

**SALINAS CITY ELEMENTARY  
SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2017**

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

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**JUNE 30, 2017**

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***FINANCIAL SECTION***

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

**VALUE THE** *difference*

## **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, 2017, 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 *2016-2017 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 65, schedule of other postemployment benefits funding progress on page 66, schedule of the district's proportionate share of net pension liability on page 67, and the schedule of district contributions on page 68, 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)* and the other supplementary information 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***

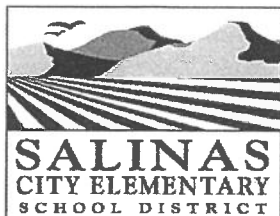
In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2017, on our consideration of the Salinas City Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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.

*Vannink, Trine, Day & Co, LLP*

Fresno, California  
November 22, 2017



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ADMINISTRATION

MARTHA L. MARTINEZ  
Superintendent

GERALD STRATTON  
Assistant Superintendent  
Business Services

LORI SANDERS  
Assistant Superintendent  
Educational Services

BEATRIZ CHAIDEZ  
Assistant Superintendent  
Human Resources

MARY PRITCHARD  
Director, Bilingual-Migrant-Early  
Childhood Education Services

TERRY RYAN  
Director, Maintenance, Operations,  
Transportation & Food Services

JAN HAMILTON  
Director, Special Education

### BOARD OF EDUCATION

ROBERTO GARCIA  
Trustee Area 1

FRANCISCO 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  
Phone (831) 753-5600  
Fax (831) 753-5610

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 just over 9,000 students in 2016-2017.

The District operated 14 elementary schools in 2016-2017 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 two categories of activities: governmental and fiduciary.

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

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

*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, 2017**

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### **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, 2017**

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**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 *Statements of Fiduciary 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 \$(14.6) million for the fiscal year ended June 30, 2017. Of this amount, \$4.8 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, 2017

Table 1

(Amounts in millions)

	Governmental Activities		
	2017	2016	Difference
<b>Assets</b>			
Current and other assets	\$ 34.6	\$ 29.7	\$ 4.9
Capital assets	65.3	67.8	(2.5)
<b>Total Assets</b>	<u>99.9</u>	<u>97.5</u>	<u>2.4</u>
<b>Deferred Outflows of Resources</b>	<u>20.1</u>	<u>15.6</u>	<u>4.5</u>
<b>Liabilities</b>			
Current liabilities	7.1	7.1	-
Long-term obligations	48.0	47.4	0.6
Net pension liability	77.1	59.7	17.4
<b>Total Liabilities</b>	<u>132.2</u>	<u>114.2</u>	<u>18.0</u>
<b>Deferred Inflows of Resources</b>	<u>2.4</u>	<u>12.7</u>	<u>(10.3)</u>
<b>Net Position</b>			
Net investment in capital assets	24.8	26.9	(2.1)
Restricted	4.8	5.2	(0.4)
Unrestricted	(44.2)	(45.9)	1.7
<b>Total Net Position</b>	<u>\$ (14.6)</u>	<u>\$ (13.8)</u>	<u>\$ (0.8)</u>

The \$(14.6) 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 – increased by 3.7 percent (\$(45.9) million compared to \$(44.2) million).

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### 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		
	2017	2016	Difference
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 0.5	\$ 0.4	\$ 0.1
Operating grants and contributions	21.6	24.5	(2.9)
General revenues:			
Federal and State aid not restricted	68.3	66.6	1.7
Property taxes	21.0	20.1	0.9
Other general revenues	4.5	1.4	3.1
<b>Total Revenues</b>	<u>115.9</u>	<u>113.0</u>	<u>2.9</u>
<b>Expenses</b>			
Instruction related	81.9	74.4	7.5
Student support services	12.1	11.4	0.7
Administration	4.3	4.4	(0.1)
Plant services	8.9	12.2	(3.3)
Other	9.5	11.1	(1.6)
<b>Total Expenses</b>	<u>116.7</u>	<u>113.5</u>	<u>3.2</u>
<b>Change in Net Position</b>	<u>\$ (0.8)</u>	<u>\$ (0.5)</u>	<u>\$ (0.3)</u>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$116.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$21 million because the cost was paid by those who benefited from the programs (\$0.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$21.6 million). We paid for the remaining "public benefit" portion of our governmental activities with, \$72.8 million in Federal and State funds and 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-related, student support services, administration and plant 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, 2017

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Table 3

(Dollar amounts in millions)

	Net Cost of Services	
	2017	2016
Instruction related	\$ 68.6	\$ 62.1
Student support services	5.9	5.2
Administration	3.7	3.6
Plant services	8.7	8.9
Other	7.6	8.8
<b>Total</b>	<b>\$ 94.5</b>	<b>\$ 88.6</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$15.7 million, which is an increase of \$3.5 million from last year (Table 4).

Table 4

(Amounts in millions)

	Balances and Activity		
	2017	2016	Difference
General	\$ 12.9	\$ 9.4	\$ 3.5
Non-Major Funds	2.8	2.8	-
<b>Total</b>	<b>\$ 15.7</b>	<b>\$ 12.2</b>	<b>\$ 3.5</b>

The General Fund increased by \$3.5 million due primarily to increases in State funding. There was only a minimal change in the total Non-Major Governmental Funds 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 11, 2017 (2016-2017 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 originally projected an increase in the General Fund of approximately \$0.1 million. Revenues were \$3.0 million more than originally projected and expenditures and transfers out were \$0.5 thousand more than originally projected, resulting in an increase to the General Fund of \$3.5 million.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2017, the District had \$65.3 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 \$2.5 million, or 3.5 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities		
	2017	2016	Difference
Land	\$ 7.5	\$ 7.5	\$ -
Construction in progress	1.5	2.0	(0.5)
Buildings and improvements	55.8	57.8	(2.0)
Equipment	0.5	0.5	-
<b>Total</b>	<b>\$ 65.3</b>	<b>\$ 67.8</b>	<b>\$ (2.5)</b>

The District began Prop 39 project work with replacement of aging, 1923-era windows at our two oldest schools, Roosevelt and Lincoln, for \$591,000. Roosevelt also benefitted from a significant \$147,000 lighting retrofit. At Natividad school the District completed a comprehensive kitchen remodel to come into full compliance with health department regulations for \$189,000. The District also continued work to complete comprehensive security upgrades across the District with the construction of a secure, modern reception area with electronically controlled and monitored access for \$98,000 at the District office. Deferred maintenance projects with replacement of flooring and interior/exterior painting continued as would be expected.



