

MILPITAS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2018

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Milpitas Unified School District
Milpitas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milpitas Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Milpitas Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milpitas Unified School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This resulted in a restatement of the beginning net position of \$(15,110,258). Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 9, the General Fund Budgetary Comparison Schedule, the Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 45 to 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018 on our consideration of Milpitas Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Milpitas Unified School District's internal control over financial reporting and compliance.



Crowe LLP

Sacramento, California
December 3, 2018

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

This discussion and analysis of Milpitas Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial position increased by 2.46% to (\$19.2) million compared to last year, this included (\$ 15.1) million from the cumulative effect of GASB 75 implementation.
- Total governmental revenues were \$137.8 million, \$1.9 million more than the previous year due to the increase of \$1.7 million in General fund and \$0.2 million in all other funds.
- The District's combined fund balances decreased by \$11.1 million, primarily due to \$1.0 million decrease in General fund, \$9.1 million decrease due to the purchase of building improvements and land, and a \$1.0 million decrease in other funds.
- The total cost of basic programs was \$138.3 million. Due to a portion of these costs being paid from charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$108.9 million.
- Average daily attendance (grades K-12) decreased by 1 ADA, or 0.09%.

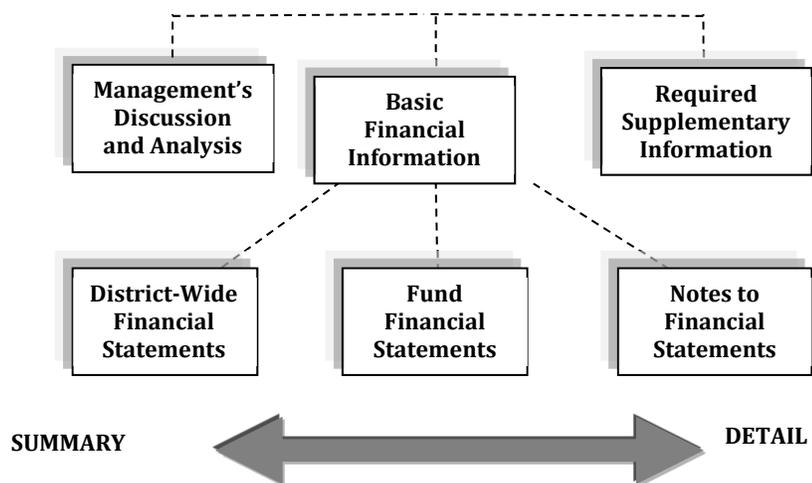
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

MILPITAS UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position was higher on June 30, 2018, than it was the year before – increasing 2.46% to (\$19.2) million (See Table A-1).

Table A-1

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Current assets	109,750,207	118,975,226	(9,225,019)
Capital assets	118,434,926	118,033,174	401,752
Total assets	228,185,133	237,008,400	(8,823,267)
Total deferred outflows	35,196,160	21,362,704	13,833,456
Current liabilities	17,942,229	18,154,436	(212,207)
Long-term liabilities	256,733,436	256,949,859	14,893,835
Total liabilities	274,675,665	275,104,295	14,681,628
Total deferred inflows	7,871,519	2,917,000	4,954,519
Net position			
Net investment in capital assets	49,547,959	41,780,366	7,767,593
Restricted	16,183,847	20,710,909	(4,527,062)
Unrestricted	(84,897,697)	(82,141,466)	(17,866,489)
Total net position	(19,165,891)	(19,650,191)	484,300

Changes in net position, governmental activities. The District's total revenues increased 1.42% to \$137.8 million (See Table A-2). The increase is due primarily to higher LCFF apportionment and one-time discretionary funding.

The total cost of all programs and services increased 1.93% to \$138.3 million. The District's expenses are predominantly related to educating and caring for students, 77.8%. The purely administrative activities of the District accounted for just 3.02% of total costs. A significant contributor to the increase in costs was instruction.

Table A-2

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Total Revenues	137,830,239	135,900,923	1,929,316
Total Expenses	138,308,940	135,689,767	2,619,173
Increase (Decrease) in net position	(478,701)	211,156	(689,857)

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$57.1 million, which is below last year's ending fund balance of \$68.2 million. The primary cause of the decreased fund balance is Building improvement.

General Fund Budgetary Highlights

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

- Revenues – increased by \$1.9 million primarily to reflect \$1.7 million in LCFF revenue and \$0.2 million in other funds.
- Salaries and benefits costs – stayed consistent with the final budget.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by approximately \$2.4 million (before transfers in/out), the actual results for the year show that expenditures exceeded revenue by roughly \$1.0 million. Actual revenues received were \$1.3 million less than anticipated, and expenditures were \$3.8 million less than budgeted. That amount consists primarily of categorical (unrestricted and restricted) program dollars that were not spent as of June 30, 2018 that will be carried over into the 2018-19 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018-19 the District had invested \$8.2 million in new capital assets, related to land and building improvements, net of accumulated depreciation. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year exceeded \$8.2 million.

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
Land	22,771,808	22,771,808	0
Building and improvements	102,617,693	106,804,663	(4,186,970)
Furniture and equipment	15,817,233	11,228,511	4,588,722
Construction in progress	19,938,595	12,151,004	7,787,591
Total	161,145,329	152,955,986	8,189,343

MILPITAS UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$262.9 million in general obligation bonds, capital leases and employment benefits – an increase of \$21.0 million – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements).

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

	Governmental Activities		Variance Increase (Decrease)
	2018	2017	
General obligation bonds	110,375,185	115,644,010	(5,268,825)
Certificates of participation	13,494,268	14,140,540	(646,272)
Due to Santa Clara County	72,993	97,324	(24,331)
Other postemployment benefits	19,164,955	5,002,898	14,162,057
Net pension liability	119,392,000	106,514,000	12,878,000
Compensated absences	353,056	440,829	(87,773)
Total	262,852,457	241,839,601	21,012,856

