

**SALINAS CITY ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Salinas City Elementary School District
Salinas, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 69, schedule of changes in the District's total OPEB liability and related ratios on page 70, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 71, schedule of the District's proportionate share of the net pension liability on page 72, and the schedule of District contributions on page 73, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

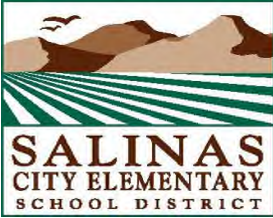
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the Salinas City Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Salinas City Elementary School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Salinas City Elementary School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 14, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

ADMINISTRATION

MARTHA L. MARTINEZ
Superintendent

GERALD STRATTON
Assistant Superintendent
Business Services

LORI SANDERS
Assistant Superintendent
Educational Services

BEATRIZ CHAIDEZ, Ed.D.
Assistant Superintendent
Human Resources

BOARD OF EDUCATION

ROBERTO GARCIA
Trustee Area 1

FRANCISCO JAVIER ESTRADA
Trustee Area 2

ROBERT FOSTER HOFFMAN
Trustee Area 3

AMY ISH
Trustee Area 4

STEPHEN KIM
Trustee Area 5

840 South Main Street
Salinas CA 93901
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The mission of Salinas City Elementary School District is to provide qualified educators and a collaborative environment where students receive a high quality education using 21st Century teaching techniques and resources, and are challenged and encouraged to excel. The District is located in the community of Salinas in Monterey County. This community of 160,000 population, located 110 miles south of San Francisco and 16 miles east of Monterey, is predominantly an agricultural community that includes a large migrant population. The District served around 8,500 students in 2017-2018.

The District operated 14 elementary schools in 2017-2018 and serves under a locally elected five-member Board of Education.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Salinas City Elementary School District.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Fiduciary Funds Statement of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$(38.7) million for the fiscal year ended June 30, 2018. Of this amount, \$4.5 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Table 1

(Amounts in millions)

	Governmental Activities		
	2018	2017, as Restated	Difference
Assets			
Current and other assets	\$ 51.7	\$ 32.9	\$ 18.8
Capital assets	62.3	65.3	(3.0)
Total Assets	114.0	98.2	15.8
Deferred Outflows of Resources	29.9	20.1	9.8
Liabilities			
Current liabilities	6.4	6.8	(0.4)
Long-term obligations	83.2	61.4	21.8
Net pension liability	87.7	77.1	10.6
Total Liabilities	177.3	145.3	32.0
Deferred Inflows of Resources	5.3	2.4	2.9
Net Position			
Net investment in capital assets	20.2	24.8	(4.6)
Restricted	4.5	4.8	(0.3)
Unrestricted	(63.4)	(59.0)	(4.4)
Total Net Position	\$ (38.7)	\$ (29.4)	\$ (9.3)

The \$(38.7) million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 7.5 percent (\$(63.4) million compared to \$(59.0) million).

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities		
	2018	2017	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.3	\$ 0.5	\$ (0.2)
Operating grants and contributions	24.4	21.6	2.8
General revenues:			
Federal and State aid not restricted	68.2	68.3	(0.1)
Property taxes	21.6	21.0	0.6
Other general revenues	3.5	4.5	(1.0)
Total Revenues	<u>118.0</u>	<u>115.9</u>	<u>2.1</u>
Expenses			
Instruction related	87.7	81.9	5.8
Pupil services	13.1	12.1	1.0
Administration	6.3	4.3	2.0
Plant services	8.3	8.9	(0.6)
Other	11.9	9.5	2.4
Total Expenses	<u>127.3</u>	<u>116.7</u>	<u>10.6</u>
Change in Net Position	<u>\$ (9.3)</u>	<u>\$ (0.8)</u>	<u>\$ (8.5)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$127.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$21.6 million because the cost was paid by those who benefited from the programs (\$0.3 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$24.4 million). We paid for the remaining "public benefit" portion of our governmental activities with, \$68.2 million in Federal and State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Table 3

(Dollar amounts in millions)

	Net Cost of Services	
	2018	2017
Instruction	\$ 73.4	\$ 68.6
Pupil services	5.6	5.9
Administration	5.8	3.7
Plant services	8.3	8.7
All other services	9.5	7.6
Total	\$ 102.6	\$ 94.5

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$34.7 million, which is an increase of \$19.0 million from last year (Table 4).

Table 4

(Amounts in millions)

	Balances		
	2018	2017	Difference
General	\$ 11.7	\$ 12.9	\$ (1.2)
Building	19.8	0.1	19.7
Bond Interest and Redemption	1.6	1.1	0.5
Non-Major Funds	1.6	1.6	-
Total	\$ 34.7	\$ 15.7	\$ 19.0

The General Fund decreased by \$1.2 million due primarily to declining ADA. The Building Fund increased by \$19.7 million due primarily to the issuance of general obligation bonds. The Bond Interest and Redemption Fund increased by \$0.5 million as tax revenues exceeded debt service requirements for the year. The District's non-major governmental funds showed little change during the year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it deals with regular budget execution and unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 17, 2018 (2017-2018 Unaudited Actuals). A schedule showing the General Fund original and final budget amounts compared with amounts actually paid and received is provided in the basic financial statements.

The District projected a decrease in the General Fund of approximately \$0.5 million. However, revenues and other sources were approximately \$0.5 million less than projected and expenditures were \$0.2 million more than expected, resulting in a decrease to the General Fund of \$1.2 million.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$62.3 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$3.0 million, or 4.6 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		
	2018	2017	Difference
Land	\$ 7.5	\$ 7.5	\$ -
Construction in progress	0.2	1.5	(1.3)
Buildings and improvements	54.1	55.8	(1.7)
Equipment	0.5	0.5	-
Total	\$ 62.3	\$ 65.3	\$ (3.0)

The District has continued its work with Prop 39 funded projects such as Solar Panels at Boronda DIA at a cost of \$156,395 and furnace replacement at El Gabilan \$97,154. In addition, Asphalt Replacement at El Gabilan for \$606,554, Electronic Access at Lincoln for \$26,573, and Asphalt Replacement for \$28,650 at Roosevelt were funded with Bond proceeds. Deferred maintenance projects with replacement of flooring and interior/exterior painting continued as would be expected, as well as many projects funded out of the Routine Restricted Maintenance Account.