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

### Long-Term Obligations

At the end of this year, the District had \$48 million in long-term obligations outstanding versus \$47.4 million last year, an increase of \$0.6 million. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		
	2017	2016	Difference
General obligation bonds	\$ 23.3	\$ 23.8	\$ (0.5)
Certificates of participation (excludes premium)	16.8	17.1	(0.3)
Compensated absences	0.2	0.3	(0.1)
State preschool loan <sup>1</sup>	-	-	-
Other postemployment benefits	7.2	5.8	1.4
Premium on issuance	0.3	0.4	(0.1)
Capital leases	0.2	-	0.2
<b>Total</b>	<b>\$ 48.0</b>	<b>\$ 47.4</b>	<b>\$ 0.6</b>

<sup>1</sup> Amounts less than \$50,000.

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 \$23.3 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, 2017, the District reported Deferred Outflows from pension activities of \$20.1 million, Deferred Inflows from pension activities of \$2.4 million, and a Net Pension Liability of \$77.1 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2017**

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### **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 flat in the budget year and out years. We closed 2016-2017 with Reserve levels above the mandated State minimum and project carrying these forward through the current year as we budget to account for the loss of QEIA funds. The Board approved our multi-year budget on June 26, 2017, 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 2017-2018 the District has budgeted excess reserve funds that will cover required funding in the two subsequent years. 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.

### **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 831-784-2225.

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# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **STATEMENT OF NET POSITION**

**JUNE 30, 2017**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 27,567,788
Receivables	5,301,712
Discounts on debt issuances	1,668,765
Stores inventories	44,666
Nondepreciable capital assets	9,005,068
Capital assets being depreciated	126,318,810
Accumulated depreciation	(70,019,142)
<b>Total Assets</b>	<b>99,887,667</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	20,141,542
<b>LIABILITIES</b>	
Overdrafts	287,920
Accounts payable	6,333,213
Unearned revenue	124,649
Long-term obligations:	
Premium on debt issuances	333,191
Current portion of long-term obligations other than pensions	629,229
Noncurrent portion of long-term obligations other than pensions	47,350,659
<b>Total Long-Term Obligations</b>	<b>48,313,079</b>
Aggregate net pension liability	77,102,121
<b>Total Liabilities</b>	<b>132,160,982</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	2,419,084
<b>NET POSITION</b>	
Net investment in capital assets	24,845,898
Restricted for:	
Debt service	1,918,085
Capital projects	146,492
Educational programs	2,221,010
Other activities	502,117
Unrestricted	(44,184,459)
<b>Total Net Position</b>	<b>\$ (14,550,857)</b>

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, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Instruction	\$ 65,724,430	\$ -	\$ 10,997,527
Instruction-related activities:			
Supervision of instruction	6,373,531	-	1,634,481
Instructional library, media, and technology	521,036	-	52,509
School site administration	9,261,857	-	563,143
Pupil services:			
Home-to-school transportation	2,490,901	-	-
Food services	6,020,928	435,375	4,772,074
All other pupil services	3,556,694	-	910,328
Administration:			
Data processing	165,150	-	-
All other administration	4,123,322	17,021	616,847
Plant services	8,876,763	-	192,859
Enterprise services	540,774	-	409,751
Interest on long-term obligations	2,238,888	-	-
Other outgo	6,758,409	-	1,494,942
<b>Total Governmental Activities</b>	<b>\$ 116,652,683</b>	<b>\$ 452,396</b>	<b>\$ 21,644,461</b>
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			
<b>Subtotal, General Revenues</b>			
<b>Change in Net Position</b>			
Net Position - Beginning			
Net Position - Ending			

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

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<b>Net (Expenses)</b>
<b>Revenues and</b>
<b>Changes in</b>
<b>Net Position</b>
<b>Governmental</b>
<b>Activities</b>

---

\$ (54,726,903)

(4,739,050)

(468,527)

(8,698,714)

(2,490,901)

(813,479)

(2,646,366)

(165,150)

(3,489,454)

(8,683,904)

(131,023)

(2,238,888)

(5,263,467)

---

(94,555,826)

18,715,217

2,114,602

208,020

68,279,537

176,508

4,337,414

---

93,831,298

(724,528)

(13,826,329)

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\$ (14,550,857)

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# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2017

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Deposits and investments	\$ 15,174,784	\$ 2,137,184	\$ 17,311,968
Receivables	3,877,018	1,243,631	5,120,649
Due from other funds	200,859	-	200,859
Stores inventories	-	44,666	44,666
<b>Total Assets</b>	<b>\$ 19,252,661</b>	<b>\$ 3,425,481</b>	<b>\$ 22,678,142</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ 287,920	\$ 287,920
Accounts payable	6,216,148	117,065	6,333,213
Due to other funds	-	200,859	200,859
Unearned revenue	124,649	-	124,649
<b>Total Liabilities</b>	<b>6,340,797</b>	<b>605,844</b>	<b>6,946,641</b>
<b>Fund Balances:</b>			
Nonspendable	5,000	44,666	49,666
Restricted	2,043,092	2,774,808	4,817,900
Committed	-	158	158
Assigned	7,617,802	5	7,617,807
Unassigned	3,245,970	-	3,245,970
<b>Total Fund Balances</b>	<b>12,911,864</b>	<b>2,819,637</b>	<b>15,731,501</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 19,252,661</b>	<b>\$ 3,425,481</b>	<b>\$ 22,678,142</b>

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 JUNE 30, 2017**

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<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 15,731,501</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
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	\$ 135,323,878
Accumulated depreciation is	<u>(70,019,142)</u>
Net Capital Assets	65,304,736
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis. The balance to amortize is reported on the Statement of Net Position as premiums and discounts on debt issuance.	1,335,574
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	6,493,907
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:	10,436,883
The net effect in proportionate share of the net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.	4,788,966
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	7,596,264
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(574,334)
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(582,345)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(77,102,121)

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, 2017**

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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	\$ 23,350,000	
Certificates of participation	16,897,424	
Compensated absences	202,507	
State preschool loan	52,500	
Capital leases	233,776	
Other postemployment benefits (OPEB)	<u>7,243,681</u>	
Total Long-Term Obligations		<u>\$ (47,979,888)</u>
Total Net Position - Governmental Activities		<u><u>\$ (14,550,857)</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, 2017