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 61,847,636
Receivables	4,656,572
Prepaid expenses	203,588
Stores inventory	332,008
Non-depreciable capital assets (Note 4)	42,710,403
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>118,434,926</u>
Total assets	<u>228,185,133</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 7 and 8)	33,979,367
Deferred outflows of resources - OPEB (Note 9)	584,942
Deferred loss on refunding of debt	<u>631,851</u>
Total deferred outflows	<u>35,196,160</u>
LIABILITIES	
Accounts payable	9,589,507
Unearned revenue	2,233,701
Long-term liabilities (Note 5):	
Due within one year	6,119,021
Due after one year	<u>256,733,436</u>
Total liabilities	<u>274,675,665</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 7 and 8)	7,276,000
Deferred inflows of resources - OPEB (Note 9)	<u>595,519</u>
Total deferred inflows	<u>7,871,519</u>
NET POSITION	
Net investment in capital assets	49,547,959
Restricted:	
Legally restricted programs	4,285,895
Capital projects	4,601,055
Debt service	7,296,897
Unrestricted	<u>(84,897,697)</u>
Total net position	<u>\$ (19,165,891)</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Change in Net Position
<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	<u>Governmental Activities</u>	
Governmental activities:					
Instruction	\$ 82,962,469	\$ 82,907	\$ 14,367,660	\$ -	\$ (68,511,902)
Instruction-related services:					
Supervision of instruction	5,249,568	5	1,704,359	-	(3,545,204)
Instructional library, media and technology	156,652	-	14,015	-	(142,637)
School site administration	9,663,688	14,956	1,294,883	-	(8,353,849)
Pupil services:					
Home-to-school transportation	496,650	-	-	-	(496,650)
Food services	3,644,945	1,339,684	2,050,903	-	(254,358)
All other pupil services	5,445,283	3,151	813,252	-	(4,628,880)
General administration:					
Data processing	1,346,057	-	12,146	-	(1,333,911)
All other general administration	4,183,835	1,819	268,199	-	(3,913,817)
Plant services	14,492,803	65,574	191,468	-	(14,235,761)
Ancillary services	423,316	-	19,156	-	(404,160)
Community services	-	-	-	-	-
Other outgo	6,476,290	4,849,618	2,321,871	-	695,199
Interest on long-term liabilities	3,767,384	-	-	-	(3,767,384)
	<u>\$ 138,308,940</u>	<u>\$ 6,357,714</u>	<u>\$ 23,057,912</u>	<u>\$ -</u>	<u>(108,893,314)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					68,626,655
Taxes levied for debt service					8,993,737
Taxes levied for other specific purposes					5,492,086
Federal and state aid not restricted to specific purposes					23,694,202
Interest and investment earnings					442,950
Miscellaneous					<u>2,127,984</u>
					Total general revenues
					<u>109,377,614</u>
					Change in net position
					484,300
					Net position, July 1, 2017, as originally stated
					<u>(4,539,933)</u>
					Cumulative effect of GASB 75 implementation
					<u>(15,110,258)</u>
					Net position, July 1, 2017, as restated
					<u>(19,650,191)</u>
					Net position, June 30, 2018
					<u>\$ (19,165,891)</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 34,332,029	\$ 13,362,736	\$ 6,043,758	\$ 7,279,741	\$ 687,484	\$ 61,705,748
Cash on hand and in banks	122,790	-	-	-	-	122,790
Cash in revolving fund	15,000	-	-	-	4,098	19,098
Receivables	1,629,278	558,177	36,536	17,156	2,415,425	4,656,572
Due from other funds	1,314,040	981,522	2,696,197	-	166,789	5,158,548
Stores inventory	244,101	-	-	-	87,907	332,008
Prepaid expenditures	<u>157,442</u>	<u>-</u>	<u>44,445</u>	<u>-</u>	<u>1,701</u>	<u>203,588</u>
Total assets	<u>\$ 37,814,680</u>	<u>\$ 14,902,435</u>	<u>\$ 8,820,936</u>	<u>\$ 7,296,897</u>	<u>\$ 3,363,404</u>	<u>\$ 72,198,352</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 3,714,426	\$ 326,631	\$ 3,538,359	\$ -	\$ 152,821	\$ 7,732,237
Unearned revenue	2,229,235	-	-	-	4,466	2,233,701
Due to other funds	<u>163,666</u>	<u>2,935,572</u>	<u>681,522</u>	<u>-</u>	<u>1,377,788</u>	<u>5,158,548</u>
Total liabilities	<u>6,107,327</u>	<u>3,262,203</u>	<u>4,219,881</u>	<u>-</u>	<u>1,535,075</u>	<u>15,124,486</u>
Fund balances:						
Nonspendable	416,543	-	44,445	-	93,706	554,694
Restricted	2,457,566	11,640,232	4,556,610	7,296,897	1,734,623	27,685,928
Assigned	9,817,466	-	-	-	-	9,817,466
Unassigned	<u>19,015,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,015,778</u>
Total fund balances	<u>31,707,353</u>	<u>11,640,232</u>	<u>4,601,055</u>	<u>7,296,897</u>	<u>1,828,329</u>	<u>57,073,866</u>
Total liabilities and fund balances	<u>\$ 37,814,680</u>	<u>\$ 14,902,435</u>	<u>\$ 8,820,936</u>	<u>\$ 7,296,897</u>	<u>\$ 3,363,404</u>	<u>\$ 72,198,352</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - Governmental Funds	\$	57,073,866
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$276,960,107 and the accumulated depreciation is \$115,814,778 (Note 4).		
		161,145,329
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.		
		(1,857,270)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2018 consisted of (Note 5):		
General Obligation Bonds	\$ (100,930,000)	
Unamortized premiums	(9,445,185)	
Certificates of Participation	(13,494,268)	
Due to Santa Clara County Office of Education (SCCOE)	(72,993)	
Total OPEB liability (Note 9)	(19,164,955)	
Net pension liability (Notes 7 and 8)	(119,392,000)	
Compensated absences	<u>(353,056)</u>	
		(262,852,457)
Losses on refundings of debt are categorized as deferred outflows and are amortized over the life of the related debt.		
		631,851
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources relating to pensions	\$ 33,979,367	
Deferred inflows of resources relating to pensions	<u>(7,276,000)</u>	
		<u>26,703,367</u>
In government funds, deferred outflows and inflows relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows relating to OPEB are reported.		
Deferred outflows of resources relating to OPEB	\$ 584,942	
Deferred inflows of resources relating to OPEB	<u>(595,519)</u>	
		<u>(10,577)</u>
Total net position - governmental activities		<u>\$ (19,165,891)</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
Revenues:						
Local Control Funding Formula (LCFF):						
State apportionment	\$ 19,912,678	\$ -	\$ -	\$ -	\$ -	\$ 19,912,678
Local sources	<u>68,622,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,622,536</u>
Total LCFF	<u>88,535,214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,535,214</u>
Federal sources	3,348,699	-	-	-	2,363,967	5,712,666
Other state sources	10,507,539	-	-	33,772	3,905,761	14,447,072
Other local sources	<u>9,005,410</u>	<u>5,945,785</u>	<u>3,396,614</u>	<u>9,004,948</u>	<u>1,782,530</u>	<u>29,135,287</u>
Total revenues	<u>111,396,862</u>	<u>5,945,785</u>	<u>3,396,614</u>	<u>9,038,720</u>	<u>8,052,258</u>	<u>137,830,239</u>
Expenditures:						
Current:						
Certificated salaries	52,689,794	-	-	-	2,868,108	55,557,902
Classified salaries	14,486,619	355,046	20,953	-	2,470,531	17,333,149
Employee benefits	24,860,295	144,049	8,385	-	2,142,371	27,155,100
Books and supplies	5,174,807	976,593	1,391	-	1,347,436	7,500,227
Contract services and operating expenditures	9,162,845	705,899	95,272	-	327,029	10,291,045
Other outgo	6,279,665	-	-	-	-	6,279,665
Capital outlay	72,132	8,170,776	6,182,257	-	286,887	14,712,052
Debt service:						
Principal retirement	646,272	-	-	4,505,000	-	5,151,272
Interest	<u>392,267</u>	<u>-</u>	<u>-</u>	<u>4,582,189</u>	<u>-</u>	<u>4,974,456</u>
Total expenditures	<u>113,764,696</u>	<u>10,352,363</u>	<u>6,308,258</u>	<u>9,087,189</u>	<u>9,442,362</u>	<u>148,954,868</u>
Deficiency of revenues under expenditures	<u>(2,367,834)</u>	<u>(4,406,578)</u>	<u>(2,911,644)</u>	<u>(48,469)</u>	<u>(1,390,104)</u>	<u>(11,124,629)</u>
Other financing sources (uses):						
Transfers in	1,543,331	-	-	-	494,493	2,037,824
Transfers out	<u>(194,493)</u>	<u>(1,750,000)</u>	<u>-</u>	<u>-</u>	<u>(93,331)</u>	<u>(2,037,824)</u>
Total other financing sources (uses)	<u>1,348,838</u>	<u>(1,750,000)</u>	<u>-</u>	<u>-</u>	<u>401,162</u>	<u>-</u>
Change in fund balances	(1,018,996)	(6,156,578)	(2,911,644)	(48,469)	(988,942)	(11,124,629)
Fund balances, July 1, 2017	<u>32,726,349</u>	<u>17,796,810</u>	<u>7,512,699</u>	<u>7,345,366</u>	<u>2,817,271</u>	<u>68,198,495</u>
Fund balances, June 30, 2018	<u>\$ 31,707,353</u>	<u>\$ 11,640,232</u>	<u>\$ 4,601,055</u>	<u>\$ 7,296,897</u>	<u>\$ 1,828,329</u>	<u>\$ 57,073,866</u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Net change in fund balances - Total Governmental Funds	\$ (11,124,629)
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	16,438,392
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(8,249,049)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 5).	5,175,603
In governmental funds, debt issued at a premium is recognized as an other financing source. In the government-wide statements debt issued at a premium is amortized as interest over the life of the debt (Note 5)	763,825
In governmental funds, deferred outflows or inflows from the refunding of debt are not recognized. In the government-wide statements, losses incurred from the refunding of debt are deferred and amortized over the shorter of the life of the new refunding or the refunded debt.	(196,625)
In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	443,247
In government funds, other postemployment benefits (OPEB) costs are recognized as expenditures in the period they are paid. In the statement of activities, OPEB costs are recognized on the accrual basis. The net increase in the total OPEB liability was (Note 9):	937,624
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:	(3,791,861)
In the statement of activities, expenditures related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5).	<u>87,773</u>
Change in net position of governmental activities	<u><u>\$ 484,300</u></u>

