--|
| 01/01/07 | \$ - | 31,438,536 | 31,438,536 | - | 62,478,000 | 50.3% |
| 01/01/09 | - | 30,257,643 | 30,257,643 | - | 69,420,000 | 43.6% |
| 01/01/11 | - | 26,647,546 | 26,647,546 | - | 75,548,000 | 35.3% |
| 01/01/13 | - | 26,984,990 | 26,984,990 | - | 78,061,000 | 34.6% |
| 01/01/15 | - | 45,036,561 | 45,036,561 | - | 82,855,000 | 54.4% |

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|---|-----------------------|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| District's proportion of the net pension liability (asset) | 0.1436% | 0.1436% | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 96,947,587 | \$ 84,439,002 | \$ N/A |
| State's proportionate share of the net pension liability (asset) associated with the District | 57,140,988 | 53,295,071 | N/A |
| Total | \$ 154,088,575 | \$ 137,734,073 | \$ N/A |
| District's covered-employee payroll | \$ 71,676,272 | \$ 66,356,273 | \$ N/A |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 135.26% | 127.25% | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 74.02% | 75.62% | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first implementation year and as such no information is being presented for years prior to implementation.

See Accompanying Notes to Required Supplementary Information.

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|--|---------------|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Contractually required contribution | \$ 7,690,864 | \$ 5,892,437 | \$ N/A |
| Contributions in relation to contractually required contribution | (7,690,864) | (5,892,437) | N/A |
| Contribution deficiency (excess) | \$ - | \$ - | \$ N/A |
| District's covered-employee payroll | \$ 71,676,272 | \$ 66,356,273 | \$ N/A |
| Contributions as a percentage of covered-employee payroll | 10.73% | 8.88% | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

N/A - 2014-15 was the first year of implementation and as such information is not being presented for years prior to implementation.

See Accompanying Notes to Required Supplementary Information.

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| District's proportion of the net pension liability (asset) | 0.2139% | 0.2149% | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 31,532,007 | \$ 24,400,236 | \$ N/A |
| District's covered-employee payroll | \$ 26,964,379 | \$ 23,789,296 | \$ N/A |
| District's proportionate share of pension liability (asset) as a percentage of its covered-employee payroll | 116.94% | 102.57% | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 79.43% | 83.38% | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first year of implementation and as such years previous to implementation are not presented in this schedule.

See Accompanying Notes to Required Supplementary Information

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|--|---------------|---------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Contractually required contribution | \$ 3,194,470 | \$ 2,800,238 | \$ N/A |
| Contributions in relation to contractually required contribution | (3,194,470) | (2,800,238) | N/A |
| Contribution deficiency (excess) | \$ - | \$ - | \$ N/A |
| District's covered-employee payroll | \$ 26,964,379 | \$ 23,789,296 | \$ N/A |
| Contributions as a percentage of covered-employee payroll | 11.847% | 11.771% | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

N/A - 2014-15 fiscal year was the first year of implementation and as such years previous to implementation are not presented in this schedule.

See Accompanying Notes to Required Supplementary Information.

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

Budgetary Comparison Schedule - General Fund

As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District's Special Reserve Fund for Postemployment Benefits (Fund 20) was included with the General Fund. The Budgetary Comparison Schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only.

| | |
|---|----------------------|
| General Fund - Fund Financial Statements Ending Fund Balance | \$ 41,687,371 |
| Less Fund 20 Fund Balance | <u>(4,419,985)</u> |
| General Fund - Budgetary Comparison Schedule Ending Fund Balance | <u>\$ 37,267,386</u> |
| General Fund - Fund Financial Statements Net Change in Fund Balance | \$ 6,782,716 |
| Change in Fund Balance attributed to Fund 20 | <u>(459,979)</u> |
| General Fund - Budgetary Comparison Schedule Change in Fund Balance | <u>\$ 6,322,737</u> |

Excess of Expenditures Over Appropriations

As of June 30, 2016, expenditures exceeded appropriations in individual budgeted funds as follows:

| <u>Appropriations Category</u> | <u>Excess Expenditures</u> | <u>Reason for Excess Expenditures</u> |
|--------------------------------|----------------------------|---|
| General Fund: | | |
| Employee Benefits | \$ 1,855,772 | Underestimated amount of state on behalf payments |
| Other Outgo | 100,512 | Underestimated amount required for other outgo |
| Capital Outlay | 527,573 | Underestimated amount required for capital outlay |