Long-Term Obligations

At the end of this year, the District had \$83.2 million in long-term obligations outstanding versus \$61.4 million last year, an increase of \$21.8 million. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		
	2018	2017, as Restated	Difference
General obligation bonds	\$ 44.9	\$ 23.7	\$ 21.2
Certificates of participation	14.9	15.2	(0.3)
Compensated absences	0.2	0.2	-
State preschool loan	- ¹	0.1	(0)
Capital leases	0.6	0.2	0.4
Other postemployment benefits (OPEB) liability	22.6	22.0	0.6
Total	\$ 83.2	\$ 61.4	\$ 21.8

¹ Amounts less than \$50,000.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The District's S&P general obligation bond rating continues to be "AAA/A-." The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$44.9 million is below the statutorily-imposed limit. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$29.9 million, Deferred Inflows from pension activities of \$5.3 million, and a Net Pension Liability of \$87.7 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

FINANCIAL STATUS OF DISTRICT AND NEXT YEAR'S BUDGET

Salinas City Elementary School District continues to recover from the extended period of reduced funding from the deficit factor and deferred State payments as we have implemented the Local Control Funding Formula (LCFF). This has allowed the District to hire additional teachers to reduce class sizes consistent with Grade Span Adjustment (GSA) requirements as amended in our side letter with our bargaining unit. It is notable that the recent years of growth of our student population flattened in 2015-2016 and is projected with enrollment decreases in the budget year and out years. We closed 2017-2018 with Reserve levels above the mandated State minimum and project carrying these forward through the current year as we budget to account for further decline in enrollment. The Board approved our multi-year budget on June 18, 2018, where we certified Positive for the current budget year and the two subsequent years' projections.

The LCFF has been used to build our budget and out year projections as required by CDE. The preponderance of new funds continues to flow from Supplemental and Concentration dollars and is closely controlled by the Local Control and Accountability Plan (LCAP).

For 2018-2019 the District has budgeted excess reserve funds that will not cover required funding in the two subsequent years without the noted needed budget reductions in 2019-2020 and 2020-2021 in the multiyear projections approved by the Board. We have budgeted conservatively for those two years based on very modest economic improvements expected and the US and world economic indicators. We have continued to stabilize benefits contributions with bargaining units, albeit with the highest compensated benefits packages of any non-basic aid district in our county. This will be of even increased importance in the out years as we fund the growth in our teacher population to support GSA class size reductions. Additionally, we still retain an unfunded liability in Fund 67 amid the expectation that CDE will continue to place the weight of "saving" CalSTRS and CalPERS disproportionately on the District's back.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances, and to demonstrate the District's fiscal accountability for the money it receives. Should you have questions about this report or need additional financial information, please contact the Assistant Superintendent of Business Services at 831-784-2288.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 48,342,593
Receivables	3,298,635
Stores inventories	43,982
Nondepreciable capital assets	7,730,932
Capital assets being depreciated	129,409,827
Accumulated depreciation	(74,808,135)
Total Assets	114,017,834
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	165,062
Deferred outflows of resources related to pensions	29,752,532
Total Deferred Outflows of Resources	29,917,594
LIABILITIES	
Overdrafts	322,691
Accounts payable	5,990,457
Unearned revenue	92,390
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,418,943
Noncurrent portion of long-term obligations other than pensions	81,833,416
Total Long-Term Obligations	83,252,358
Aggregate net pension liability	87,662,700
Total Liabilities	177,320,596
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	5,260,237
NET POSITION	
Net investment in capital assets	20,186,370
Restricted for:	
Debt service	1,977,383
Capital projects	170,609
Educational programs	1,507,983
Other activities	876,469
Unrestricted	(63,364,219)
Total Net Position	\$ (38,645,405)

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 74,276,442	\$ -	\$ 12,013,865
Instruction-related activities:			
Supervision of instruction	5,241,473	-	1,932,235
Instructional library, media, and technology	475,626	-	60,836
School site administration	7,693,766	-	298,504
Pupil services:			
Home-to-school transportation	2,965,535	-	-
Food services	6,563,937	239,206	6,076,670
All other pupil services	3,546,411	-	1,168,382
Administration:			
Data processing	485,187	-	-
All other administration	5,870,160	7,728	522,756
Plant services	8,331,783	-	14,100
Enterprise services	595,305	-	182,092
Interest on long-term obligations	3,806,147	-	-
Other outgo	7,469,755	-	2,162,964
Total Governmental Activities	\$ 127,321,527	\$ 246,934	\$ 24,432,404

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning as Restated

Net Position - Ending

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

**Net (Expenses)
Revenues and
Changes in
Net Position**

**Governmental
Activities**

\$ (62,262,577)

(3,309,238)

(414,790)

(7,395,262)

(2,965,535)

(248,061)

(2,378,029)

(485,187)

(5,339,676)

(8,317,683)

(413,213)

(3,806,147)

(5,306,791)

(102,642,189)

19,715,892

1,665,318

227,512

68,234,403

253,292

3,245,384

93,341,801

(9,300,388)

(29,345,017)

\$ (38,645,405)

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 15,501,494	\$ 19,820,543	\$ 1,550,001
Receivables	1,921,594	57,392	-
Due from other funds	74,256	-	-
Stores inventories	-	-	-
Total Assets	\$ 17,497,344	\$ 19,877,935	\$ 1,550,001
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	5,785,718	34,090	-
Due to other funds	-	-	-
Unearned revenue	1,177	-	-
Total Liabilities	5,786,895	34,090	-
Fund Balances:			
Nonspendable	10,000	-	-
Restricted	1,379,228	19,843,845	1,550,001
Committed	-	-	-
Assigned	7,091,990	-	-
Unassigned	3,229,231	-	-
Total Fund Balances	11,710,449	19,843,845	1,550,001
Total Liabilities and Fund Balances	\$ 17,497,344	\$ 19,877,935	\$ 1,550,001

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 930,039	\$ 37,802,077
1,288,166	3,267,152
-	74,256
43,982	43,982
<u>\$ 2,262,187</u>	<u>\$ 41,187,467</u>

\$ 322,691	\$ 322,691
170,649	5,990,457
74,256	74,256
91,213	92,390
<u>658,809</u>	<u>6,479,794</u>

43,982	53,982
1,559,233	24,332,307
158	158
5	7,091,995
-	3,229,231
<u>1,603,378</u>	<u>34,707,673</u>

<u>\$ 2,262,187</u>	<u>\$ 41,187,467</u>
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SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds	\$ 34,707,673
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 137,140,759
Accumulated depreciation is	<u>(74,808,135)</u>
Net Capital Assets	62,332,624
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. Internal service fund net assets excluding the balance of the other postemployment benefits obligation are:	
	10,571,999
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.	
	165,062
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	7,975,295
Net change in proportionate share of net pension liability	4,530,791
Difference between projected and actual earnings on pension plan investments	856,781
Differences between expected and actual experience in the measurement of the total pension liability.	1,119,906
Changes of assumptions	<u>15,269,759</u>
Total Deferred Outflows of Resources Related to Pensions	29,752,532