See accompanying notes to financial statements.

MILPITAS UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
June 30, 2018

	Student Body Fund
ASSETS	
Cash on hand and in banks (Note 2)	\$ <u>349,523</u>
Total assets	\$ <u><u>349,523</u></u>
LIABILITIES	
Due to student groups	\$ <u>349,523</u>
Total liabilities	\$ <u><u>349,523</u></u>

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A - Major Funds

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

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

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

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

B - Other Funds

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

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

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

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

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

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

Receivables: Receivables are made up principally of amounts due from the State of California and categorical programs. The District has determined that no allowance for doubtful accounts was necessary as of June 30, 2018.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Compensated Absences: Compensated absences totaling \$353,056 are recorded as a liability of the District. The liability is for the earned but unused benefits.

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

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

Interfund Activity: Interfund activity is reported as either loans, services provided, reimbursements or transfers. 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/expenses. Reimbursements are 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 between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 24,801,454</u>	<u>\$ 9,177,913</u>	<u>\$ 33,979,367</u>
Deferred inflows of resources	<u>\$ 6,932,000</u>	<u>\$ 344,000</u>	<u>\$ 7,276,000</u>
Net pension liability	<u>\$ 90,172,000</u>	<u>\$ 29,220,000</u>	<u>\$119,392,000</u>
Pension expense	<u>\$ 14,248,388</u>	<u>\$ 5,083,911</u>	<u>\$ 19,332,299</u>

Net Position: Net position is displayed in three components:

1. **Net Investment in Capital Assets:** Consist of capital assets, net of accumulated depreciation, reduced by outstanding related debt and adjusted for unspent debt proceeds and deferred outflows/inflows resulting from refunding debt instruments.
2. **Restricted Net Position:** Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents programs where the revenue received has been restricted for expenditures only in those particular programs. The restriction for debt service represents the portion of net position which the District plans to expend on debt repayment. The restriction for capital projects represents the portion of net position restricted for capital projects. It is the District's policy to first spend restricted net position when allowable expenditures are incurred.
3. **Unrestricted Net Position:** All other net position that do not meet the definitions of "restricted" or "net investments in capital assets".

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

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. As of June 30, 2018, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. While the Board of Trustees has empowered members of management to suggest individual amounts to be assigned, as of June 30, 2018 no formal designation of assignment authority has occurred and the Board of Trustees retains ultimate authority for assigning fund balance.

E - Unassigned Fund Balance:

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

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

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2018, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Custodial Relationships: The Agency Fund represents the assets and liabilities of various student organizations within the District. As the funds are custodial in nature, no measurement of operating results is involved.

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

New Accounting Pronouncements: In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on the implementation of GASB Statement No. 75, the District's July 1, 2017 net position was restated, resulting in a decrease of \$15,110,258, as a result of the recognition of the District's total OPEB liability and related deferred inflows of resources.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2018 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:		
Cash in County Treasury	\$ 61,705,748	\$ -
Deposits:		
Cash on hand and in banks	122,790	349,523
Cash in revolving fund	19,098	-
Total cash and investments	<u>\$ 61,847,636</u>	<u>\$ 349,523</u>

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Santa Clara County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's prorata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

In accordance with applicable state laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2018, the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (Continued)

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2018, the carrying amount and bank balances of the District's accounts totaled \$491,411 were \$357,448, respectively. The total uninsured bank balances at June 30, 2018 totaled \$147,402.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District had no significant interest rate risk related to cash and investments held.

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

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the District had no concentration of credit risk.

NOTE 3 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables: Individual interfund receivable and payable balances at June 30, 2018 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,314,040	\$ 163,666
Building	981,522	2,935,572
Capital Facilities	2,696,197	681,522
Non-Major Funds:		
Adult Education	1,746	716,363
Child Development	155,493	257,548
Cafeteria	9,550	103,877
Deferred Maintenance	<u>-</u>	<u>300,000</u>
Totals	<u>\$ 5,158,548</u>	<u>\$ 5,158,548</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3 - INTERFUND TRANSACTIONS (Continued)

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

Transfers for the 2017-2018 fiscal year were as follows:

Transfer from the Building Fund to the General Fund to provide funding for a new elementary school.	\$ 1,450,000
Transfer from the Building Fund to the Deferred Maintenance Fund for operational support.	300,000
Transfer from the General Fund to the Child Development Fund for operational support.	155,493
Transfer from the Adult Education Fund to the General Fund for indirect costs support.	93,331
Transfer from the General Fund to the Adult Education Fund for the remedial program.	<u>39,000</u>
	<u><u>\$ 2,037,824</u></u>

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2018</u>
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 22,771,808	\$ -	\$ -	\$ 22,771,808
Work-in-process	12,151,004	13,969,711	(6,182,120)	19,938,595
Depreciable:				
Buildings	57,415,466	461,458	-	57,876,924
Land improvements	144,754,813	997,309	1,159,309	146,911,431
Furniture and equipment	<u>23,428,624</u>	<u>1,009,914</u>	<u>5,022,811</u>	<u>29,461,349</u>
Totals, at cost	<u>260,521,715</u>	<u>16,438,392</u>	<u>-</u>	<u>276,960,107</u>
Less accumulated depreciation:				
Buildings	(31,767,752)	(932,932)	-	(32,700,684)
Land improvements	(63,597,864)	(5,872,114)	-	(69,469,978)
Furniture and equipment	<u>(12,200,113)</u>	<u>(1,444,003)</u>	<u>-</u>	<u>(13,644,116)</u>
Total accumulated depreciation	<u>(107,565,729)</u>	<u>(8,249,049)</u>	<u>-</u>	<u>(115,814,778)</u>
Capital assets, net	<u>\$ 152,955,986</u>	<u>\$ 8,189,343</u>	<u>\$ -</u>	<u>\$ 161,145,329</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,930,558
Home-to-school transportation	14,305
Food services	11,983
General administration	418
Data processing	160,918
Plant services	<u>4,130,867</u>
 Total depreciation expense	 <u><u>\$ 8,249,049</u></u>

NOTE 5 - LONG-TERM LIABILITIES

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

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,245,000	\$ 130,700	\$ 1,375,700
2020	1,295,000	79,900	1,374,900
2021	<u>1,350,000</u>	<u>27,000</u>	<u>1,377,000</u>
	<u><u>\$ 3,890,000</u></u>	<u><u>\$ 237,600</u></u>	<u><u>\$ 4,127,600</u></u>