Schedule of District's Proportionate Share - California State Teachers Retirement System (CalSTRS)

Benefit Changes: In 2015 & 2016 there were no changes to benefits

Changes in Assumptions: In 2015 & 2016 there were no changes in assumptions

Schedule of District's Contributions - California State Teachers Retirement System (CalSTRS)

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014 & June 30, 2015 used the following actuarial methods and assumptions:

| | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> |
|--------------------------------------|------------------------------------|------------------------------------|
| Valuation Date | June 30, 2014 | June 30, 2015 |
| Experience Study | July 1, 2006 through June 30, 2010 | July 1, 2007 through June 30, 2011 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 7.60% | 7.60% |
| Consumer Price Inflation | 3.00% | 3.00% |
| Wage Growth (Average) | 3.75% | 3.75% |
| Post Retirement Benefit Increases | 2.00% Simple | 2.00% Simple |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members using the RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are industry standards of mortality rates published by the Society of Actuaries. See CalSTRS experience analysis published on the CalSTRS website for more information.

Schedule of District's Proportionate Share - California Public Employee's Retirement System (CalPERS)

Benefit Changes: In 2015 & 2016 there were no changes to benefits.

Changes in Assumptions: In 2015 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense.

Schedule of District Contributions - California Public Employee's Retirement System (CalPERS)

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014 & June 30, 2015 used the following actuarial methods and assumptions:

| | <u>Year Ended June 30, 2015</u> | <u>Year Ended June 30, 2016</u> |
|--------------------------------------|------------------------------------|------------------------------------|
| Valuation Date | June 30, 2014 | June 30, 2015 |
| Experience Study | July 1, 1996 through June 30, 2010 | July 1, 1997 through June 30, 2011 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 7.50% | 7.65% |
| Consumer Price Inflation | 2.75% | 2.75% |
| Wage Growth (Average) | 3.00% | 3.00% |
| Post Retirement Benefit Increases | 2.00% Simple | 2.00% - 2.75% |

The mortality table used was developed based on CalPERS specified data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the experience studies available on the CalPERS website.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016

| | Special Revenue Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-3) |
|--------------------------------------|-----------------------------|------------------------------|---|
| ASSETS: | | | |
| Cash in County Treasury | \$ 672,410 | \$ 8,201,659 | \$ 8,874,069 |
| Cash on Hand and in Banks | 841,751 | - | 841,751 |
| Accounts Receivable | 830,266 | 100,576 | 930,842 |
| Due from Other Funds | 1,220 | - | 1,220 |
| Stores Inventories | 189,243 | - | 189,243 |
| Total Assets | <u>2,534,890</u> | <u>8,302,235</u> | <u>10,837,125</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 63,991 | \$ 213 | \$ 64,204 |
| Due to Other Funds | 757,806 | 20,900 | 778,706 |
| Unearned Revenue | 24,654 | - | 24,654 |
| Total Liabilities | <u>846,451</u> | <u>21,113</u> | <u>867,564</u> |
| Fund Balance: | | | |
| Nonspendable Fund Balances: | | | |
| Stores Inventories | 189,243 | - | 189,243 |
| Restricted Fund Balances | 1,062,305 | - | 1,062,305 |
| Committed Fund Balances | 436,891 | - | 436,891 |
| Assigned Fund Balances | - | 8,281,122 | 8,281,122 |
| Total Fund Balance | <u>1,688,439</u> | <u>8,281,122</u> | <u>9,969,561</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,534,890</u> | <u>\$ 8,302,235</u> | <u>\$ 10,837,125</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