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

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

Net change in proportionate share of net pension liability	\$ (2,196,558)	
Difference between projected and actual earnings on pension plan investments	(1,675,079)	
Differences between expected and actual experience in the measurement of the total pension liability.	(1,096,995)	
Changes of assumptions	<u>(291,605)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (5,260,237)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (87,662,700)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds, including premiums	44,860,382	
Certificates of participation, net of discounts	14,939,970	
Compensated absences	223,478	
State preschool loan	42,000	
Capital leases	553,573	
Net other postemployment benefits (OPEB) liability	<u>22,632,955</u>	
Total Long-Term Obligations		<u>(83,252,358)</u>
Total Net Position - Governmental Activities		<u><u>\$ (38,645,405)</u></u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	General Fund	Building Fund
REVENUES		
Local Control Funding Formula	\$ 85,019,804	\$ -
Federal sources	6,796,633	-
Other State sources	8,272,748	-
Other local sources	5,510,093	58,068
Total Revenues	105,599,278	58,068
EXPENDITURES		
Current		
Instruction	66,651,362	-
Instruction-related activities:		
Supervision of instruction	4,997,806	-
Instructional library, media and technology	441,237	-
School site administration	7,016,881	-
Pupil services:		
Home-to-school transportation	2,503,660	-
Food services	10,004	-
All other pupil services	3,177,904	-
Administration:		
Data processing	465,163	-
All other administration	5,189,904	-
Plant services	7,426,776	-
Facility acquisition and construction	1,606,082	169,085
Other outgo	7,469,755	-
Enterprise services	162,289	-
Debt service		
Principal	190,018	-
Interest and other	1,667	-
Total Expenditures	107,310,508	169,085
Excess (Deficiency) of Revenues Over Expenditures	(1,711,230)	(111,017)
Other Financing Sources		
Proceeds from capital leases	509,815	-
Proceeds from bond issuances	-	19,880,000
Premiums on bond issuances	-	-
Net Financing Sources	509,815	19,880,000
NET CHANGE IN FUND BALANCES	(1,201,415)	19,768,983
Fund Balance - Beginning	12,911,864	74,862
Fund Balance - Ending	\$ 11,710,449	\$ 19,843,845

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 85,019,804
-	6,447,087	13,243,720
10,937	1,981,105	10,264,790
1,672,748	1,080,506	8,321,415
<u>1,683,685</u>	<u>9,508,698</u>	<u>116,849,729</u>
-	1,250,912	67,902,274
-	904	4,998,710
-	-	441,237
-	72,179	7,089,060
-	-	2,503,660
-	5,987,828	5,997,832
-	210,817	3,388,721
-	-	465,163
-	249,792	5,439,696
-	45,605	7,472,381
-	41,714	1,816,881
-	-	7,469,755
-	404,367	566,656
20,415,000	373,780	20,978,798
<u>2,014,230</u>	<u>849,756</u>	<u>2,865,653</u>
<u>22,429,230</u>	<u>9,487,654</u>	<u>139,396,477</u>
<u>(20,745,545)</u>	<u>21,044</u>	<u>(22,546,748)</u>
-	-	509,815
18,786,475	-	38,666,475
<u>2,346,630</u>	<u>-</u>	<u>2,346,630</u>
<u>21,133,105</u>	<u>-</u>	<u>41,522,920</u>
387,560	21,044	18,976,172
<u>1,162,441</u>	<u>1,582,334</u>	<u>15,731,501</u>
<u>\$ 1,550,001</u>	<u>\$ 1,603,378</u>	<u>\$ 34,707,673</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ 18,976,172**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (4,788,993)	
Capital outlays	<u>1,816,881</u>	
Net Expense Adjustment		(2,972,112)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position. (509,815)

In the Statement of Activities compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation paid was less than the amounts earned by \$20,971. (20,971)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (3,790,742)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. (595,114)

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

General obligation bonds	620,000
Certificates of participation	363,280
Capital leases	190,018
State preschool loan	10,500

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Proceeds received from the issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

Sale of general obligation bonds \$ (38,666,475)

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

19,795,000

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.

Deferred charge on new refunding issuance 165,062

In the government-wide financial statements, discounts and premiums on the issuance of debt are deferred and amortized on an annual basis over the life of the debt using the straight line method.

Premiums on new issuance \$ (2,346,630)

Amortization of debt premiums 286,817

Amortization of debt discounts (74,591)

Net Expense Adjustment (2,134,404)

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities includes additional accumulated interest that was accreted on the District's capital appreciation general obligation bonds.

(865,903)

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

135,116

Change in Net Position of Governmental Activities \$ (9,300,388)

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 10,540,516
Receivables	31,483
Total Current Assets	<u>\$ 10,571,999</u>
 NET POSITION	
Restricted	<u>\$ 10,571,999</u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
NONOPERATING REVENUES ¹	
Interest income	\$ 135,116
Change in Net Position	<u>135,116</u>
Total Net Position - Beginning	10,436,883
Total Net Position - Ending	<u><u>\$ 10,571,999</u></u>

¹ The Fund did not have any operating resources or expenses during the year.

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from user charges	\$ 149,580
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	135,116
Net Increase in Cash and Cash Equivalents	<u>284,696</u>
Cash and Cash Equivalents - Beginning	10,255,820
Cash and Cash Equivalents - Ending	<u><u>\$ 10,540,516</u></u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 362,864
LIABILITIES	
Due to student groups	\$ 362,864

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Salinas City Elementary School District (the District) was established in 1957 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 6 as mandated by the State and/or Federal agencies. The District operates fourteen Transitional Kindergarten through Sixth grade elementary schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Salinas City Elementary School District Finance Corporation's financial activity is presented in the financial statements using the blended method as the Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

Basis of Presentation - Fund Accounting

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Major Governmental Funds

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

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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

Non-Major Governmental Funds

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

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

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

County School Facilities Fund The County School Facilities Fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

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

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on certificates of participation.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The District has the following proprietary funds:

Internal Service Fund Internal Service funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operates a self insurance that is accounted for in an internal service fund which accumulates future retiree benefit contributions.

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

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

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

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

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

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

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county pool are determined by the program sponsor.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when used.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

Interfund Balances

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

Compensated Absences

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Accounts Payable and Long-Term Obligations

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

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$4,532,444 of restricted net position.