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Local Control Funding Formula	\$ 83,438,823	\$ -	\$ 83,438,823
Federal sources	6,197,047	5,206,327	11,403,374
Other State sources	9,558,816	1,712,643	11,271,459
Other local sources	5,867,392	3,471,765	9,339,157
<b>Total Revenues</b>	<b>105,062,078</b>	<b>10,390,735</b>	<b>115,452,813</b>
<b>EXPENDITURES</b>			
Current			
Instruction	60,599,797	1,162,806	61,762,603
Instruction-related activities:			
Supervision of instruction	6,092,228	170	6,092,398
Instructional library, media and technology	487,332	-	487,332
School site administration	8,557,484	24,172	8,581,656
Pupil services:			
Home-to-school transportation	2,038,570	-	2,038,570
Food services	889	5,484,865	5,485,754
All other pupil services	3,285,722	148,245	3,433,967
Administration:			
Data processing	163,778	-	163,778
All other administration	3,576,836	272,104	3,848,940
Plant services	8,009,266	33,180	8,042,446
Facility acquisition and construction	2,063,402	-	2,063,402
Other outgo	6,758,409	-	6,758,409
Enterprise services	135,530	381,796	517,326
Debt service			
Principal	-	695,788	695,788
Interest and other	-	2,185,120	2,185,120
<b>Total Expenditures</b>	<b>101,769,243</b>	<b>10,388,246</b>	<b>112,157,489</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,292,835</b>	<b>2,489</b>	<b>3,295,324</b>
<b>Other Financing Sources (Uses)</b>			
Other sources	233,776	-	233,776
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,526,611</b>	<b>2,489</b>	<b>3,529,100</b>
<b>Fund Balance - Beginning</b>	<b>9,385,253</b>	<b>2,817,148</b>	<b>12,202,401</b>
<b>Fund Balance - Ending</b>	<b>\$ 12,911,864</b>	<b>\$ 2,819,637</b>	<b>\$ 15,731,501</b>

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 FOR THE YEAR ENDED JUNE 30, 2017**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ 3,529,100**  
**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	\$ (4,604,752)	
Capital outlays	<u>2,069,902</u>	
Net Expense Adjustment		(2,534,850)

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. (233,776)

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 more than the amounts earned by \$49,137. 49,137

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 net of the State's contribution on behalf of the District into CalSTRS. (2,525,421)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (1,480,680)

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	425,000
Certificates of participation	260,288
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, 2017**

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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.

Amortization of debt premuim	\$ 20,824	
Amortization of debt discount	<u>(74,592)</u>	
Net Expense Adjustment		\$ (53,768)

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.

		<u>1,829,942</u>
<b>Change in Net Position of Governmental Activities</b>		<u><b>\$ (724,528)</b></u>

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

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 10,255,820
Receivables	181,063
<b>Total Current Assets</b>	<u><u>\$ 10,436,883</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	<u>\$ -</u>
<b>NET POSITION</b>	
Restricted	<u><u>\$ 10,436,883</u></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, 2017**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	<u>\$ 1,706,477</u>
<b>OPERATING EXPENSES</b>	
Retiree premium payments	<u>-</u>
<b>Operating Gain</b>	<u>1,706,477</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>123,465</u>
<b>Change in Net Position</b>	<u>1,829,942</u>
<b>Total Net Position - Beginning</b>	<u>8,606,941</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 10,436,883</u></u>

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, 2017**

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### **Governmental Activities - Internal Service Fund**

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Cash receipts from user charges

\$ 1,668,902

#### **CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on investments

123,465

Net Increase in Cash and Cash Equivalents

1,792,367

Cash and Cash Equivalents - Beginning

8,463,453

Cash and Cash Equivalents - Ending

\$ 10,255,820

#### **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income

\$ 1,706,477

Changes in assets and liabilities:

Receivables

(37,575)

#### **NET CASH PROVIDED BY OPERATING ACTIVITIES**

\$ 1,668,902

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

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**FIDUCIARY FUNDS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

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	<b>Agency Funds</b>
<b>ASSETS</b>	
Deposits and investments	<u><u>\$        293,957</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u><u>\$        293,957</u></u>

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



# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **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, 2017

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### 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.

### 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 expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. 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 that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**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.

**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 approving a development (*Education Code* Sections 17620-17626). 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).

**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), or the 2006 State Schools Facilities Fund (Proposition 1D) 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.).

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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**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 restricted, committed, or assigned resources for, and the payment of, principal and interest on general long-term obligations.

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

**Debt Service Fund** The Debt Service Fund is used 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. 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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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, 2017**

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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, 2017, 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, 2017**

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### **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, 2017**

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### **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 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.

### **Fund Balances - Governmental Funds**

As of June 30, 2017, 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.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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**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.

### **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 \$4,787,704 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.



# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **Budgetary Data**

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

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

### **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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

The District has implemented the provisions of this Statement as of June 30, 2017.

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

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

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

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

### **New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. 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 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;

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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

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

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 27,567,788
Less overdrafts	<u>287,920</u>
Net government activities	27,279,868
Fiduciary funds	<u>293,957</u>
Total Deposits and Investments	<u><u>\$ 27,573,825</u></u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 778,986
Cash in revolving	5,000
Investments	<u>26,789,839</u>
Total Deposits and Investments	<u><u>\$ 27,573,825</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, 2017

### 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	\$ 27,046,650	\$ -	\$ 27,046,650	\$ -	\$ -

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **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, 2017, \$637,126 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, 2017

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government				
Categorical aid	\$ 972,651	\$ 659,006	\$ -	\$ 1,631,657
State Government				
State grants and entitlements	2,693,113	527,882	-	3,220,995
Local Sources	211,254	56,743	181,063	449,060
Total	<u>\$ 3,877,018</u>	<u>\$ 1,243,631</u>	<u>\$ 181,063</u>	<u>\$ 5,301,712</u>

### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, are as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 7,480,895	\$ -	\$ -	\$ 7,480,895
Construction in progress	2,017,123	83,974	576,924	1,524,173
Total Capital Assets Not Being Depreciated	<u>9,498,018</u>	<u>83,974</u>	<u>576,924</u>	<u>9,005,068</u>
Capital Assets being depreciated				
Land improvements	11,029,041	67,366	-	11,096,407
Buildings and improvements	109,103,642	2,488,986	-	111,592,628
Furniture and equipment	3,623,275	6,500	-	3,629,775
Total Capital Assets Being Depreciated	<u>123,755,958</u>	<u>2,562,852</u>	<u>-</u>	<u>126,318,810</u>
Less Accumulated Depreciation				
Land improvements	4,833,723	550,392	-	5,384,115
Buildings and improvements	57,541,495	3,988,745	-	61,530,240
Furniture and equipment	3,039,172	65,615	-	3,104,787
Total Accumulated Depreciation	<u>65,414,390</u>	<u>4,604,752</u>	<u>-</u>	<u>70,019,142</u>
Governmental Activities Capital Assets, Net	<u>\$ 67,839,586</u>	<u>\$ (1,957,926)</u>	<u>\$ 576,924</u>	<u>\$ 65,304,736</u>



# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

**Governmental Activities**

Instruction	\$ 2,808,898
School site administration	230,238
Home-to-school transportation	368,380
Food services	414,428
All other general administration	184,190
Plant services	598,618
Total Depreciation Expenses, Governmental Activities	<u>\$ 4,604,752</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, 2017, between major and non-major governmental funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	<u>\$ 200,859</u>	<u>\$ -</u>
Non-Major Governmental Funds		
Child Development	-	24,395
Cafeteria	-	176,464
Total Non-Major Governmental Funds	<u>-</u>	<u>200,859</u>
Total Governmental Activities	<u>\$ 200,859</u>	<u>\$ 200,859</u>

The Cafeteria Non-Major Governmental Fund owes the General Fund for NSLP indirect costs.

\$ 148,294

The Cafeteria Non-Major Governmental Fund owes the General Fund for CACFP indirect costs.

28,170

The Child Development Non-Major Governmental Fund owes the General Fund for indirect costs.

24,395

Total

\$ 200,859

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendors payable	\$ 2,814,884	\$ 69,924	\$ 2,884,808
State principal apportionment	724,320	-	724,320
Accrued payroll	520,174	47,141	567,315
Deferred payroll	2,156,770	-	2,156,770
Total	<u>\$ 6,216,148</u>	<u>\$ 117,065</u>	<u>\$ 6,333,213</u>

### NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

	General Fund
Federal financial assistance	\$ 123,459
State categorical aid	1,190
Total	<u>\$ 124,649</u>

### 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, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	\$ 23,775,000	\$ -	\$ 425,000	\$ 23,350,000	\$ 280,000
Certificates of participation	17,157,712	-	260,288	16,897,424	287,525
Compensated absences	251,644	-	49,137	202,507	-
State preschool loan	63,000	-	10,500	52,500	10,500
Capital leases	-	233,776	-	233,776	51,204
Other postemployment benefits	5,763,001	2,949,554	1,468,874	7,243,681	-
Total	<u>\$ 47,010,357</u>	<u>\$ 3,183,330</u>	<u>\$ 2,213,799</u>	<u>\$ 47,979,888</u>	<u>\$ 629,229</u>

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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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 in General Obligation Bonds 2008 Election, Series A and Series B, 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 cost of issuance of the bonds. The bonds bear interest at rates ranging from 2.2 percent to 7.153 percent.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2016	Redeemed	Bonds Outstanding June 30, 2017
9/24/2008	6/30/33	2.2-7.153	\$25,000,000	<u>\$23,775,000</u>	<u>\$ 425,000</u>	<u>\$ 23,350,000</u>

### **Debt Service Requirements to Maturity**

The bonds mature through 2033 as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 280,000	\$ 1,331,676	\$ 1,611,676
2019	470,000	1,316,501	1,786,501
2020	575,000	1,290,985	1,865,985
2021	690,000	1,259,537	1,949,537
2022	810,000	1,221,738	2,031,738
2023-2027	6,280,000	5,259,039	11,539,039
2028-2032	11,220,000	2,956,858	14,176,858
2033	3,025,000	175,255	3,200,255
Total	<u>\$ 23,350,000</u>	<u>\$ 14,811,589</u>	<u>\$ 38,161,589</u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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>
2018	\$ -	\$ 598,400	\$ 598,400
2019	-	598,400	598,400
2020	-	598,400	598,400
2021	-	598,400	598,400
2022	-	598,400	598,400
2023-2027	8,800,000	2,034,560	10,834,560
2028	2,200,000	29,920	2,229,920
Total	<u>\$ 11,000,000</u>	<u>\$ 5,056,480</u>	<u>\$ 16,056,480</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>
2018	\$ 287,525	\$ 202,743	\$ 490,268
2019	271,924	192,499	464,423
2020	256,840	183,578	440,418
2021	288,623	174,179	462,802
2022	322,574	163,639	486,213
2023-2027	2,207,232	614,500	2,821,732
2028-2031	2,262,706	155,323	2,418,029
Total	<u>\$ 5,897,424</u>	<u>\$ 1,686,461</u>	<u>\$ 7,583,885</u>

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2017, amounted to \$202,507.

### **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:

	Amount
Balance, July 1, 2016	\$ 63,000
Payments	10,500
Balance, June 30, 2017	<u>\$ 52,500</u>

The loan has minimum payments as follows:

Year Ending June 30,	Annual Payment
2018	\$ 10,500
2019	10,500
2020	10,500
2021	10,500
2022	10,500
Total	<u>52,500</u>
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 52,500</u>

### **Capital Leases**

The District has entered into an agreement for various copy machines. The District's liability on this agreement is summarized below:

	Amount
Balance, July 1, 2016	\$ -
Additions	233,776
Balance, June 30, 2017	<u>\$ 233,776</u>

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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<u>Year Ending June 30,</u>	<u>Annual Payment</u>
2018	\$ 51,204
2019	51,204
2020	51,204
2021	51,204
2022	51,204
Total	<u>256,020</u>
Less: Amount Representing Interest	22,244
Present Value of Minimum Lease Payments	<u>\$ 233,776</u>

### **Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2017, was \$2,675,811, and contributions made by the District during the year were \$950,925 (including an implicit rate subsidy factor of 17.5 percent). Interest on the net OPEB obligation and adjustments to the annual required contribution were \$273,743 and \$(517,949), respectively, which resulted in an increase to the net OPEB obligation of \$1,480,680. As of June 30, 2017, the net OPEB obligation was \$7,243,681. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ 5,000	\$ -	\$ 5,000
Stores inventories	-	44,666	44,666
Total Nonspendable	5,000	44,666	49,666
Restricted			
Legally restricted programs	2,043,092	635,369	2,678,461
Capital projects	-	221,354	221,354
Debt service	-	1,918,085	1,918,085
Total Restricted	2,043,092	2,774,808	4,817,900
Committed			
Deferred maintenance program	-	158	158
Assigned			
CalSTRS and CalPERS rate increases	7,617,802	-	7,617,802
Capital projects	-	5	5
Total Assigned	7,617,802	5	7,617,807
Unassigned			
Reserve for economic uncertainties	3,245,970	-	3,245,970
Total	\$ 12,911,864	\$ 2,819,637	\$ 15,731,501

### NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2017, the following District major fund exceeded the budgeted amount as follows:

	Expenditures and Other Uses		
Fund	Budget	Actual	Excess
General			
Capital outlay	\$ 1,156,052	\$ 2,007,004	\$ 850,952

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

#### **Plan Description**

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Salinas City Elementary School District. The Plan provides healthcare benefits to eligible retirees and their dependents. Membership of the Plan consists of 71 retirees and beneficiaries currently receiving benefits and over 630 active plan members.

#### **Contribution Information**

The contribution requirements of plan members and the District are established and may be amended by the District and the Salinas Elementary Teachers' Council (SETC), the local California School Employee Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed \$809,298 to the plan excluding the implicit rate subsidy factor, all of which was used for current premiums.

#### **Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 2,675,811
Interest on net OPEB obligation	273,743
Adjustment to annual required contribution	(517,949)
Annual OPEB cost (expense)	<u>2,431,605</u>
Contributions made	<u>(950,925)</u>
Increase in net OPEB obligation	1,480,680
Net OPEB obligation, beginning of year	5,763,001
Net OPEB obligation, end of year	<u><u>\$ 7,243,681</u></u>



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2017	\$ 2,431,605	\$ 950,925	39%	\$ 7,243,681
2016	2,497,520	941,975	38%	5,763,001
2015	2,558,302	1,123,926	44%	4,207,456

### Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age Actuarial Cost (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 1, 2015	\$ -	\$ 20,495,608	\$ 20,495,608	0%	\$ 47,685,555	43%

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

### Actuarial Methods and Assumptions

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

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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In the June 1, 2015, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.75 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates were four percent. The UAAL is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2016, was 23 years.

### **NOTE 13 - 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.

#### **Workers' Compensation**

For fiscal year 2017, 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

### NOTE 14 - 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, 2017, 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	\$ 57,719,072	\$ 13,054,020	\$ 1,407,991	\$ 6,314,255
CalPERS	19,383,049	7,087,522	1,011,093	2,705,073
Total	<u>\$ 77,102,121</u>	<u>\$ 20,141,542</u>	<u>\$ 2,419,084</u>	<u>\$ 9,019,328</u>

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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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.

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

### **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, 2017, are presented above and the District's total contributions were \$4,642,146.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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

At June 30, 2017, 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	\$ 57,719,072
State's proportionate share of the net pension liability associated with the District	32,858,438
Total	<u>\$ 90,577,510</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.0714 percent and 0.0678 percent, resulting in a net increase in the proportionate share of 0.0036 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$6,314,255. In addition, the District recognized pension expense and revenue of \$3,176,114 for support provided by the State. At June 30, 2017, 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	\$ 4,642,146	\$ -
Net change in proportionate share of net pension liability	3,823,236	-
Difference between projected and actual earnings on pension plan investments	4,588,638	-
Differences between expected and actual experience in the measurement of the total pension liability	-	1,407,991
Total	<u>\$ 13,054,020</u>	<u>\$ 1,407,991</u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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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 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
2018	\$ 100,108
2019	100,109
2020	2,667,391
2021	1,721,030
Total	<u>\$ 4,588,638</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability 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
2018	\$ 433,142
2019	433,142
2020	433,142
2021	433,142
2022	433,146
Thereafter	249,531
Total	<u>\$ 2,415,245</u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

The 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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of ten-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	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%

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **Discount Rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed 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 (7.60 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 83,070,762
Current discount rate (7.60%)	\$ 57,719,072
1% increase (8.60%)	\$ 36,663,432

### **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, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.



# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **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, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	6.00%
Required employer contribution rate	13.888%	13.888%

### **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, 2017, are presented above and the total District contributions were \$1,851,761.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$19,383,049. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.0981 percent and 0.0956 percent, resulting in a net increase in the proportionate share of 0.0025 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$2,705,073. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,851,761	\$ -
Net change in proportionate share of net pension liability	1,394,478	428,748
Difference between projected and actual earnings on pension plan investments	3,007,626	-
Differences between expected and actual experience in the measurement of the total pension liability	833,657	-
Changes of assumptions	-	582,345
Total	<u>\$ 7,087,522</u>	<u>\$ 1,011,093</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 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
2018	\$ 421,859
2019	421,859
2020	1,378,944
2021	784,964
Total	<u>\$ 3,007,626</u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2017**

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The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� 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
2018	\$ 332,238
2019	704,879
2020	179,925
Total	<u>\$ 1,217,042</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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. 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	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

### Discount Rate

The discount rate used to measure the total pension liability was 7.65 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 (6.65%)	\$ 28,919,618
Current discount rate (7.65%)	\$ 19,383,049
1% increase (8.65%)	\$ 11,441,980

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **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 \$2,700,772 (8.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

## **NOTE 15 - 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, 2017.

### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2017.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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### **NOTE 16 - 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 appointed no board members to the governing board of MERMA.

During the year ended June 30, 2017, the District made payments of \$1,244,424 to MERMA for workers' compensation coverage.

The District has appointed no board members to the governing board of MCSIG.

During the year ended June 30, 2017, the District made payments of \$19,332,503 to MCSIG for health and welfare coverage.

The District has appointed no board members to the governing board of MSBCLP.