| | Special Revenue Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-5) |
|--|-----------------------------|------------------------------|---|
| Revenues: | | | |
| Federal Revenue | \$ 7,218,513 | \$ - | \$ 7,218,513 |
| Other State Revenue | 2,436,732 | - | 2,436,732 |
| Other Local Revenue | 885,488 | 1,012,031 | 1,897,519 |
| Total Revenues | <u>10,540,733</u> | <u>1,012,031</u> | <u>11,552,764</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction | 1,592,471 | - | 1,592,471 |
| Instruction - Related Services | 216,914 | - | 216,914 |
| Pupil Services | 8,095,834 | - | 8,095,834 |
| General Administration | 477,226 | - | 477,226 |
| Plant Services | 89,751 | 18,086 | 107,837 |
| Capital Outlay | 573,736 | 1,035,732 | 1,609,468 |
| Total Expenditures | <u>11,045,932</u> | <u>1,053,818</u> | <u>12,099,750</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(505,199)</u> | <u>(41,787)</u> | <u>(546,986)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | - | 5,000,000 | 5,000,000 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Net Change in Fund Balance | (505,199) | 4,958,213 | 4,453,014 |
| Fund Balance, July 1 | 2,193,638 | 3,322,909 | 5,516,547 |
| Fund Balance, June 30 | <u>\$ 1,688,439</u> | <u>\$ 8,281,122</u> | <u>\$ 9,969,561</u> |

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2016

| | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-1) |
|--------------------------------------|------------------------------|---------------------|---------------------------------|---|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 85,617 | \$ 150,529 | \$ 436,264 | \$ 672,410 |
| Cash on Hand and in Banks | - | 841,751 | - | 841,751 |
| Accounts Receivable | 218,393 | 611,246 | 627 | 830,266 |
| Due from Other Funds | 860 | 360 | - | 1,220 |
| Stores Inventories | - | 189,243 | - | 189,243 |
| Total Assets | <u>304,870</u> | <u>1,793,129</u> | <u>436,891</u> | <u>2,534,890</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 12,933 | \$ 51,058 | \$ - | \$ 63,991 |
| Due to Other Funds | 291,934 | 465,872 | - | 757,806 |
| Unearned Revenue | - | 24,654 | - | 24,654 |
| Total Liabilities | <u>304,867</u> | <u>541,584</u> | <u>-</u> | <u>846,451</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances: | | | | |
| Stores Inventories | - | 189,243 | - | 189,243 |
| Restricted Fund Balances | 3 | 1,062,302 | - | 1,062,305 |
| Committed Fund Balances | - | - | 436,891 | 436,891 |
| Total Fund Balance | <u>3</u> | <u>1,251,545</u> | <u>436,891</u> | <u>1,688,439</u> |
| Total Liabilities and Fund Balances | <u>\$ 304,870</u> | <u>\$ 1,793,129</u> | <u>\$ 436,891</u> | <u>\$ 2,534,890</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

| | Child Development Fund | Cafeteria Fund | Deferred Maintenance Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-2) |
|--|------------------------------|---------------------|---------------------------------|---|
| Revenues: | | | | |
| Federal Revenue | \$ - | \$ 7,218,513 | \$ - | \$ 7,218,513 |
| Other State Revenue | 1,869,640 | 567,092 | - | 2,436,732 |
| Other Local Revenue | 1,883 | 880,193 | 3,412 | 885,488 |
| Total Revenues | <u>1,871,523</u> | <u>8,665,798</u> | <u>3,412</u> | <u>10,540,733</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 1,592,471 | - | - | 1,592,471 |
| Instruction - Related Services | 216,914 | - | - | 216,914 |
| Pupil Services | - | 8,095,834 | - | 8,095,834 |
| General Administration | 65,885 | 411,341 | - | 477,226 |
| Plant Services | - | 68,854 | 20,897 | 89,751 |
| Capital Outlay | - | 61,829 | 511,907 | 573,736 |
| Total Expenditures | <u>1,875,270</u> | <u>8,637,858</u> | <u>532,804</u> | <u>11,045,932</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(3,747)</u> | <u>27,940</u> | <u>(529,392)</u> | <u>(505,199)</u> |
| Net Change in Fund Balance | (3,747) | 27,940 | (529,392) | (505,199) |
| Fund Balance, July 1 | 3,750 | 1,223,605 | 966,283 | 2,193,638 |
| Fund Balance, June 30 | <u>\$ 3</u> | <u>\$ 1,251,545</u> | <u>\$ 436,891</u> | <u>\$ 1,688,439</u> |