Estimates

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

Property Tax

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

Change in Accounting Principles

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

New Accounting Pronouncements

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

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

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

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

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

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

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 48,342,593
Less overdrafts	322,691
Net government activities	<u>48,019,902</u>
Fiduciary funds	362,864
Total Deposits and Investments	<u><u>\$ 48,382,766</u></u>

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

Cash on hand and in banks	\$ 569,019
Cash in revolving	10,000
Investments	<u>47,803,747</u>
Total Deposits and Investments	<u><u>\$ 48,382,766</u></u>

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

Limitations as they relate to interest rate risk are indicated in the schedules below:

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

Interest Rate Risk

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

Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 47,642,887	\$ -	\$ 47,642,887	\$ -	\$ -

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, \$645,317 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 1,044,378	\$ -	\$ 704,005	\$ -	\$ 1,748,383
State Government					
State grants and entitlements	493,803	-	277,375	-	771,178
Local Sources	383,413	57,392	306,786	31,483	779,074
Total	<u>\$ 1,921,594</u>	<u>\$ 57,392</u>	<u>\$ 1,288,166</u>	<u>\$ 31,483</u>	<u>\$ 3,298,635</u>

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Balance June 30, 2018
Governmental Activities			
Capital Assets not being depreciated			
Land	\$ 7,480,895	\$ -	\$ 7,480,895
Construction in progress	54,467	195,570	250,037
Total Capital Assets Not Being Depreciated	<u>7,535,362</u>	<u>195,570</u>	<u>7,730,932</u>
Capital Assets being depreciated			
Land improvements	11,790,570	50,139	11,840,709
Buildings and improvements	112,368,171	1,498,698	113,866,869
Furniture and equipment	3,629,775	72,474	3,702,249
Total Capital Assets Being Depreciated	<u>127,788,516</u>	<u>1,621,311</u>	<u>129,409,827</u>
Less Accumulated Depreciation			
Land improvements	5,384,115	636,098	6,020,213
Buildings and improvements	61,530,240	4,087,524	65,617,764
Furniture and equipment	3,104,787	65,371	3,170,158
Total Accumulated Depreciation	<u>70,019,142</u>	<u>4,788,993</u>	<u>74,808,135</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,304,736</u>	<u>\$ (2,972,112)</u>	<u>\$ 62,332,624</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,921,286
School site administration	239,450
Home-to-school transportation	383,119
Food services	431,009
All other general administration	191,560
Plant services	622,569
Total Depreciation Expenses, Governmental Activities	<u><u>\$ 4,788,993</u></u>

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	<u>\$ 74,256</u>	<u>\$ -</u>
Non-Major Governmental Funds		
Child Development	-	17,972
Cafeteria	-	55,052
Capital Facilities	-	1,232
Total Non-Major Governmental Funds	<u>-</u>	<u>74,256</u>
Total Governmental Funds	<u><u>\$ 74,256</u></u>	<u><u>\$ 74,256</u></u>

The Cafeteria Non-Major Governmental Fund owes the General Fund for NSLP indirect costs.	\$ 50,113
The Cafeteria Non-Major Governmental Fund owes the General Fund for CACFP indirect costs.	3,451
The Cafeteria Non-Major Governmental Fund owes the General Fund for Fresh Fruit and Vegetable indirect costs.	1,488
The Capital Facilities Non-Major Governmental Fund owes the General Fund for administrative fees.	1,232
The Child Development Non-Major Governmental Fund owes the General Fund for indirect costs.	17,972
Total	<u><u>\$ 74,256</u></u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendors payable	\$ 1,151,582	\$ 34,090	\$ 79,750	\$ 1,265,422
State principal apportionment	1,255,523	-	-	1,255,523
Accrued payroll	1,231,907	-	90,899	1,322,806
Deferred payroll	2,146,706	-	-	2,146,706
Total	<u>\$ 5,785,718</u>	<u>\$ 34,090</u>	<u>\$ 170,649</u>	<u>\$ 5,990,457</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,177	\$ -	\$ 1,177
Local sources	-	91,213	91,213
Total	<u>\$ 1,177</u>	<u>\$ 91,213</u>	<u>\$ 92,390</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 23,350,000	\$ 39,532,378	\$ 20,415,000	\$ 42,467,378	\$ 985,000
Bond premiums	333,191	2,346,630	286,817	2,393,004	-
Certificates of participation (COP)	16,897,424	-	363,280	16,534,144	271,924
COP discounts	(1,668,765)		(74,591)	(1,594,174)	-
Compensated absences	202,507	20,971	-	223,478	-
State preschool loan	52,500	-	10,500	42,000	10,500
Capital leases	233,776	509,815	190,018	553,573	151,519
Other postemployment benefits (OPEB) liability	22,037,841	595,114	-	22,632,955	-
Total	<u>\$ 61,438,474</u>	<u>\$ 43,004,908</u>	<u>\$ 21,191,024</u>	<u>\$ 83,252,358</u>	<u>\$ 1,418,943</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local tax revenues. The Debt Service Fund makes payments for the certificates of participation. The Child Development Fund makes payments on the State Preschool loan. The General Fund makes payments on the capital leases. The compensated absences and other postemployment benefits will be paid by the fund for which the employee worked.

Bonded Debt

General Obligation Bonds 2008 Election, Series A and Series B

On September 24, 2008, the District issued \$25,000,000 of 2008 Election, Series A and Series B General Obligation Bonds, to finance the acquisition, construction and improvement of certain public facilities of the District, prepay certain outstanding certificates of participation of the District, and pay certain costs of issuance of the bonds.

On March 1, 2018, the District issued 2008 Election, Series C General Obligation Bonds in the total amount of \$19,996,475. The bonds were issued as current interest bonds in the amount of \$6,275,000 and capital appreciation bonds in the amount of \$13,721,475. The bonds were issued to finance the acquisition, construction, furnishing and equipping of District facilities, pay capitalized interest for the bonds, and pay certain costs of issuance of the bonds.