During the year ended June 30, 2017, the District made payments of \$508,987 to MSBCLP for property and liability coverage.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
<b>REVENUES</b>				
Local Control Funding Formula	\$ 77,582,452	\$ 83,227,386	\$ 83,438,823	\$ 211,437
Federal sources	7,264,419	7,396,407	6,197,047	(1,199,360)
Other State sources	13,003,123	8,753,057	9,558,816	805,759
Other local sources	4,483,012	4,525,760	5,867,392	1,341,632
<b>Total Revenues</b>	<b>102,333,006</b>	<b>103,902,610</b>	<b>105,062,078</b>	<b>1,159,468</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	38,322,112	38,822,656	38,554,947	267,709
Classified salaries	10,711,169	12,248,748	12,042,091	206,657
Employee benefits	22,527,438	27,389,989	26,778,536	611,453
Books and supplies	5,643,155	7,060,969	5,622,598	1,438,371
Services and operating expenditures	15,677,970	12,392,618	10,275,764	2,116,854
Capital outlay	433,940	1,156,052	2,007,004	(850,952)
Other outgo	7,080,900	6,640,242	6,488,303	151,939
Debt service - interest	800,760	43,683	-	43,683
<b>Total Expenditures</b>	<b>101,197,444</b>	<b>105,754,957</b>	<b>101,769,243</b>	<b>3,985,714</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,135,562</b>	<b>(1,852,347)</b>	<b>3,292,835</b>	<b>5,145,182</b>
<b>Other Financing Sources/(Uses)</b>				
Other sources	-	-	233,776	233,776
Transfers out	(1,050,000)	-	-	-
<b>Net Financing Sources/(Uses)</b>	<b>(1,050,000)</b>	<b>-</b>	<b>233,776</b>	<b>233,776</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>85,562</b>	<b>(1,852,347)</b>	<b>3,526,611</b>	<b>5,378,958</b>
<b>Fund Balance - Beginning</b>	<b>9,385,253</b>	<b>9,385,253</b>	<b>9,385,253</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 9,470,815</b>	<b>\$ 7,532,906</b>	<b>\$ 12,911,864</b>	<b>\$ 5,378,958</b>

See accompanying note to required supplementary information.

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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2017**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age Normal (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
June 1, 2015	\$ -	\$ 20,495,608	\$ 20,495,608	0%	\$ 47,685,555	43%
June 1, 2013	\$ -	\$ 16,148,232	\$ 16,148,232	0%	\$ 38,550,643	42%
February 1, 2011	\$ -	\$ 11,157,319	\$ 11,157,319	0%	\$ 38,309,934	29%

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, 2017

	2017	2016
<b>CalSTRS</b>		
District's proportion of the net pension liability (asset)	0.0714%	0.0678%
District's proportionate share of the net pension liability (asset)	\$ 57,719,072	\$ 45,668,903
State's proportionate share of the net pension liability (asset) associated with the District	32,858,438	24,153,815
Total	<u>\$ 90,577,510</u>	<u>\$ 69,822,718</u>
District's covered - employee payroll	<u>\$ 35,874,641</u>	<u>\$ 31,705,552</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	160.89%	144.04%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%
<b>CalPERS</b>		
District's proportion of the net pension liability (asset)	0.0981%	0.0956%
District's proportionate share of the net pension liability (asset)	<u>\$ 19,383,049</u>	<u>\$ 14,093,540</u>
District's covered - employee payroll	<u>\$ 11,810,914</u>	<u>\$ 10,580,724</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	164.11%	133.20%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%

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

See accompanying note to required supplementary information.

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2015

---

0.0648%

---

\$ 37,857,550

22,860,023

---

\$ 60,717,573

---

\$ 28,219,164

---

134.16%

---

77%

---

0.0807%

---

\$ 9,163,762

---

\$ 8,194,328

---

111.83%

---

83%

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# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 4,642,146	\$ 3,849,349
Contributions in relation to the contractually required contribution	<u>4,642,146</u>	<u>3,849,349</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 36,901,002</u>	 <u>\$ 35,874,641</u>
 Contributions as a percentage of covered - employee payroll	 <u>12.58%</u>	 <u>10.73%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 1,851,761	\$ 1,399,239
Contributions in relation to the contractually required contribution	<u>1,851,761</u>	<u>1,399,239</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 13,333,533</u>	 <u>\$ 11,810,914</u>
 Contributions as a percentage of covered - employee payroll	 <u>13.888%</u>	 <u>11.847%</u>

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

See accompanying note to required supplementary information.

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2015

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\$ 2,815,454

2,815,454

---

\$ -

---

\$ 31,705,552

---

8.88%

---

\$ 1,245,456

1,245,456

---

\$ -

---

\$ 10,580,724

---

11.771%

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# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017**

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### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Budgetary Comparison Schedule**

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

#### **Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

#### **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 in Assumptions*** – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

#### **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.

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***SUPPLEMENTARY INFORMATION***

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# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education (CDE):			
Title I, Part A - Basic	84.010	14329	\$ 2,105,367
Title I, Part C - Migrant Education, Regular	84.011	14838	1,050,916
Title I, Part C - Migrant Education, Summer	84.011	10005	330,881
Title I, Part C - Migrant Education, Even Start	84.011	14768	60,000
Title II, Part A - Supporting Effective Instruction	84.367	14341	285,683
Title II, Part B - Ca. Mathematics and Science	84.366	14512	370,019
Title III, English Language Acquisition - LEP	84.365	14346	579,846
Special Education, Basic Local Assistance Entitlement	84.027	13379	1,270,569
Total U.S. Department of Education			<u>6,053,281</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	<u>143,766</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	3,278,084
Basic Breakfast	10.553	13526	5,768
Especially Needy Breakfast	10.553	13526	545,669
Summer Food Program	10.559	13004	74,298
Food Distribution - Commodities	10.555	13391	145,361
Subtotal - Child Nutrition Cluster			<u>4,049,180</u>
Child and Adult Care Food Program	10.558	13666	526,781
Child Nutrition, Fresh Fruit and Vegetable Program	10.582	14968	197,972
Total U.S. Department of Agriculture			<u>4,773,933</u>
Total Expenditures of Federal Awards			<u>\$ 10,970,980</u>

See accompanying note to supplementary information.

## **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

### **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**

**JUNE 30, 2017**

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#### **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
Roberto Garcia	Vice President	2018
Robert Foster Hoffman	Clerk	2018
Amy Ish	Member	2020
Francisco Estrada	Member	2020

#### **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, 2017**

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	4,829.92	4,827.31
Fourth through sixth	3,761.56	3,759.88
Total Regular ADA	<u>8,591.48</u>	<u>8,587.19</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.34	0.34
Fourth through sixth	0.76	0.83
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.10</u>	<u>1.17</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	-	0.03
Total ADA	<u>8,592.58</u>	<u>8,588.39</u>

See accompanying note to supplementary information.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	1986-1987 Minutes Requirement	2016-2017 Actual Minutes	Number of Days		Status
			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		54,660	180	N/A	Complied
Grade 5		54,660	180	N/A	Complied
Grade 6		54,660	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, 2017**

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There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.