CAJON VALLEY UNION SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2016

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-1) |
|--------------------------------------|-------------------------------|-------------------------------|--|
| ASSETS: | | | |
| Cash in County Treasury | \$ 1,263,762 | \$ 6,937,897 | \$ 8,201,659 |
| Accounts Receivable | 96,538 | 4,038 | 100,576 |
| Total Assets | <u>1,360,300</u> | <u>6,941,935</u> | <u>8,302,235</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 213 | \$ - | \$ 213 |
| Due to Other Funds | 20,900 | - | 20,900 |
| Total Liabilities | <u>21,113</u> | <u>-</u> | <u>21,113</u> |
| Fund Balance: | | | |
| Assigned Fund Balances | 1,339,187 | 6,941,935 | 8,281,122 |
| Total Fund Balance | <u>1,339,187</u> | <u>6,941,935</u> | <u>8,281,122</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,360,300</u> | <u>\$ 6,941,935</u> | <u>\$ 8,302,235</u> |

CAJON VALLEY UNION SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-2) |
|--|-------------------------------|-------------------------------|--|
| Revenues: | | | |
| Other Local Revenue | \$ 1,001,196 | \$ 10,835 | \$ 1,012,031 |
| Total Revenues | <u>1,001,196</u> | <u>10,835</u> | <u>1,012,031</u> |
| Expenditures: | | | |
| Current: | | | |
| Plant Services | 18,086 | - | 18,086 |
| Capital Outlay | 1,035,732 | - | 1,035,732 |
| Total Expenditures | <u>1,053,818</u> | <u>-</u> | <u>1,053,818</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(52,622)</u> | <u>10,835</u> | <u>(41,787)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | - | 5,000,000 | 5,000,000 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Net Change in Fund Balance | (52,622) | 5,010,835 | 4,958,213 |
| Fund Balance, July 1 | 1,391,809 | 1,931,100 | 3,322,909 |
| Fund Balance, June 30 | <u>\$ 1,339,187</u> | <u>\$ 6,941,935</u> | <u>\$ 8,281,122</u> |

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

CAJON VALLEY UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2016

The Cajon Valley Union School District is located in eastern San Diego County and serves kindergarten through eighth grade students in the City of El Cajon and communities of Crest, Mount Helix, and Rancho San Diego. The district covers an area of approximately 66.3 square miles and had no change in its boundaries during the year. The district operates nineteen elementary schools, six middle schools, one early childhood school, one home school, one community day school, and twelve state preschools.

Governing Board

| <u>Name</u> | <u>Office</u> | <u>Term and Term Expiration</u> |
|--------------------|----------------|---|
| Tamara Otero | President | Four Year Term Expires December 2018 |
| Justin A. Slagle | Vice President | Four Year Term Expires December 2016 |
| Jo Alegria | Clerk | Four Year Term Expires December 2018 |
| Suzanne M. Mullins | Member | Four Year Term Expires December 2016 |
| Jill D. Barto | Member | Four Year Term Expires December 2018 |

Administration

David Miyashiro, Ed.D
Superintendent

Kari Hull
Assistant Superintendent
Educational Services

Michelle Hayes
Assistant Superintendent
Personnel Services

Scott Buxbaum
Assistant Superintendent
Business Services

CAJON VALLEY UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
 YEAR ENDED JUNE 30, 2016

TABLE D-1

| | Second Period Report | | Annual Report | |
|---------------------------------|----------------------|------------|------------------|------------|
| | Original | Revised | Original | Revised |
| TK/K-3: | | | | |
| Regular ADA | 6,848.58 | N/A | 6,879.30 | N/A |
| Extended Year Special Education | 11.19 | N/A | 11.19 | N/A |
| Nonpublic, Nonsectarian Schools | 5.54 | N/A | 6.38 | N/A |
| Extended Year - Nonpublic | 1.01 | N/A | 1.01 | N/A |
| Community Day School | 0.53 | N/A | 0.49 | N/A |
| TK/K-3 Totals | <u>6,866.85</u> | <u>N/A</u> | <u>6,898.37</u> | <u>N/A</u> |
| Grades 4-6: | | | | |
| Regular ADA | 5,223.58 | N/A | 5,221.23 | N/A |
| Extended Year Special Education | 6.83 | N/A | 6.83 | N/A |
| Nonpublic, Nonsectarian Schools | 7.67 | N/A | 6.99 | N/A |
| Extended Year - Nonpublic | 1.17 | N/A | 1.17 | N/A |
| Community Day School | 4.20 | N/A | 5.56 | N/A |
| Grades 4-6 Totals | <u>5,243.45</u> | <u>N/A</u> | <u>5,241.78</u> | <u>N/A</u> |
| Grades 7 and 8: | | | | |
| Regular ADA | 3,271.52 | N/A | 3,266.98 | N/A |
| Extended Year Special Education | 2.96 | N/A | 2.96 | N/A |
| Nonpublic, Nonsectarian Schools | 5.08 | N/A | 4.04 | N/A |
| Extended Year - Nonpublic | 0.67 | N/A | 0.67 | N/A |
| Community Day School | 10.34 | N/A | 11.35 | N/A |
| Grades 7 and 8 Totals | <u>3,290.57</u> | <u>N/A</u> | <u>3,286.00</u> | <u>N/A</u> |
| ADA Totals | <u>15,400.87</u> | <u>N/A</u> | <u>15,426.15</u> | <u>N/A</u> |