On March 1, 2018, the District issued \$18,670,000 of 2018 General Obligation Refunding Bonds, Series A. The bonds were issued to refund, on a current basis, the District's 2008A General Obligation Bonds maturing on July 1, 2022 through and including July 1, 2023, and to pay the cost of issuance of the bonds.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds			Bonds
				Outstanding July 1, 2017	Issued/ Accreted	Redeemed	Outstanding June 30, 2018
09/24/08	06/30/33	2.2 - 7.2	\$ 25,000,000	\$ 23,350,000	\$ -	\$ 20,075,000	\$ 3,275,000
03/01/18	07/01/33	3.0 - 5.0	6,275,000	-	6,275,000	-	6,275,000
03/01/18	07/01/42	4.07-4.35	13,721,475	-	14,587,378	-	14,587,378
03/01/18	07/01/33	2.0 - 5.0	18,670,000	-	18,670,000	340,000	18,330,000
				<u>\$ 23,350,000</u>	<u>\$ 39,532,378</u>	<u>\$ 20,415,000</u>	<u>\$ 42,467,378</u>

Debt Service Requirements to Maturity

The bonds mature as follows:

2008 Election, Series B Current Interest Bonds

Fiscal Year	Principal	Interest	Total
2019	\$ 40,000	\$ 240,713	\$ 280,713
2020	60,000	237,772	297,772
2021	75,000	233,362	308,362
2022	95,000	227,850	322,850
2023	115,000	220,868	335,868
2024-2028	975,000	940,066	1,915,066
2029-2033	1,915,000	456,068	2,371,068
Total	<u>\$ 3,275,000</u>	<u>\$ 2,556,699</u>	<u>\$ 5,831,699</u>

2008 Election, Series C Current Interest Bonds

Fiscal Year	Principal	Interest	Total
2019	\$ 545,000	\$ 262,781	\$ 807,781
2020	310,000	246,431	556,431
2021	300,000	237,131	537,131
2022	285,000	225,131	510,131
2023	285,000	210,881	495,881
2024-2028	1,940,000	802,155	2,742,155
2029-2033	2,610,000	282,366	2,892,366
Total	<u>\$ 6,275,000</u>	<u>\$ 2,266,876</u>	<u>\$ 8,541,876</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

2008 Election, Series C Capital Appreciation Bonds

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2034	\$ 1,839,424	\$ 1,665,576	\$ 3,505,000
2035	2,543,904	1,086,096	3,630,000
2036	1,794,399	1,970,601	3,765,000
2037	1,446,264	1,733,736	3,180,000
2038	1,434,180	1,865,820	3,300,000
2039-2042	5,529,207	8,920,793	14,450,000
Total	<u>\$ 14,587,378</u>	<u>\$ 17,242,622</u>	<u>\$ 31,830,000</u>

2018 General Obligation Refunding Bonds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 400,000	\$ 784,913	\$ 1,184,913
2020	475,000	772,913	1,247,913
2021	565,000	753,913	1,318,913
2022	660,000	725,663	1,385,663
2023	770,000	692,663	1,462,663
2024-2028	5,745,000	2,764,311	8,509,311
2029-2033	9,715,000	1,068,261	10,783,261
Total	<u>\$ 18,330,000</u>	<u>\$ 7,562,637</u>	<u>\$ 25,892,637</u>

Related refunding information:

Cash flow requirements of refunded Bonds	\$ 31,256,106
Cash flow requirements of Series 2017 Refunding Bonds	26,426,167
Cash flow savings	<u>\$ 4,829,939</u>
Economic Gain (net present value savings)	<u>\$ 3,639,762</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Certificates of Participation

2010 Issuance

In July 2010, the District issued \$11,000,000 of certificates of participation, with interest of 5.44 percent for the acquisition, modernization improvement and construction of District facilities. The certificates of participation have semi-annual interest payments, with principal payments commencing in October 2023 through July 2027. The certificates qualified as school construction bonds whereby the federal government will subsidize the interest obligation.

Scheduled payments for the COPs are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 598,400	\$ 598,400
2020	-	598,400	598,400
2021	-	598,400	598,400
2022	-	598,400	598,400
2023	-	598,400	598,400
2024-2028	11,000,000	1,466,080	12,466,080
Total	<u>\$ 11,000,000</u>	<u>\$ 4,458,080</u>	<u>\$ 15,458,080</u>

2013 Issuances

In May 2013, the District issued \$6,723,066 of certificates of participation, with interest of 3.5 percent in two private placements for the installation of the district-wide solar project. The certificates of participation have quarterly principal and interest payment requirements. The principal payments commence February 1, 2014, while the interest payments commenced on June 1, 2013. The obligation will be paid in full by November 1, 2030.

Scheduled payments for the COPs are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 196,168	\$ 192,499	\$ 388,667
2020	256,840	183,578	440,418
2021	288,623	174,179	462,802
2022	322,574	163,638	486,212
2023	358,821	151,882	510,703
2024-2028	2,427,753	534,401	2,962,154
2029-2031	1,683,365	83,541	1,766,906
Total	<u>\$ 5,534,144</u>	<u>\$ 1,483,718</u>	<u>\$ 7,017,862</u>

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$223,478.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Preschool Revolving Facilities Loan

The District has entered into an agreement to fund facilities acquisitions with an interest free loan with the California Department of Education. The District's liability on this agreement is summarized below:

	<u>Amount</u>
Balance, July 1, 2017	\$ 52,500
Payments	10,500
Balance, June 30, 2018	<u>\$ 42,000</u>

The loan has minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Annau Payment</u>
2019	\$ 10,500
2020	10,500
2021	10,500
2022	10,500
Total	<u>\$ 42,000</u>

Capital Leases

The District has entered into agreements for various equipment. The District's liability on lease agreements is summarized below:

	<u>Amount</u>
Balance, July 1, 2017	\$ 233,776
Additions	509,815
Payments	190,018
Balance, June 30, 2018	<u>\$ 553,573</u>

<u>Year Ending June 30,</u>	<u>Annau Payment</u>
2019	\$ 178,416
2020	178,416
2021	132,974
2022	132,974
Total	<u>622,779</u>
Less: Amount Representing Interest	69,206
Present Value of Minimum Lease Payments	<u>\$ 553,573</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Net Other Postemployment Benefits (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	\$ 22,114,952	\$ 1,972,344
Medicare Premium Payment (MPP) Program	518,003	(75,989)
Total	<u>\$ 22,632,955</u>	<u>\$ 1,896,355</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	63
Active employees	726
Total	<u>789</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Salinas Elementary Teachers' Council (SETC), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, SETC, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$1,301,241 in benefits.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Total OPEB Liability of the District

The District's total OPEB liability of \$22,114,952 was measured as of June 30, 2018, by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	3.75 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	7.00 percent for 2018, decreasing to 4.75 percent for 2023 and thereafter

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 21,443,849
Service cost	1,192,598
Interest	779,746
Benefit payments	(1,301,241)
Net change in total OPEB liability	671,103
Balance at June 30, 2018	\$ 22,114,952

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.75%)	\$ 23,952,957
Current discount rate (3.75%)	22,114,952
1% increase (4.75%)	20,436,993

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 percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (6.00% decreasing to 3.75%)	\$ 19,758,271
Current healthcare cost trend rate (7.00% decreasing to 4.75%)	22,114,952
1% increase (8.00% decreasing to 5.75%)	24,887,113

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,972,344.

Medicare Premium Payment (MPP) Program

Plan Description

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

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

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

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

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

At June 30, 2018, the District reported a liability of \$518,003 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1231 percent, and 0.1269 percent, resulting in a net decrease in the proportionate share of 0.0038 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(75,989).