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

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 1,968,618	\$ 1,968,618
2020	-	1,968,618	1,968,618
2021	-	1,968,618	1,968,618
2022	1,325,000	1,942,118	3,267,118
2023	1,385,000	1,880,993	3,265,993
2024-2028	8,910,000	8,192,840	17,102,840
2029-2033	12,720,000	5,970,652	18,690,652
2034-2038	<u>20,160,000</u>	<u>2,579,811</u>	<u>22,739,811</u>
	<u><u>\$ 44,500,000</u></u>	<u><u>\$ 26,472,268</u></u>	<u><u>\$ 70,972,268</u></u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - LONG-TERM LIABILITIES (Continued)

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

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,590,000	\$ 1,362,850	\$ 2,952,850
2020	1,755,000	1,287,175	3,042,175
2021	1,945,000	1,194,675	3,139,675
2022	820,000	1,129,650	1,949,650
2023	950,000	1,094,250	2,044,250
2024-2028	6,250,000	4,768,700	11,018,700
2029-2033	9,260,000	3,055,375	12,315,375
2034-2038	<u>10,220,000</u>	<u>1,072,000</u>	<u>11,292,000</u>
	<u>\$ 32,790,000</u>	<u>\$ 14,964,675</u>	<u>\$ 47,754,675</u>

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

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,780,000	\$ 934,100	\$ 2,714,100
2020	1,850,000	852,250	2,702,250
2021	1,945,000	757,375	2,702,375
2022	3,290,000	626,500	3,916,500
2023	3,455,000	457,875	3,912,875
2024-2025	<u>7,430,000</u>	<u>376,000</u>	<u>7,806,000</u>
	<u>\$ 19,750,000</u>	<u>\$ 4,004,100</u>	<u>\$ 23,754,100</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 - LONG-TERM LIABILITIES (Continued)

Certificates of Participation: In December 2014, the District issued Certificates of Participation (2015 COPs) in the amount of \$15,515,400 with interest rates from 2.6% to 3.92%, maturing on December 30, 2031.

Scheduled payments for the 2015 COPs are as follows:

Year Ending <u>June 30,</u>	COPs <u>Payments</u>
2019	\$ 1,082,557
2020	1,118,214
2021	1,160,542
2022	1,209,602
2023	1,249,554
2024-2028	6,493,426
2029-2032	<u>3,866,484</u>
Total payments	16,180,379
Less amount representing interest	<u>(2,686,111)</u>
Net present value of minimum payments	<u><u>\$ 13,494,268</u></u>

Due to SCCOE: During the 2005 fiscal year, the District was notified by the Santa Clara County Office of Education (SCCOE) that the SCCOE's District Business Advisory Services group had posted erroneous entries to the District's cash account in prior years, resulting in an overstatement of Cash in County Treasury for the District's Building Fund. The SCCOE determined that the District owed \$364,965 to correct this issue, and agreed to allow the District to make equal payments of \$24,331 to SCCOE over 15 years. As of June 30, 2018, the balance outstanding was \$72,993.

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017, <u>As Restated</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2018</u>	Amounts Due Within <u>One Year</u>
<u>Governmental activities:</u>					
General Obligation Bonds	\$ 105,435,000	\$ -	\$ 4,505,000	\$ 100,930,000	\$ 4,615,000
Unamortized premiums	10,209,010	-	763,825	9,445,185	763,825
Certificates of Participation	14,140,540	-	646,272	13,494,268	715,865
Due to SCCOE	97,324	-	24,331	72,993	24,331
Total OPEB liability (Note 9)	19,458,675	1,286,618	1,580,338	19,164,955	-
Net pension liability (Notes 7 & 8)	106,514,000	12,878,000	-	119,392,000	-
Compensated absences	440,829	-	87,773	353,056	-
	<u>\$ 256,295,378</u>	<u>\$ 14,164,618</u>	<u>\$ 7,607,539</u>	<u>\$ 262,852,457</u>	<u>\$ 6,119,021</u>

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - FUND BALANCES

Fund balances, by category, at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:						
Revolving cash fund	\$ 15,000	\$ -	\$ -	\$ -	\$ 4,098	\$ 19,098
Stores inventory	244,101	-	-	-	87,907	332,008
Prepaid expenditures	<u>157,442</u>	<u>-</u>	<u>44,445</u>	<u>-</u>	<u>1,701</u>	<u>203,588</u>
Subtotal nonspendable	<u>416,543</u>	<u>-</u>	<u>44,445</u>	<u>-</u>	<u>93,706</u>	<u>554,694</u>
Restricted:						
Legally restricted programs	2,457,566	-	-	-	1,734,623	4,192,189
Capital projects	-	11,640,232	4,556,610	-	-	16,196,842
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,296,897</u>	<u>-</u>	<u>7,296,897</u>
Subtotal restricted	<u>2,457,566</u>	<u>11,640,232</u>	<u>4,556,610</u>	<u>7,296,897</u>	<u>1,734,623</u>	<u>27,685,928</u>
Assigned:						
Other postemployment benefits	1,710,515	-	-	-	-	1,710,515
Workers compensation	256,535	-	-	-	-	256,535
Operational carry-over	1,951,637	-	-	-	-	1,951,637
Program carry-over	<u>5,898,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,898,779</u>
Subtotal assigned	<u>9,817,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,817,466</u>
Unassigned:						
Designated for economic uncertainty	<u>19,015,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,015,778</u>
Total fund balances	<u>\$ 31,707,353</u>	<u>\$ 11,640,232</u>	<u>\$ 4,601,055</u>	<u>\$ 7,296,897</u>	<u>\$ 1,828,329</u>	<u>\$ 57,073,866</u>

(Continued)

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

General Information about the State Teachers’ Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

CalSTRS 2% at 62

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

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

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

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.25 percent of applicable member earnings for fiscal year 2017-18. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2017-18.

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

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% at 62 members will increase by 1 percent effective July 1, 2018.

Employers – 14.43 percent of applicable member earnings.

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

The CalSTRS employer contribution rate increases effective for fiscal year 2017-18 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2021 to June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

* The Teachers’ Retirement Board (the “board”) cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

The District contributed \$7,647,454 to the plan for the fiscal year ended June 30, 2018.

State - 9.328 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046. The CalSTRS state contribution rates effective for fiscal year 2017-18 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 5.311 percent on July 1, 2018, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding⁽¹⁾</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2018	2.017%	5.311%(2)	2.50%	9.328%
July 01, 2019 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(4)	2.50%	4.517%(3)

(1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.

(2) In May 2018, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.

(3) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the net pension liability	\$ 90,172,000
State’s proportionate share of the net pension liability associated with the District	<u>53,345,000</u>
Total	<u>\$ 143,517,000</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2017, the District’s proportion was 0.098 percent, which was an decrease of 0.004 percent of its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$14,248,388 and revenue of \$5,301,073 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 333,000	\$ 1,573,000
Changes of assumptions	16,705,000	-
Net differences between projected and actual earnings on investments	-	2,402,000
Changes in proportion and differences between District contributions and proportionate share of contributions	116,000	2,957,000
Contributions made subsequent to measurement date	<u>7,647,454</u>	<u>-</u>
Total	<u>\$ 24,801,454</u>	<u>\$ 6,932,000</u>

\$7,647,454 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2019	\$ 24,884
2020	\$ 3,531,883
2021	\$ 2,238,883
2022	\$ (112,450)
2023	\$ 2,174,800
2024	\$ 2,364,000

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

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

Valuation Date	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>Measurement Period</u>	
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>
Consumer price inflation	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Fixed Income	12	0.30
Real Estate	13	5.20
Private Equity	13	9.30
Absolute Return / Risk Mitigating Strategies	9	2.90
Inflation Sensitive	4	3.80
Cash / Liquidity	2	(1.00)

* 20-year geometric average.