N/A - There were no audit findings which resulted in necessary revisions to attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the district or charter school. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2016

TABLE D-2

| Grade Level | Ed. Code 46207 Minutes Requirement | 2015-16 Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---------------------------|---|--------------------|--|---|----------|
| Transitional Kindergarten | 36,000 | 52,200 | 180 | - | Complied |
| Kindergarten | 36,000 | 52,200 | 180 | - | Complied |
| Grade 1 | 50,400 | 52,500 | 180 | - | Complied |
| Grade 2 | 50,400 | 52,500 | 180 | - | Complied |
| Grade 3 | 50,400 | 52,500 | 180 | - | Complied |
| Grade 4 | 54,000 | 54,100 | 180 | - | Complied |
| Grade 5 | 54,000 | 54,100 | 180 | - | Complied |
| Grade 6 | 54,000 | 57,825 | 180 | - | Complied |
| Grade 7 | 54,000 | 57,825 | 180 | - | Complied |
| Grade 8 | 54,000 | 57,825 | 180 | - | Complied |

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts, including basic aid districts.

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

CAJON VALLEY UNION SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2016

TABLE D-3

| General Fund | Budget 2017 (See Note 1) | 2016 | 2015 | 2014 |
|--|--------------------------------|-----------------------|-----------------------|-----------------------|
| Revenues and other financial sources | \$ 166,851,385 | \$ 179,260,032 | \$ 146,859,949 | \$ 133,935,495 |
| Expenditures, other uses and transfers out | 166,850,495 | 172,937,295 | 144,608,810 | 133,516,268 |
| Change in fund balance (deficit) | 890 | 6,322,737 | 2,251,139 | 419,227 |
| Ending fund balance | <u>\$ 37,268,276</u> | <u>\$ 37,267,386</u> | <u>\$ 30,944,649</u> | <u>\$ 28,693,510</u> |
| Available reserves (See Note 2) | <u>\$ 28,667,930</u> | <u>\$ 28,252,993</u> | <u>\$ 23,679,030</u> | <u>\$ 20,515,540</u> |
| Available reserves as a percentage of total outgo (See Note 3) | <u>17.2%</u> | <u>16.8%</u> | <u>16.4%</u> | <u>15.4%</u> |
| Total long-term debt (See Note 5) | <u>\$ 336,331,094</u> | <u>\$ 345,308,887</u> | <u>\$ 307,583,080</u> | <u>\$ 184,472,784</u> |
| Average daily attendance at P-2 | <u>15,400</u> | <u>15,401</u> | <u>15,408</u> | <u>15,331</u> |

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.

The fund balance of the general fund has increased by \$6,186,734 over the past three years. The fiscal year 2016-17 budget projects an increase of \$890. For a district of this size, the State recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$195,827,681 over the past three years.

Average daily attendance (ADA) has increased by 293 over the past three years.

Notes:

- 1 Budget 2017 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all assigned fund balances, all unassigned fund balances, and all funds reserved for economic uncertainties contained within the General Fund.
- 3 On behalf payments of \$4,577,080, \$3,459,812, and \$3,342,619, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.
- 4 As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District's Special Reserve Fund for Postemployment Benefits (Fund 20) is included with the General Fund. The above Schedule of Financial Trends and Analysis contains only the financial information of the General Fund.
- 5 As a result of implementation of GASB Statement No. 68, long term liabilities for the year ended June 30, 2015 and June 30, 2016 include net pension liabilities which were not previously accounted for. As such, total long term debt for the year ended June 30, 2015 and June 30, 2016 are not comparable to previous years represented in this table.