Actuarial Methods and Assumptions

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

Discount Rate

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

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

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.58%)	\$ 573,465
Current discount rate (3.58%)	518,003
1% increase (4.58%)	464,004

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 468,095
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	518,003
1% increase (4.7% Part A and 5.1% Part B)	567,412

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Stores inventories	-	-	-	43,982	43,982
Total Nonspendable	10,000	-	-	43,982	53,982
Restricted					
Legally restricted					
programs	1,379,228	-	-	961,242	2,340,470
Capital projects	-	19,843,845	-	170,609	20,014,454
Debt service	-	-	1,550,001	427,382	1,977,383
Total Restricted	1,379,228	19,843,845	1,550,001	1,559,233	24,332,307
Committed					
Deferred maintenance program	-	-	-	158	158
Assigned					
CalSTRS and CalPERS rate increases	7,088,535	-	-	-	7,088,535
Lottery reserve	3,455	-	-	-	3,455
Capital projects	-	-	-	5	5
Total Assigned	7,091,990	-	-	5	7,091,995
Unassigned					
Reserve for economic uncertainties	3,229,231	-	-	-	3,229,231
Total	\$11,710,449	\$19,843,845	\$1,550,001	\$1,603,378	\$34,707,673

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the Monterey and San Benito Counties Liability/Property Joint Powers Authority (MSBCLP), a joint powers authority, for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Workers' Compensation

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

Employee Medical Benefits

The District has contracted with the Monterey County Schools Insurance Group (MCSIG) to provide employee health benefits. MCSIG is a shared risk pool comprised of member districts in Monterey County. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 62,895,338	\$ 20,736,495	\$ 4,968,632	\$ 6,773,111
CalPERS	24,767,362	9,016,037	291,605	4,992,926
Total	\$ 87,662,700	\$ 29,752,532	\$ 5,260,237	\$ 11,766,037

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$5,718,679.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 62,895,338
State's proportionate share of the net pension liability associated with the District	37,208,351
Total	<u>\$ 100,103,689</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0680 percent and 0.0714 percent, resulting in a net decrease in the proportionate share of 0.0034 percent.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$6,773,111. In addition, the District recognized pension expense and revenue of \$3,745,378 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>
Pension contributions subsequent to measurement date	\$ 5,718,679	\$ -
Net change in proportionate share of net pension liability	3,133,127	2,196,558
Difference between projected and actual earnings on pension plan investments	-	1,675,079
Differences between expected and actual experience in the measurement of the total pension liability	232,593	1,096,995
Changes of assumptions	11,652,096	-
Total	<u>\$ 20,736,495</u>	<u>\$ 4,968,632</u>

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

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

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ (1,392,556)
2020	1,053,752
2021	151,945
2022	(1,488,220)
Total	<u>\$ (1,675,079)</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,059,895
2020	2,059,895
2021	2,059,895
2022	2,059,897
2023	1,869,995
Thereafter	1,614,686
Total	<u>\$ 11,724,263</u>

Actuarial Methods and Assumptions

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 92,350,324
Current discount rate (7.10%)	62,895,338
1% increase (8.10%)	38,990,621

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$2,256,616.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$24,767,362. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1037 percent and 0.0981 percent, resulting in a net increase in the proportionate share of 0.0056 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$4,992,926. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,256,616	\$ -
Net change in proportionate share of net pension liability	1,397,664	-
Difference between projected and actual earnings on pension plan investments	856,781	-
Differences between expected and actual experience in the measurement of the total pension liability	887,313	-
Changes of assumptions	3,617,663	291,605
Total	<u>\$ 9,016,037</u>	<u>\$ 291,605</u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (23,215)
2020	988,540
2021	360,630
2022	(469,174)
Total	<u>\$ 856,781</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,335,878
2020	1,811,448
2021	1,463,709
Total	<u>\$ 5,611,035</u>

Actuarial Methods and Assumptions

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 36,440,727
Current discount rate (7.15%)	24,767,362
1% increase (8.15%)	15,083,329

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Social Security

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,025,847 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Monterey Educational Risk Management Authority (MERMA), the Monterey County Schools Insurance Group (MCSIG), and the Monterey and San Benito Counties Liability/Property Joint Powers Authority (MSBCLP) joint powers authorities (JPAs). The District pays an annual premium to the applicable entity for its workers' compensation, health and welfare, and property liability coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has one administrator appointed to the governing board of MERMA.

During the year ended June 30, 2018, the District made payments of \$1,891,418 to MERMA for workers' compensation coverage.

The District has one administrator appointed to the governing board of MCSIG.

During the year ended June 30, 2018, the District made payments of \$14,619,692 to MCSIG for health and welfare coverage.

The District has one administrator appointed to the governing board of MSBCLP.

During the year ended June 30, 2018, the District made payments of \$520,934 to MSBCLP for property and liability coverage.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Government-Wide Financial Statements

Net Position - Beginning	\$ (14,550,857)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(14,794,160)
Net Position - Beginning as Restated	<u><u>\$ (29,345,017)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Budgeted Amounts			Variances -
	Original	Final	Actual	Favorable
				(Unfavorable)
				Final
				to Actual
REVENUES				
Local Control Funding Formula	\$ 84,996,485	\$ 85,143,906	\$ 85,019,804	\$ (124,102)
Federal sources	6,232,458	7,112,149	6,796,633	(315,516)
Other State sources	8,966,353	8,485,881	8,272,748	(213,133)
Other local sources	4,527,598	5,133,843	5,510,093	376,250
Total Revenues	104,722,894	105,875,779	105,599,278	(276,501)
EXPENDITURES				
Current				
Certificated salaries	39,484,905	40,065,013	40,063,442	1,571
Classified salaries	12,645,693	13,340,830	13,330,899	9,931
Employee benefits	28,376,606	28,317,947	28,034,334	283,613
Books and supplies	5,610,452	6,282,523	6,097,616	184,907
Services and operating expenditures	12,148,935	11,803,686	10,580,793	1,222,893
Capital outlay	950,564	1,896,905	1,790,545	106,360
Other outgo	7,183,921	7,684,540	7,221,194	463,346
Debt service - principal	-	138,815	190,018	(51,203)
Debt service - interest	43,683	45,644	1,667	43,977
Total Expenditures	106,444,759	109,575,903	107,310,508	2,265,395
Excess (Deficiency) of Revenues				
Over Expenditures	(1,721,865)	(3,700,124)	(1,711,230)	1,988,894
Other Financing Sources				
Proceeds from capital leases	-	558,445	509,815	(48,630)
NET CHANGE IN FUND BALANCES	(1,721,865)	(3,141,679)	(1,201,415)	1,940,264
Fund Balance - Beginning	12,911,864	12,911,864	12,911,864	-
Fund Balance - Ending	\$ 11,189,999	\$ 9,770,185	\$ 11,710,449	\$ 1,940,264