Discount Rate: The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease <u>(6.10%)</u>	Current Discount Rate <u>(7.10%)</u>	1% Increase <u>(8.10%)</u>
District’s proportionate share of the net pension liability	<u>\$132,401,000</u>	<u>\$ 90,172,000</u>	<u>\$ 55,900,000</u>

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

(Continued)

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

General Information about the Public Employer’s Retirement Fund B

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

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at:

<https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>.

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2018 were as follows:

Members - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2017-18.

Employers - The employer contribution rate was 15.531 percent of applicable member earnings.

The District contributed \$2,591,913 to the plan for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$29,220,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2017, the District’s proportion was 0.122 percent, which was unchanged from its proportion measured as of June 30, 2016.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

For the year ended June 30, 2018, the District recognized pension expense of \$5,083,911. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,047,000	\$ -
Changes of assumptions	4,268,000	344,000
Net differences between projected and actual earnings on investments	1,011,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	260,000	-
Contributions made subsequent to measurement date	<u>2,591,913</u>	<u>-</u>
Total	<u>\$ 9,177,913</u>	<u>\$ 344,000</u>

\$2,591,913 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	
2019	\$ 1,839,250
2020	\$ 2,944,250
2021	\$ 2,012,250
2022	\$ (553,750)

Differences between expected and actual experience, changes in assumptions, and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2017 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

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

Valuation Date	June 30, 2016
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

During the 2016-17 measurement period, the financial reporting discount rate for PERF B was lowered from 7.65 percent to 7.15 percent.

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return Years 1 - 10⁽¹⁾</u>	<u>Expected Real Rate of Return Years 11+⁽²⁾</u>
Global Equity	47%	4.90%	5.38%
Fixed Income	19	0.80	2.27
Inflation Assets	6	0.60	1.39
Private Equity	12	6.60	6.63
Real Estate	11	2.80	5.21
Infrastructure & Forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)

* 10-year geometric average

(1) An expected inflation rate of 2.50% used for this period.

(2) An expected inflation rate of 3.00% used for this period.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

Discount Rate: The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

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

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

Sensitivity of the District’s Proportionate Share of Net Pension Liability to Changes in the Discount Rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease <u>(6.15%)</u>	Current Discount Rate <u>(7.15%)</u>	1% Increase <u>(8.15%)</u>
District’s proportionate share of the net pension liability	<u>\$ 42,992,000</u>	<u>\$ 29,220,000</u>	<u>\$ 17,795,000</u>

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

(Continued)

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the Other Postemployment Benefits Plan

Plan Description: In addition to the pension benefits described in Notes 7 and 8, the District provides healthcare benefits to eligible employees who retire from the District, as part of a single-employer defined benefit postemployment health care plan (the "Plan"). The Plan is administered by the District and allows employees who retire after having achieved retirement eligibility requirements to continue receiving medical, dental, vision, or life insurance coverage. The District's Board of Education has the authority to establish or amend the benefit terms offered by the Plan. The District's Board of Education also retains the authority to establish the requirements for paying for the Plan's benefits as they come due. As of June 30, 2018 the District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's Total OPEB Liability.

Benefits Provided: Employees who retire on or after reaching age 55 with at least 12 years of service, in accordance with contracts between the District and the respective employee group, are entitled to benefits through this plan. Benefits for certificated employees are prorated if the employee worked less than full-time. All District employees who were hired during the year ended June 30, 2007 are only eligible for employee-only medical coverage, and only if they have at least 25 years of service. Employees hired by the District on or after July 1, 2007 are not entitled to any benefits from the Plan.

Benefits provided through the plan vary based on the group in which the employee worked, and total years of service to the District at retirement. For employees who retire having reached between 12 and 14 years of service, the District pays the full amount of the employee-only monthly premium for a District-sponsored medical plan until the employee reaches 65 years of age. For employees who retire having reached between 15 to 19 years of service, the District will pay monthly premiums for a District-sponsored medical plan for the retiree plus one dependent. Retirees have the option to receive employee-only coverage for a District-sponsored medical and dental plan. For employees who retire having reached between 20 and 24 years of service, the District will pay monthly premiums for a District-sponsored medical and dental coverage for themselves and one dependent. Management employees who retire having reached 25 years or more of service to the District receive medical, dental, vision and group term life insurance coverage for the retiree and all dependents, plus life coverage for the retiree.

Retired certificated and classified employees are not eligible to receive vision or group term life insurance coverage. Employees who retire after age 55 with at least 25 years of service are covered by group term life insurance of \$30,000.

All benefits payments cease when the retiree reaches age 65. The amount of the monthly District-paid medical premiums are not to exceed the District's cap at the time of retirement.

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2018:

	<u>Participants</u>
Inactive Plan Members, Covered Spouses, or Beneficiaries	
Currently Receiving Benefits	65
Active Employees	<u>398</u>
	<u><u>463</u></u>

Contributions: California Government Code specifies that the District's contribution requirements for covered employees are established and may be amended by the District's Governing Board. Contributions to the Plan from the District were \$584,942 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Valuation Date</u>	June 30, 2017
<u>Actuarial Method</u>	Entry Age actuarial cost method has been used, with normal costs calculated as a level percentage of payroll.
<u>Discount Rate</u>	3.13%.
<u>Health Care Increases</u>	Medical insurance premiums are assumed to increase by 5.80% in fiscal 2018, then 5.50% in fiscal 2019 onwards. Dental and vision premiums are assumed to increase by 4% per year for fiscal 2018 onwards.
<u>Mortality Rates</u>	Mortality rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified employees) and from the 2015 valuation of STRS (for certificated employees).
<u>Health Plan Coverage Elections</u>	100% of eligible employees are assumed to elect coverage upon retirement, and to remain covered under District plans until age 65. Eligible future retirees are assumed to choose medical plans in this manner: 80% are assumed to choose the Kaiser High plan, 10% are assumed to choose Anthem Blue Cross High plan, and 10% are assumed to choose the Anthem Blue Cross PPO. Employees who qualify for coverage of family members are assumed to be married to a spouse the same age.
<u>Medicare Coverage</u>	All current and future participating retirees and spouses will qualify for Medicare coverage and enroll in Parts A and B upon reaching age 65.
<u>Retirement Rates</u>	Retirement rates are taken from the most recent experience studies for CalPERS (2014) and CalSTRS (2010).
<u>Termination Rates</u>	Termination rates are taken from the most recent experience studies for CalPERS (2014) and CalSTRS (2010).

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Health Claims

Medical claims were estimated based on the true per person costs of coverage during the year ended June 30, 2017. The age-specific rates were developed to reproduce the same aggregate premiums that would be paid to the carriers for all current employee and retirees

<u>Age</u>	<u>Cost</u>
40	\$6,809
45	\$7,926
50	\$9,259
55	\$10,923
60	\$13,326
64	\$16,418

Inflation Rate

2.75% per year

Salary Increases

3.00% per year

Discount Rate: Given the District's decision not to fund the program, all future benefit payments were discounted using a high quality municipal bond rate of 3.13%. The municipal bond rate was based on the week closest but not later than the measurement date of the S&P Municipal Bond 20 Year High Grade Rate Index as published by the Federal Reserve. To be eligible for the S&P Municipal Bond 20 Year High Grade Rate Index the bonds must be rated at least Moody's Investors Service's Aa2, AA by Standard & Poor's Corp.'s, or AA by Fitch Ratings.