CAJON VALLEY UNION SCHOOL DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

TABLE D-4

| | General Fund | Special Reserve Fund for Other Post Employment Benefits | Self Insurance Fund |
|---|-----------------------------|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| June 30, 2016, annual financial and budget report fund balances/net position | \$ 37,267,386 | \$ 4,419,985 | \$ 5,237,339 |
| Adjustments and reclassifications: | | | |
| Increasing (decreasing) the fund balance: | | | |
| GASB #54 Fund Presentation | 4,419,985 | (4,419,985) | - |
| GASB #45 Inclusion of OPEB Obligation | - | - | (3,104) |
| GASB #68 Inclusion of Net Pension Liability and Related Deferred Inflows and Outflows of Resources | - | - | (22,573) |
| Net adjustments and reclassifications | <u>4,419,985</u> | <u>(4,419,985)</u> | <u>(25,677)</u> |
| June 30, 2016, audited financial statement fund balances/net position | <u>\$ 41,687,371</u> | <u>\$ -</u> | <u>\$ 5,211,662</u> |
| Schedule of Long-Term Liabilities | | | |
| June 30, 2016, annual financial and budget report total liabilities | <u>\$ 389,959,058</u> | | |
| Adjustments and reclassifications: | | | |
| Increase (decrease) in total liabilities: | | | |
| Net pension liability overstatement | (57,140,992) | | |
| Net OPEB obligation understatement | 1,398,097 | | |
| Bond premium understatement | 10,590,626 | | |
| Accreted interest understatement | 1,822,098 | | |
| General obligation bonds overstatement | <u>(1,320,000)</u> | | |
| Net adjustments and reclassifications | <u>(44,650,171)</u> | | |
| June 30, 2016, audited financial statement total liabilities | <u>\$ 345,308,887</u> | | |

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

The following charter schools are chartered by Cajon Valley Union School District:

| <u>Charter Schools</u> | <u>Included In Audit?</u> |
|---------------------------------------|-------------------------------|
| EJE Elementary Academy Charter School | No |
| EJE Middle Academy Charter School | No |

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

TABLE D-6
 Page 1 of 2

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass- Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|---------------------------|---|---------------------------------------|-------------------------|
| CHILD NUTRITION CLUSTER: | | | | |
| <u>U. S. Department of Agriculture</u> | | | | |
| Passed Through California Department of Education: | | | | |
| School Breakfast Program | 10.553 | 13526 | \$ - | \$ 1,719,426 |
| National School Lunch Program Section 4 | 10.555 | 13391 | - | 740,300 |
| National School Lunch Program Noncash Commodities | 10.555 | 13396 | - | 114,941 |
| National School Lunch Program Section 11 | 10.555 | 13396 | - | 4,440,345 |
| National School Lunch Program Meal Supplement | 10.555 | 23165 | - | 144,646 |
| Total Passed Through California Department of Education | | | - | 7,159,658 |
| Total U. S. Department of Agriculture | | | - | 7,159,658 |
| Total Child Nutrition Cluster | | | - | 7,159,658 |
| FISH AND WILDLIFE CLUSTER: | | | | |
| <u>U. S. Department of the Interior</u> | | | | |
| Direct Program: | | | | |
| Wild Life Restoration | 15.611 | - | - | 7,053 |
| Total U. S. Department of the Interior | | | - | 7,053 |
| Total Fish and Wildlife Cluster | | | - | 7,053 |
| MEDICAID CLUSTER: | | | | |
| <u>U. S. Department of Health and Human Services</u> | | | | |
| Direct Programs: | | | | |
| Medi-Cal Billing Option | 93.778 | - | - | 796,641 |
| Medi-Cal MAA | 93.778 | - | - | 58,154 |
| Total Direct Programs | | | - | 854,795 |
| Total U. S. Department of Health and Human Services | | | - | 854,795 |
| Total Medicaid Cluster | | | - | 854,795 |
| SPECIAL EDUCATION (IDEA) CLUSTER: | | | | |
| <u>U. S. Department of Education</u> | | | | |
| Passed Through California Department of Education: | | | | |
| IDEA Basic | 84.027 | 13379 | - | 2,870,151 |
| IDEA Preschool Local | 84.027 | 13682 | - | 411,887 |
| IDEA Mental Health | 84.027 | 14468 | - | 77,790 |
| IDEA Preschool | 84.173 | 13430 | - | 238,940 |
| IDEA Preschool Staff Development | 84.173 | 13431 | - | 1,600 |
| Total Passed Through California Department of Education | | | - | 3,600,368 |
| Total U. S. Department of Education | | | - | 3,600,368 |
| Total Special Education (IDEA) Cluster | | | - | 3,600,368 |
| OTHER PROGRAMS: | | | | |
| <u>U. S. Department of Education</u> | | | | |
| Direct Program: | | | | |
| Supportive Schools - Successful Students | 84.215 | - | - | 393,106 |
| Passed Through California Department of Education: | | | | |
| Title I Part A | 84.010 | 14416 | - | 4,936,296 |
| Early Intervention | 84.181 | 23761 | - | 28,974 |
| Title III Limited English Proficiency | 84.365 | 14346 | - | 544,246 |
| Title III Immigrant Education | 84.365 | 15146 | - | 261,262 |
| Title II Teacher Quality | 84.367 | 14341 | 27,484 | 739,477 |
| Total Passed Through California Department of Education | | | 27,484 | 6,510,255 |
| Total U. S. Department of Education | | | 27,484 | 6,903,361 |