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# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

	(Budget) 2018 <sup>1</sup>	2017	2016	2015
GENERAL FUND				
Revenues and transfers in	\$ 104,722,894	\$ 105,295,854	\$ 102,828,272	\$ 83,982,669
Expenditures	106,444,759	101,769,243	100,211,118	83,907,863
Other uses and transfers out	-	-	1,050,000	-
Total Expenditures and Other Uses	106,444,759	101,769,243	101,261,118	83,907,863
INCREASE/(DECREASE) IN FUND BALANCE	\$ (1,721,865)	\$ 3,526,611	\$ 1,567,154	\$ 74,806
ENDING FUND BALANCE	\$ 11,189,999	\$ 12,911,864	\$ 9,385,253	\$ 7,818,099
AVAILABLE RESERVES <sup>2</sup>	\$ 3,193,343	\$ 3,245,970	\$ 3,343,559	\$ 2,597,237
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	3.2%	3.3%	3.1%
LONG-TERM OBLIGATIONS	Not Available	\$ 47,979,888	\$ 47,010,357	\$ 46,006,895
AVERAGE DAILY ATTENDANCE AT P-2	8,583	8,593	8,685	8,678

The General Fund balance has increased by \$5,093,765 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$1,721,865 (13.3 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 each of the past three years but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have increased by \$1,972,993 over the past two years.

Average daily attendance has decreased by 85 over the past two years. Additional decline of ten ADA is anticipated during fiscal year 2017-2018.

<sup>1</sup> Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

See accompanying note to supplementary information.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2017

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>ASSETS</b>			
Deposits and investments	\$ -	\$ 500	\$ 158
Receivables	527,106	713,607	-
Stores inventories	-	44,666	-
<b>Total Assets</b>	<b>\$ 527,106</b>	<b>\$ 758,773</b>	<b>\$ 158</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 283,443	\$ 4,477	\$ -
Accounts payable	41,350	75,715	-
Due to other funds	24,395	176,464	-
<b>Total Liabilities</b>	<b>349,188</b>	<b>256,656</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	-	44,666	-
Restricted	177,918	457,451	-
Committed	-	-	158
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>177,918</b>	<b>502,117</b>	<b>158</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 527,106</b>	<b>\$ 758,773</b>	<b>\$ 158</b>

See accompanying note to supplementary information.

<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>
\$ 74,639	\$ 115,674	\$ 30,376	\$ 5	\$ 1,162,441
223	351	91	-	-
-	-	-	-	-
<u>\$ 74,862</u>	<u>\$ 116,025</u>	<u>\$ 30,467</u>	<u>\$ 5</u>	<u>\$ 1,162,441</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
74,862	116,025	30,467	-	1,162,441
-	-	-	-	-
-	-	-	5	-
<u>74,862</u>	<u>116,025</u>	<u>30,467</u>	<u>5</u>	<u>1,162,441</u>
<u>\$ 74,862</u>	<u>\$ 116,025</u>	<u>\$ 30,467</u>	<u>\$ 5</u>	<u>\$ 1,162,441</u>

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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET, Continued  
JUNE 30, 2017**

	<b>Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>		
Deposits and investments	\$ 753,391	\$ 2,137,184
Receivables	2,253	1,243,631
Stores inventories	-	44,666
<b>Total Assets</b>	<b>\$ 755,644</b>	<b>\$ 3,425,481</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Overdrafts	\$ -	\$ 287,920
Accounts payable	-	117,065
Due to other funds	-	200,859
<b>Total Liabilities</b>	<b>-</b>	<b>605,844</b>
<b>Fund Balances:</b>		
Nonspendable	-	44,666
Restricted	755,644	2,774,808
Committed	-	158
Assigned	-	5
<b>Total Fund Balances</b>	<b>755,644</b>	<b>2,819,637</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 755,644</b>	<b>\$ 3,425,481</b>

See accompanying note to supplementary information.

# 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, 2017

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>REVENUES</b>			
Federal sources	\$ -	\$ 4,628,572	\$ -
Other State sources	1,373,441	324,345	-
Other local sources	493,509	460,771	-
<b>Total Revenues</b>	<b>1,866,950</b>	<b>5,413,688</b>	<b>-</b>
<b>EXPENDITURES</b>			
Current			
Instruction	1,162,806	-	-
Instruction-related activities:			
Supervision of instruction	170	-	-
School site administration	24,172	-	-
Pupil services:			
Food services	-	5,484,865	-
All other pupil services	148,245	-	-
Administration:			
All other administration	53,754	216,352	-
Plant services	-	-	-
Enterprise services	381,796	-	-
Debt service			
Principal	10,500	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>1,781,443</b>	<b>5,701,217</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>85,507</b>	<b>(287,529)</b>	<b>-</b>
<b>Fund Balance - Beginning</b>	<b>92,411</b>	<b>789,646</b>	<b>158</b>
<b>Fund Balance - Ending</b>	<b>\$ 177,918</b>	<b>\$ 502,117</b>	<b>\$ 158</b>

See accompanying note to supplementary information.

<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	14,857
998	67,748	404	-	2,113,029
998	67,748	404	-	2,127,886
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	1,998	-	-	-
-	33,180	-	-	-
-	-	-	-	-
-	-	-	-	425,000
-	-	-	-	1,354,235
-	35,178	-	-	1,779,235
998	32,570	404	-	348,651
73,864	83,455	30,063	5	813,790
\$ 74,862	\$ 116,025	\$ 30,467	\$ 5	\$ 1,162,441



# 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, 2017

	Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>		
Federal sources	\$ 577,755	\$ 5,206,327
Other State sources	-	1,712,643
Other local sources	335,306	3,471,765
<b>Total Revenues</b>	<b>913,061</b>	<b>10,390,735</b>
<b>EXPENDITURES</b>		
Current		
Instruction	-	1,162,806
Instruction-related activities:		
Supervision of instruction	-	170
School site administration	-	24,172
Pupil services:		
Food services	-	5,484,865
All other pupil services	-	148,245
Administration:		
All other administration	-	272,104
Plant services	-	33,180
Enterprise services	-	381,796
Debt service		
Principal	260,288	695,788
Interest and other	830,885	2,185,120
<b>Total Expenditures</b>	<b>1,091,173</b>	<b>10,388,246</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(178,112)</b>	<b>2,489</b>
<b>Fund Balance - Beginning</b>	<b>933,756</b>	<b>2,817,148</b>
<b>Fund Balance - Ending</b>	<b>\$ 755,644</b>	<b>\$ 2,819,637</b>

See accompanying note to supplementary information.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### 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 amounts consist of federal commodities received by the District that are not included as revenues or expenditures on the District's financial statements and the federal interest subsidy received.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 11,403,374
Reconciling items:		
Food Distribution - Commodities	10.555	145,361
Federal interest subsidy	Unknown	(577,755)
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,970,980</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.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017**

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

### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Non-Major Governmental Funds - Balance Sheet and 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.