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance, June 30, 2017	\$ <u>19,458,675</u>
Changes for the year:	
Interest	771,833
Service cost	514,785
Changes in assumptions	(654,481)
Benefit payments	<u>(925,857)</u>
Net change	<u>(293,720)</u>
Balance, June 30, 2018	<u>\$ 19,164,955</u>

The changes in assumptions include a change in the discount rate from 2.71% in the prior valuation, to 3.13% in the current valuation. There were no changes between the measurement date and the year ended June 30, 2018 which had a significant effect on the District's total OPEB liability.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease (2.13%)	Current Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB liability	<u>\$ 20,766,876</u>	<u>\$ 19,164,955</u>	<u>\$ 17,709,044</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (4.8 – 4.5%)	Healthcare Cost Trend Rates Rate (5.8 – 5.5%)	1% Increase (6.8 – 6.5%)
Total OPEB Liability	<u>\$ 17,949,271</u>	<u>\$ 19,164,955</u>	<u>\$ 20,539,640</u>

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,227,656. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	595,519
Net differences between projected and actual earnings on investments	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
Contributions made subsequent to measurement date	<u>584,942</u>	<u>-</u>
Total	<u>\$ 584,942</u>	<u>\$ 595,519</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

\$584,942 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended <u>June 30,</u>		
2019	\$	(58,962)
2020	\$	(58,962)
2021	\$	(58,962)
2022	\$	(58,962)
2023	\$	(58,962)
Thereafter	\$	(300,709)

See required supplementary information following the notes to the basic financial statements, which presents multi-year trend information on whether assets are increasing or decreasing over time relative to the plan liabilities.

NOTE 10 - JOINT POWERS AGREEMENTS

The District is a member of the Protected Insurance Program for Schools (PIPS), Metropolitan Education (Metro Ed), Santa Clara County Schools Insurance Group (SCCSIG), East Valley Schools Transportation Agency (EVSTA), and South Bay Area Schools Insurance Authority (SBASIA) public entity risk pools. The District pays an annual premium to each entity for certain programs including health, worker's compensation, property and liability coverage, and transportation services based on the nature of the individual pool. The relationship between the District and these pools is such that they are not component units of the District for financial reporting purposes. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage in the prior year.

Condensed audited financial information for the District's JPAs at June 30, 2017 (the latest information available) is provided below:

	<u>PIPS</u>	<u>Metro Ed</u>	<u>SCCSIG</u>	<u>EVSTA</u>	<u>SBASIA</u>
Total assets	\$ 129,260,118	\$ 50,289,884	\$ 21,561,192	\$ 383,363	\$ 5,452,545
Deferred outflows of resources	\$ -	\$ 2,909,390	\$ 168,209	\$ -	\$ -
Total liabilities	\$ 111,815,654	\$ 20,157,464	\$ 3,628,687	\$ 115,699	\$ 3,855,991
Deferred inflows of resources	\$ -	\$ 2,055,724	\$ 23,349	\$ -	\$ -
Net position	\$ 17,444,464	\$ 30,986,086	\$ 18,077,365	\$ 267,664	\$ 1,596,554
Total revenues	\$ 301,089,852	\$ 17,003,521	\$ 36,088,227	\$ 2,439,818	\$ 3,508,638
Total expenses	\$ 296,996,362	\$ 19,530,488	\$ 34,053,133	\$ 2,439,818	\$ 4,666,817
Change in net position	\$ 4,093,490	\$ (2,526,967)	\$ 2,035,094	\$ -	\$ (1,158,179)

(Continued)

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

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

At June 30, 2018 the District had commitments for capital construction projects totaling approximately \$4.2 million.

REQUIRED SUPPLEMENTARY INFORMATION

MILPITAS UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 22,517,551	\$ 20,791,820	\$ 19,912,678	\$ (879,142)
Local sources	<u>65,366,406</u>	<u>66,983,560</u>	<u>68,622,536</u>	<u>1,638,976</u>
Total LCFF	<u>87,883,957</u>	<u>87,775,380</u>	<u>88,535,214</u>	<u>759,834</u>
Federal sources	3,432,760	3,585,436	3,348,699	(236,737)
Other state sources	7,939,129	10,719,253	10,507,539	(211,714)
Other local sources	<u>8,814,966</u>	<u>9,345,231</u>	<u>9,005,410</u>	<u>(339,821)</u>
Total revenues	<u>108,070,812</u>	<u>111,425,300</u>	<u>111,396,862</u>	<u>(28,438)</u>
Expenditures:				
Current:				
Certificated salaries	52,065,145	52,832,175	52,689,794	142,381
Classified salaries	14,795,093	14,378,445	14,486,619	(108,174)
Employee benefits	25,015,683	24,303,118	24,860,295	(557,177)
Books and supplies	5,837,218	8,608,282	5,174,807	3,433,475
Contract services and operating expenditures	9,306,016	10,147,384	9,162,845	984,539
Other outgo	7,231,368	6,569,243	6,279,665	289,578
Capital outlay	-	1,988,530	72,132	1,916,398
Debt service:				
Principal retirement	648,202	652,808	646,272	6,536
Interest	<u>390,337</u>	<u>385,731</u>	<u>392,267</u>	<u>(6,536)</u>
Total expenditures	<u>115,289,062</u>	<u>119,865,716</u>	<u>113,764,696</u>	<u>6,101,020</u>
Deficiency of revenues under expenditures	<u>(7,218,250)</u>	<u>(8,440,416)</u>	<u>(2,367,834)</u>	<u>6,072,582</u>
Other financing sources (uses):				
Transfers in	1,552,830	1,529,958	1,543,331	13,373
Transfers out	<u>(596,545)</u>	<u>(581,176)</u>	<u>(194,493)</u>	<u>386,683</u>
Total other financing sources (uses)	<u>956,285</u>	<u>948,782</u>	<u>1,348,838</u>	<u>400,056</u>
Change in fund balance	(6,261,965)	(7,491,634)	(1,018,996)	6,472,638
Fund balance, July 1, 2017	<u>32,726,349</u>	<u>32,726,349</u>	<u>32,726,349</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 26,464,384</u>	<u>\$ 25,234,715</u>	<u>\$ 31,707,353</u>	<u>\$ 6,472,638</u>

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Year Ended June 30, 2018

Last 10 Fiscal Years

	<u>2018</u>
Total OPEB Liability	
Service Cost	\$ 771,833
Interest	514,785
Change in assumptions	(654,481)
Benefit Payments	<u>(925,857)</u>
Net change in total OPEB liability	(293,720)
Total OPEB liability - beginning of year	<u>19,458,675</u>
Total OPEB liability - end of year (a)	<u>\$ 19,164,955</u>
Covered employee payroll	\$ 71,141,497
Total OPEB liability as a percentage of covered-employee payroll	26.94%

This is a 10 year schedule, however the information in this schedule is not required to be presented retrospectively. The amounts presented for each fiscal year were determined as of the year end that occurred one year prior. All years prior to 2018 are not available.

See accompanying note to required supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.102%	0.101%	0.102%	0.098%
District's proportionate share of the net pension liability	\$ 59,605,740	\$ 68,248,000	\$ 82,329,000	\$ 90,172,000
State's proportionate share of the net pension liability associated with the District	<u>35,915,000</u>	<u>36,096,000</u>	<u>46,873,000</u>	<u>53,345,000</u>
Total net pension liability	<u>\$ 95,520,740</u>	<u>\$104,344,000</u>	<u>\$129,202,000</u>	<u>\$143,517,000</u>
District's covered payroll	\$ 45,332,000	\$ 47,052,000	\$ 50,729,000	\$ 51,676,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.49%	145.05%	162.29%	174.49%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

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

All years prior to 2015 are not available.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.118%	0.120%	0.122%	0.122%
District's proportionate share of the net pension liability	\$ 13,361,816	\$ 17,745,000	\$ 24,185,000	\$ 29,220,000
District's covered payroll	\$ 12,350,000	\$ 13,328,000	\$ 14,691,000	\$ 15,606,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	108.19%	133.14%	164.62%	187.24%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%

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

All years prior to 2015 are not available.