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass- Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|---------------------------|---|---------------------------------------|-------------------------|
| <u>U. S. Department of Agriculture</u> | | | | |
| Passed Through California Department of Education: | | | | |
| Child Nutrition Equipment Assistance | 10.579 | 14906 | - | 58,854 |
| Total U. S. Department of Agriculture | | | - | 58,854 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 27,484 | \$ 18,584,089 |

The accompanying notes are an integral part of this schedule.

CAJON VALLEY UNION SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2016

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cajon Valley Union School 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 (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect Cost Rate

Indirect costs were calculated in accordance with 2 CFR §200.412 Direct and Indirect Costs. The District used an indirect cost rate of 5.66% based on the rate approved by the California Department of Education for each program which did not have a pre-defined allowable indirect cost rate. The District did not elect to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect Costs. The following programs utilized a lower indirect cost rate based on program restrictions or other factors determined by the District:

| <u>Program</u> | <u>CFDA #</u> | <u>Indirect Cost Rate</u> |
|---------------------------------------|----------------|-----------------------------------|
| Child Nutrition Cluster | 10.553, 10.555 | 5.11% |
| Title III Limited English Proficiency | 84.365 | 2.00% |
| IDEA Mental Health | 84.027 | 4.81% |
| Early Intervention | 84.181 | 3.48% |
| Supportive Schools | 84.215 | 4.25% |

Schoolwide Program

The District operates "schoolwide programs" at thirteen school sites. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limiting services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide program:

| <u>Program</u> | <u>CFDA #</u> | <u>Amount Expended</u> |
|----------------|---------------|----------------------------|
| Title I Part A | 84.010 | \$2,095,357 |

Other 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

Board of Trustees
Cajon Valley Union School District
El Cajon, California

Members of the Board of Trustees:

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 Cajon Valley Union School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Cajon Valley Union School District's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cajon Valley Union 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*.

Purpose of this Report

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

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 15, 2016

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Cajon Valley Union School District
El Cajon, California

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 15, 2016

Independent Auditor's Report on State Compliance

Board of Trustees
Cajon Valley Union School District
El Cajon, California

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2016.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810. 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 State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

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

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform testing for Independent Study. The procedures were not required to be performed since the ADA was below the level which required testing.

Opinion on State Compliance

In our opinion, Cajon Valley Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2016.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co., LLP

El Cajon, California
December 15, 2016

Findings and Recommendations Section

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 10.553, 10.555 | Child Nutrition Cluster |

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

Auditee qualified as low-risk auditee? X Yes No

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting? Yes X No

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

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

None

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

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|---|-----------------------|--|
| There were no audit findings for the 2014-15 fiscal year. | | |