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 1,192,598
Interest	779,746
Benefit payments	<u>(1,301,241)</u>
Net change in total OPEB liability	671,103
Total OPEB liability - beginning	<u>21,443,849</u>
Total OPEB liability - ending	<u><u>\$ 22,114,952</u></u>
Covered payroll	<u>N/A ¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A ¹</u>

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1231%</u>
District's proportionate share of the net OPEB liability	<u>\$ -</u>
District's covered-employee payroll	<u>N/A ¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A ¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability (asset)	<u>0.0680%</u>	<u>0.0714%</u>
District's proportionate share of the net pension liability (asset)	\$ 62,895,338	\$ 57,719,072
State's proportionate share of the net pension liability (asset) associated with the District	<u>37,208,351</u>	<u>32,858,438</u>
Total	<u>\$ 100,103,689</u>	<u>\$ 90,577,510</u>
District's covered - employee payroll	<u>\$ 36,901,002</u>	<u>\$ 35,874,641</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>170.44%</u>	<u>160.89%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability (asset)	<u>0.1037%</u>	<u>0.0981%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 24,767,362</u>	<u>\$ 19,383,049</u>
District's covered - employee payroll	<u>\$ 13,333,533</u>	<u>\$ 11,810,914</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>185.75%</u>	<u>164.11%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0678%</u>	<u>0.0648%</u>
\$ 45,668,903	\$ 37,857,550
<u>24,153,815</u>	<u>22,860,023</u>
<u>\$ 69,822,718</u>	<u>\$ 60,717,573</u>
<u>\$ 31,705,552</u>	<u>\$ 28,219,164</u>
<u>144.04%</u>	<u>134.16%</u>
<u>74%</u>	<u>77%</u>
<u>0.0956%</u>	<u>0.0807%</u>
<u>\$ 14,093,540</u>	<u>\$ 9,163,762</u>
<u>\$ 10,580,724</u>	<u>\$ 8,194,328</u>
<u>133.20%</u>	<u>111.83%</u>
<u>79%</u>	<u>83%</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 5,718,679	\$ 4,642,146
Contributions in relation to the contractually required contribution	<u>5,718,679</u>	<u>4,642,146</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 39,630,485</u>	<u>\$ 36,901,002</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 2,256,616	\$ 1,851,761
Contributions in relation to the contractually required contribution	<u>2,256,616</u>	<u>1,851,761</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 14,529,753</u>	<u>\$ 13,333,533</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 3,849,349	\$ 2,815,454
<u>3,849,349</u>	<u>2,815,454</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 35,874,641</u>	<u>\$ 31,705,552</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 1,399,239	\$ 1,245,456
<u>1,399,239</u>	<u>1,245,456</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 11,810,914</u>	<u>\$ 10,580,724</u>
<u>11.847%</u>	<u>11.771%</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

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

At June 30, 2018, the following District major fund exceeded the budgeted amount in total as follows:

Fund	Expenditures		
	Budget	Actual	Excess
General	\$ 107,159,032	\$ 107,310,508	\$ 151,476

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

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

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
Title I, Part A - Basic	84.010	14329	\$ 2,574,723
Title I, Part C - Migrant Education, Regular	84.011	14838	1,009,489
Title I, Part C - Migrant Education, Summer	84.011	10005	187,365
Title I, Part C - Migrant Education, Even Start	84.011	14768	60,000
Title II, Part A - Supporting Effective Instruction	84.367	14341	465,726
Title III, English Language Acquisition - LEP	84.365	14346	790,101
Title III, English Language Acquisition - IEP	84.365	15146	17,931
Special Education - Part B, Section 611	84.027	13379	1,325,205
Special Education - Part B, Sec 611, Private School ISPs	84.027	10115	8,077
Special Education - Supporting Inclusive Practices	84.027A	13693	20,000
Total U.S. Department of Education			<u>6,458,617</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Activities	93.778	10060	156,872
Medi-Cal Billing Option	93.778	10013	181,145
Total U.S. Department of Health and Human Services			<u>338,017</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	3,628,336
Especially Needy Breakfast	10.553	13526	946,738
Summer Food Program	10.559	13004	108,306
Food Distribution - Commodities	10.555	13391	408,158
Subtotal - Child Nutrition Cluster			<u>5,091,538</u>
Child and Adult Care Food Program	10.558	13666	580,618
Child Nutrition, Fresh Fruit and Vegetable Program	10.582	14968	208,107
Child Nutrition, Equipment Assistance Grants	10.579	14906	8,815
Total U.S. Department of Agriculture			<u>5,889,078</u>
Total Expenditures of Federal Awards			<u><u>\$ 12,685,712</u></u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2018

ORGANIZATION

The Salinas City Elementary School District was established 1957 and consists of an area comprising approximately fourteen square miles located in Monterey County. The District operates fourteen Transitional Kindergarten through Sixth grade elementary schools. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Stephen Kim	President	2018
Amy Ish	Vice President	2020
Francisco Estrada	Clerk	2020
Roberto Garcia	Member	2018
Robert Foster Hoffman	Member	2018

ADMINISTRATION

Martha L. Martinez	Superintendent
Gerald Stratton	Assistant Superintendent, Business Services
Lori Sanders	Assistant Superintendent, Educational Services
Beatriz Chaidez	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	4,708.61	4,708.61
Fourth through sixth	<u>3,688.94</u>	<u>3,687.21</u>
Total ADA	<u><u>8,397.55</u></u>	<u><u>8,395.82</u></u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Grade Level	1986-1987	2017-2018	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,805	180	N/A	Complied
Grade 2		50,805	180	N/A	Complied
Grade 3		51,060	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,405	180	N/A	Complied
Grade 5		54,405	180	N/A	Complied
Grade 6		54,405	180	N/A	Complied

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues and other sources	\$ 108,888,985	\$ 106,109,093	\$ 105,295,854	\$ 102,828,272
Expenditures and other uses	114,272,787	107,310,508	101,769,243	101,261,118
INCREASE/(DECREASE) IN FUND BALANCE	<u>\$ (5,383,802)</u>	<u>\$ (1,201,415)</u>	<u>\$ 3,526,611</u>	<u>\$ 1,567,154</u>
ENDING FUND BALANCE	<u>\$ 6,326,647</u>	<u>\$ 11,710,449</u>	<u>\$ 12,911,864</u>	<u>\$ 9,385,253</u>
AVAILABLE RESERVES²	<u>\$ 3,428,184</u>	<u>\$ 3,229,231</u>	<u>\$ 3,245,970</u>	<u>\$ 3,343,559</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>3.0%</u>	<u>3.0%</u>	<u>3.2%</u>	<u>3.3%</u>
LONG-TERM OBLIGATIONS³	<u>Not Available</u>	<u>\$ 83,252,358</u>	<u>\$ 61,438,474</u>	<u>\$ 47,010,357</u>
AVERAGE DAILY ATTENDANCE AT P-2	<u>8,309</u>	<u>8,398</u>	<u>8,593</u>	<u>8,685</u>

The General Fund balance has increased by \$2,325,196 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$5,383,802 (46.0 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$36,242,001 over the past two years due primarily to the issuance of general obligation bonds and the implementation of GASB Statement No. 75.