See accompanying note to required supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2018

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 4,178,191	\$ 5,443,249	\$ 6,524,314	\$ 7,647,454
Contributions in relation to the contractually required contribution	<u>(4,178,191)</u>	<u>(5,443,249)</u>	<u>(6,524,314)</u>	<u>(7,647,454)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 47,052,000	\$ 50,729,000	\$ 51,676,000	\$ 52,997,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43

All years prior to 2015 are not available.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 1,568,810	\$ 1,740,455	\$ 2,168,914	\$ 2,591,913
Contributions in relation to the contractually required contribution	<u>(1,568,810)</u>	<u>(1,740,455)</u>	<u>(2,168,914)</u>	<u>(2,591,913)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,328,000	\$ 14,691,000	\$ 15,606,000	\$ 16,689,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%	15.53%

All years prior to 2015 are not available.

See accompanying note to required supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

Excess of expenditures over appropriations for the year ended June 30, 2018 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Classified salaries	\$ 108,174
Employee benefits	\$ 557,177

These excesses are not in accordance with Education Code 42600.

B - Schedule of Changes in Total Other Postemployment Benefits (OPEB) liability

The Schedule of Changes in Total OPEB liability is presented to illustrate the elements of the District's Total OPEB liability. There is a requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District will present information for those years for which information is available. The District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's total OPEB liability.

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

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

D - Schedule of the District's Contributions

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

E - Changes of Benefit Terms

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

F - Changes of Assumptions

The discount rate used for the Total OPEB liability was 2.71 and 3.13 percent in the June 30, 2016 and 2017 actuarial reports, respectively.

The discount rate for Public Employer's Retirement Fund B (PERF B) was 7.50, 7.65, 7.65, and 7.15 percent in the June 30, 2013, 2014, 2015, and 2016 actuarial reports, respectively.

The following are the assumptions for the State Teachers' Retirement Plan:

<u>Assumption</u>	<u>Measurement Period</u>		
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>	As of June 30, <u>2016</u>
Consumer price inflation	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.60%	7.60%
Wage growth	3.50%	3.75%	3.75%

SUPPLEMENTARY INFORMATION

MILPITAS UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2018

	Adult Education <u>Fund</u>	Child Develop- ment <u>Fund</u>	Cafeteria <u>Fund</u>	Deferred Mainten- ance <u>Fund</u>	<u>Total</u>
ASSETS					
Cash in County Treasury	\$ 121,243	\$ 65,586	\$ 75,686	\$ 424,969	\$ 687,484
Cash in revolving fund	-	-	4,098	-	4,098
Receivables	2,020,132	69,938	324,554	801	2,415,425
Due from other funds	1,746	155,493	9,550	-	166,789
Store inventory	-	-	87,907	-	87,907
Prepaid expenditures	<u>952</u>	<u>-</u>	<u>749</u>	<u>-</u>	<u>1,701</u>
Total assets	<u>\$ 2,144,073</u>	<u>\$ 291,017</u>	<u>\$ 502,544</u>	<u>\$ 425,770</u>	<u>\$ 3,363,404</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 108,601	\$ 33,469	\$ 10,751	\$ -	\$ 152,821
Unearned revenue	-	-	4,466	-	4,466
Due to other funds	<u>716,363</u>	<u>257,548</u>	<u>103,877</u>	<u>300,000</u>	<u>1,377,788</u>
Total liabilities	<u>824,964</u>	<u>291,017</u>	<u>119,094</u>	<u>300,000</u>	<u>1,535,075</u>
Fund balances:					
Nonspendable	952	-	92,754	-	93,706
Restricted	<u>1,318,157</u>	<u>-</u>	<u>290,696</u>	<u>125,770</u>	<u>1,734,623</u>
Total fund balances	<u>1,319,109</u>	<u>-</u>	<u>383,450</u>	<u>125,770</u>	<u>1,828,329</u>
Total liabilities and fund balances	<u>\$ 2,144,073</u>	<u>\$ 291,017</u>	<u>\$ 502,544</u>	<u>\$ 425,770</u>	<u>\$ 3,363,404</u>

MILPITAS UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2018

	Adult Education Fund	Child Develop- ment Fund	Cafeteria Fund	Deferred Mainten- ance Fund	Total
Revenues:					
Federal sources	\$ 410,228	\$ 114,148	\$ 1,839,591	\$ -	\$ 2,363,967
Other state sources	2,683,507	1,081,789	140,465	-	3,905,761
Other local sources	<u>81,748</u>	<u>287,642</u>	<u>1,410,409</u>	<u>2,731</u>	<u>1,782,530</u>
Total revenues	<u>3,175,483</u>	<u>1,483,579</u>	<u>3,390,465</u>	<u>2,731</u>	<u>8,052,258</u>
Expenditures:					
Current:					
Certificated salaries	2,203,706	664,402	-	-	2,868,108
Classified salaries	468,994	457,238	1,544,299	-	2,470,531
Employee benefits	1,045,905	426,356	670,110	-	2,142,371
Books and supplies	82,054	8,892	1,239,586	16,904	1,347,436
Contract services and operating expenditures	86,141	82,184	1,165	157,539	327,029
Capital outlay	-	-	5,345	281,542	286,887
Total expenditures	<u>3,886,800</u>	<u>1,639,072</u>	<u>3,460,505</u>	<u>455,985</u>	<u>9,442,362</u>
Deficiency of revenues under expenditures	<u>(711,317)</u>	<u>(155,493)</u>	<u>(70,040)</u>	<u>(453,254)</u>	<u>(1,390,104)</u>
Other financing (uses) sources:					
Transfers in	39,000	155,493	-	300,000	494,493
Transfers out	<u>(93,331)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,331)</u>
Total other financing (uses) sources	<u>(54,331)</u>	<u>155,493</u>	<u>-</u>	<u>300,000</u>	<u>401,162</u>
Net change in fund balances	(765,648)	-	(70,040)	(153,254)	(988,942)
Fund balances, July 1, 2017	<u>2,084,757</u>	<u>-</u>	<u>453,490</u>	<u>279,024</u>	<u>2,817,271</u>
Fund balances, June 30, 2018	<u>\$ 1,319,109</u>	<u>\$ -</u>	<u>\$ 383,450</u>	<u>\$ 125,770</u>	<u>\$ 1,828,329</u>

MILPITAS UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2018

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

The Board of Education at June 30, 2018 was comprised of the following members:

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Daniel Bobay	President	2020
Chris Norwood	Vice President	2018
Hon Lien	Clerk	2020
Robert Jung	Member	2018
Amin Fazal	Member	2018

ADMINISTRATION

Cheryl Jordan
Superintendent

Jonathon Brunson
Assistant Superintendent, Human Relations

Norma Rodriguez
Assistant Superintendent, Learning & Development

Wendy Zhang
Assistant Superintendent, Business Services

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2018

	<u>Certificate # 93A05B6C</u>	<u>Certificate # A1061803</u>	<u>Certificate # 88D2BBBD</u>
	Second Period Report (Original)	Second Period Report (Revised)*	Annual Report
Elementary:			
Transitional Kindergarten through Third	3,020	3,020	3,016
Fourth through Sixth	2,247	2,247	2,246
Seventh and Eighth	1,462	1,464	1,461
Special Education	<u>14</u>	<u>14</u>	<u>14</u>
Total Elementary	<u>6,743</u>	<u>6,745</u>	<u>6,737</u>
Secondary:			
Ninth through Twelfth	3,215	3,240	3,235
Special Education	9	10	10
Continuation	<u>89</u>	<u>89</u>	<u>90</u>
Total Secondary	<u>3,313</u>	<u>3,339</u>	<u>3,335</u>
District Totals	<u><u>10,056</u></u>	<u><u>10,084</u></u>	<u><u>10,072</u></u>
Classes for Adults:			
Adults in correctional facilities	<u><u>1,025</u></u>	<u><u>1,025</u></u>	<u><u>1,025</u></u>