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***INDEPENDENT AUDITOR'S REPORTS***

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

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**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 as of and for the year ended June 30, 2017, 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 November 22, 2017.

**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*.

We noted certain matters that we reported to management of Salinas City Elementary School District in a separate letter dated November 22, 2017.

## 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.

Vannick, Truitt, Day & Co., LLP

Fresno, California  
November 22, 2017



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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND 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 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, 2017. 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, 2017.

### **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.

*Vannick, Trini, Day & Co, LLP*

Fresno, California  
November 22, 2017



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

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## **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 compliance with the types of compliance requirements as identified in the *2016-2017 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, 2017.

### ***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 *2016-2017 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.

### ***Basis for Qualified Opinion on Classroom Teacher Salaries***

As described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, Salinas City Elementary School District did not comply with requirements regarding Classroom Teacher Salaries. Compliance with such requirements is necessary, in our opinion, for Salinas City Elementary School District to comply with the requirements applicable to that program.

### ***Qualified Opinion on Classroom Teacher Salaries***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Salinas City Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

### ***Unmodified Opinion on Each of the Other Programs***

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, 2017, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
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)
Immunizations	No (see below)

	Procedures Performed
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 procedures for Continuation Education because the District does not have the program.

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 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 Independent Study - Course Based program; therefore, we did not perform any procedures related to Independent Study - Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

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

*Vannink, Trine, Day & Co, LLP*

Fresno, California  
November 22, 2017

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

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# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2017

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### 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>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</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>
Unmodified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>Classroom Teachers Salaries</u>



**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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The following finding represents an instance of noncompliance and questioned costs relating to State program laws and regulations. The finding has been coded as follows:

Five Digit Code  
61000

AB 3627 Finding Type  
Classroom Teacher Salaries

**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.

#### **Corrective Action Plan**

We will monitor the status of the waiver we submitted to the Monterey County Office of Education immediately after reviewing the Form CEA upon adoption of the year-end SACS reporting documents and noting the shortage of minimum classroom compensation.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017**

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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***

**2016-001      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 57.26 percent of their current expense of education (\$47,034,711) on classroom teacher salaries and benefits which was below their 60 percent requirement.

##### **Questioned Costs**

The deficiency was calculated to be \$2,250,835 (2.74 percent).

##### **Effect**

The deficiency amount was determined to be \$2,250,835; 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 it's 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. The District obtained a waiver for the 2015-2016 fiscal year.

Governing Board  
Salinas City Elementary School District  
Salinas, California

In planning and performing our audit of the financial statements of Salinas City Elementary School District, for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 22, 2017, on the government-wide financial statements of the District.

#### ***CENTRALIZED ASSOCIATED STUDENT BODY (ASB)***

##### ***Cash Receipts***

##### **Observation**

During the audit of the cash receipts system, we discovered teachers are not consistently using sub-receipt books or a class roster to document when money is being turned in, how much money, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding money to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the money back to any documentation to determine the accuracy of the cash count sheet and the actual money turned in.

##### **Recommendation**

The site should maintain sub-receipt books in addition to the ASB's primary receipt book. These sub-receipt books would be given to teachers when they are conducting fundraising activities. A system should be established to track the receipts sequences of the sub-receipt books and to whom the books were given to. For certain events, as class roster may be sufficient in place of using a sub-receipt book. Prenumbered receipts should be issued, or a classroom roster should be completed, for all cash collections by teachers which should include a specific description of the source of the funds. A carbon of the receipts issued, or a copy of the completed roster by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.

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***Ticket Sales Recap Form***

**Observation**

A Ticket Sales Recap Form is not used at the events to reconcile the number of tickets issued to the total cash amount received.

**Recommendation**

A Ticket Sales Recap Form should be used in conjunction with the Master Ticket Log and should be used by the individuals issuing tickets and collecting funds at the events. The beginning and ending ticket numbers should be noted on the Ticket Recap Form after the event and reconciled to the funds received prior to making the deposit with the bookkeeper. When the Ticket Sales Recap Form is received by the bookkeeper, the ending ticket number should be recorded in the Master Ticket Log and the sales recap form should be verified against the deposit.

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

*Vannick, Trine, Day & Co, LLP*

Fresno, California  
November 22, 2017



### **Observation**

We noted that there are Parent Club (PTO) activities being run through the Associated Student Body accounts which is prohibited since the organization is not made up of students as outlined in the *California Education Code*. Associated Student Bodies are an integral part of the District and exist under the federal tax identification number of the District, while booster or parents clubs do not. Per the Internal Revenue Code regulations, they are separate entities much like a business and must apply for their own non-profit status and obtain their own tax identification number. In addition, the non-profit status must be obtained before the group can accept tax deductible donations.

### **Recommendation**

The activity of the Parent Club must not be commingled with the Associated Student Body accounts; they should open their own checking account. Donations from the PTO are allowed as long as no monies are ever paid from the Student Body to the PTO. The PTO must apply for its own tax identification number and non-profit status as required by the Internal Revenue Code.

## ***BORONDA MEADOWS ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

### ***Cash Receipts***

#### **Observation**

During the audit of the cash receipts system, we discovered teachers are not consistently using sub-receipt books or a class roster to document when money is being turned in, how much money, and by which students. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding money to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the money back to any documentation to determine the accuracy of the cash count sheet and the actual money turned in.

#### **Recommendation**

The site should maintain subreceipt books in addition to the ASB's primary receipt book. These sub-receipt books would be given to individuals when they are conducting fundraising activities. A system should be established to track the receipts sequences of the sub-receipt books and to whom the books were given to. For certain events, a class roster or tally sheet may be sufficient in place of using a sub-receipt book. Prenumbered receipts should be issued, or a classroom roster should be completed, for all cash collections by teachers which should include a specific description of the source of the funds. A carbon of the receipts issued, or a copy of the completed roster by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in.