Average daily attendance has decreased by 287 over the past two years. Additional decline of 89 ADA is anticipated during fiscal year 2018-2019.

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

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 91,213	\$ 239,192	\$ 158
Receivables	527,651	758,707	-
Stores inventories	-	43,982	-
Total Assets	\$ 618,864	\$ 1,041,881	\$ 158
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ 322,691	\$ -	\$ -
Accounts payable	58,233	110,360	-
Due to other funds	17,972	55,052	-
Unearned revenue	91,213	-	-
Total Liabilities	490,109	165,412	-
Fund Balances:			
Nonspendable	-	43,982	-
Restricted	128,755	832,487	-
Committed	-	-	158
Assigned	-	-	-
Total Fund Balances	128,755	876,469	158
Total Liabilities and Fund Balances	\$ 618,864	\$ 1,041,881	\$ 158

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 171,297	\$ 2,056	\$ 5	\$ 426,118	\$ 930,039
509	35	-	1,264	1,288,166
-	-	-	-	43,982
<u>\$ 171,806</u>	<u>\$ 2,091</u>	<u>\$ 5</u>	<u>\$ 427,382</u>	<u>\$ 2,262,187</u>
\$ -	\$ -	\$ -	\$ -	\$ 322,691
-	2,056	-	-	170,649
1,232	-	-	-	74,256
-	-	-	-	91,213
<u>1,232</u>	<u>2,056</u>	<u>-</u>	<u>-</u>	<u>658,809</u>
-	-	-	-	43,982
170,574	35	-	427,382	1,559,233
-	-	-	-	158
-	-	5	-	5
<u>170,574</u>	<u>35</u>	<u>5</u>	<u>427,382</u>	<u>1,603,378</u>
<u>\$ 171,806</u>	<u>\$ 2,091</u>	<u>\$ 5</u>	<u>\$ 427,382</u>	<u>\$ 2,262,187</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 5,889,079	\$ -
Other State sources	1,614,497	366,608	-
Other local sources	353,882	302,694	-
Total Revenues	1,968,379	6,558,381	-
EXPENDITURES			
Current			
Instruction	1,250,912	-	-
Instruction-related activities:			
Supervision of instruction	904	-	-
School site administration	72,179	-	-
Pupil services:			
Food services	-	5,987,828	-
All other pupil services	210,817	-	-
Administration:			
All other administration	52,359	196,201	-
Plant services	78	-	-
Enterprise services	404,367	-	-
Facility acquisition and construction	15,426	-	-
Debt service			
Principal	10,500	-	-
Interest and other	-	-	-
Total Expenditures	2,017,542	6,184,029	-
NET CHANGE IN FUND BALANCES	(49,163)	374,352	-
Fund Balance - Beginning	177,918	502,117	158
Fund Balance - Ending	\$ 128,755	\$ 876,469	\$ 158

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 558,008	\$ 6,447,087
-	-	-	-	1,981,105
96,843	321	-	326,766	1,080,506
<u>96,843</u>	<u>321</u>	<u>-</u>	<u>884,774</u>	<u>9,508,698</u>
-	-	-	-	1,250,912
-	-	-	-	904
-	-	-	-	72,179
-	-	-	-	5,987,828
-	-	-	-	210,817
1,232	-	-	-	249,792
41,062	4,465	-	-	45,605
-	-	-	-	404,367
-	26,288	-	-	41,714
-	-	-	363,280	373,780
-	-	-	849,756	849,756
<u>42,294</u>	<u>30,753</u>	<u>-</u>	<u>1,213,036</u>	<u>9,487,654</u>
54,549	(30,432)	-	(328,262)	21,044
116,025	30,467	5	755,644	1,582,334
<u>\$ 170,574</u>	<u>\$ 35</u>	<u>\$ 5</u>	<u>\$ 427,382</u>	<u>\$ 1,603,378</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of a federal interest subsidy received.

	CFDA Number	Amount
	<u> </u>	<u> </u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 13,243,720
Reconciling items:		
Federal interest subsidy	Unknown	(558,008)
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 12,685,712</u></u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Salinas City Elementary School District
Salinas, 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 Salinas City Elementary School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Salinas City Elementary School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Varrinck, Trine, Day + Co. LLP

Fresno, California
December 14, 2018



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

Governing Board
Salinas City Elementary School District
Salinas, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Salinas City Elementary 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 Salinas City Elementary 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 Salinas City Elementary School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Salinas City Elementary 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 Salinas City Elementary 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 Salinas City Elementary School District's internal control over compliance.

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

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

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

Varinck, Trine, Day & Co. LLP

Fresno, California
December 14, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Salinas City Elementary School District
Salinas, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion

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

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

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

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the program is not offered by the District.

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

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

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

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

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

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

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

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic</u>
<u>84.365</u>	<u>Title III, English Language Acquisition</u>
<u>84.027, 84.027A</u>	<u>Special Education Programs</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Awards Findings and Questioned Costs

2017-001 61000

Classroom Teacher Salaries

Criteria

Education Code Section 41372 requires that the payment of classroom teacher salaries and benefits meet or exceed 60 percent (for elementary districts) of total expenditures of the District.

Condition

The District spent 57.29 percent of their current expense of education (\$49,228,411) on classroom teacher salaries and benefits which was below their 60 percent requirement.

Questioned Costs

The deficiency was calculated to be \$2,328,857 (2.71 percent).

Effect

The deficiency amount was determined to be \$2,328,857; therefore, the District is out of compliance with *Education Code* Section 41372.

Cause

Based on the adopted Local Control Accountability Plan, the District has spent more of its funding on instructional materials, classified support staff and technology to enhance students learning and success.

Recommendation

We recommend the District continue to work on this requirement and monitor the status of the waiver request they submitted to the Monterey County Office of Education upon discovery of the noncompliance.

Current Status

Implemented.