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

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2018

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	43,620	180	In Compliance
Grade 1	50,400	50,400	180	In Compliance
Grade 2	50,400	50,400	180	In Compliance
Grade 3	50,400	50,400	180	In Compliance
Grade 4	54,000	54,000	180	In Compliance
Grade 5	54,000	54,000	180	In Compliance
Grade 6	54,000	54,000	180	In Compliance
Grade 7	54,000	56,530	180	In Compliance
Grade 8	54,000	56,530	180	In Compliance
Grade 9	64,800	65,270	180	In Compliance
Grade 10	64,800	65,270	180	In Compliance
Grade 11	64,800	65,270	180	In Compliance
Grade 12	64,800	65,270	180	In Compliance

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Ed: IDEA Basic Local Assistance Entitlement	13379	\$ 1,635,891
84.027A	Special Ed: IDEA Mental Health Services	14468	106,424
84.027A	Special Ed: IDEA Preschool Local Entitlement	13682	113,680
84.173	Special Ed: IDEA Preschool Grants	13430	42,384
84.027	Special Ed: IDEA Local Assistance, Private School ISPs	10115	20,398
84.173A	Special Ed: IDEA Preschool Staff Development	13431	<u>382</u>
	Subtotal Special Education Cluster		<u>1,919,159</u>
	Adult Education Programs:		
84.002	Adult Education: Adult Secondary Education	13978	70,142
84.002A	Adult Education: Adult Basic Education & ESL	14508	149,429
84.002	Adult Education: Institutionalized Adults	13971	167,716
84.002A	Adult Education: English Literacy & Civics Education Local Grant	14109	<u>22,941</u>
	Subtotal Adult Education Programs		<u>410,228</u>
84.010	ESEA (ESSA): Title I, Part A, Basic Grants Low-Income and Neglected	14329	648,979
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	42,155
84.126	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	204,597
84.365	ESEA (ESSA): Title III, English Learner Student Program	14346	218,107
84.367	ESEA (ESSA): Title II, Part A, Supporting Effective Instruction Local Grants	14341	<u>154,159</u>
	Total U.S. Department of Education		<u>3,597,384</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
	Child Nutrition Cluster:		
10.555	Child Nutrition: School Programs	13390	1,839,591
10.579	Child Nutrition: NSLP Equipment Assistance Grant	14906	<u>4,403</u>
	Total U.S. Department of Agriculture		<u>1,843,994</u>

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 For the Year Ended June 30, 2018

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
	Medicaid Cluster:		
93.778	Medi-Cal Billing Option	10013	\$ 120,450
93.575	Child Development: Federal Child Care, Center Based	15136	<u>114,148</u>
	Total U.S. Department of Health and Human Services		<u>234,598</u>
<u>U.S. Department of Defense - Passed through California Department of Education</u>			
12.235	Navy Junior ROTC	N/A	<u>79,699</u>
	Total Federal Programs		<u>\$ 5,755,675</u>

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

There were no adjustments proposed to any funds of the District.

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 For the Year Ended June 30, 2018
 (UNAUDITED)

<u>General Fund</u>	(Budget) <u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues and other financing sources	\$ 117,074,748	\$ 112,940,193	\$ 111,275,418	\$ 110,385,136
Expenditures	118,222,347	113,764,696	108,213,853	104,089,545
Other uses and transfers out	<u>526,765</u>	<u>194,493</u>	<u>524,533</u>	<u>578,609</u>
Total outgo	<u>118,749,112</u>	<u>113,959,189</u>	<u>108,738,386</u>	<u>104,668,154</u>
Change in fund balance	<u>\$ (1,674,364)</u>	<u>\$ (1,018,996)</u>	<u>\$ 2,537,032</u>	<u>\$ 5,716,982</u>
Ending fund balance	<u>\$ 30,032,989</u>	<u>\$ 31,707,353</u>	<u>\$ 32,726,349</u>	<u>\$ 30,189,317</u>
Available reserves	<u>\$ 20,621,975</u>	<u>\$ 19,015,778</u>	<u>\$ 17,596,128</u>	<u>\$ 18,674,009</u>
Designated for economic uncertainties	<u>\$ 20,621,975</u>	<u>\$ 19,015,778</u>	<u>\$ 17,596,128</u>	<u>\$ 18,674,009</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as percentages of total outgo	<u>17.4%</u>	<u>16.7%</u>	<u>16.2%</u>	<u>17.8%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 256,733,436</u>	<u>\$ 262,852,457</u>	<u>\$ 241,839,601</u>	<u>\$ 227,120,663</u>
Average daily attendance, at P-2 excluding Adult Education	<u>10,116</u>	<u>10,084</u>	<u>10,085</u>	<u>10,009</u>

The General Fund fund balance has increased by \$7,235,018 over the past three years. The fiscal year 2018-2019 budget projects a decrease of \$1,674,364. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2018, the District has met this requirement.

The District has incurred operating surpluses in two of the past three years; however, anticipates incurring an operating deficit during the fiscal year ending June 30, 2019.

Total long-term liabilities have increased by \$35,731,794 over the past two years.

Average daily attendance has increased by 75 over the past two years. The District anticipates an increase of 32 ADA for the 2018-2019 fiscal year.

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2018

Charter Schools Chartered by District

Included in District
Financial Statements, or
Separate Report

There are no charter schools in the District.

See accompanying notes to supplementary information.

MILPITAS UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Milpitas Unified School District presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed in the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2018.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 5,712,666
Add: Medi-Cal Billing Option awards spent from prior year awards	93.778	<u>43,009</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 5,755,675</u>

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

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2018-2019 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 required certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2018, the District did not adopt such a program.

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

Board of Education
Milpitas Unified School District
Milpitas, California

Report on Compliance with State Laws and Regulations

We have audited Milpitas Unified School District's compliance with the types of compliance requirements described in the State of California's *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed below for the year ended June 30, 2018.

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

(Continued)

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

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

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

We did not perform any procedures related to Juvenile Court Schools, Middle or Early College High Schools, or Apprenticeship: Related and Supplemental Instruction, because the District did not operate these programs during the audit year.

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

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

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Milpitas Unified School District's compliance with state laws and regulations as listed above, based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Milpitas Unified School District's compliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Milpitas Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Compliance with State Laws and Regulations

In our opinion, Milpitas Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2018.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Sacramento, California
December 3, 2018

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

Board of Education
Milpitas Unified School District
Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milpitas Unified School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Milpitas Unified School District's basic financial statements, and have issued our report thereon dated December 3, 2018.

Internal Control Over Financial Reporting

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

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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



Crowe LLP

Sacramento, California
December 3, 2018

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

Board of Education
Milpitas Unified School District
Milpitas, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

(Continued)

Report on Internal Control Over Compliance

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

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

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

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



Crowe LLP

Sacramento, California
December 3, 2018

FINDINGS AND RECOMMENDATIONS

MILPITAS UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

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

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

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

Identification of major programs:

CFDA Number(s)

10.555

Name of Federal Program or Cluster

Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? Yes No

STATE AWARDS

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

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

MILPITAS UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MILPITAS UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018

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