

**SALINAS CITY ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2016

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Proprietary Funds - Statement of Net Position	22
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	23
Proprietary Funds - Statement of Cash Flows	24
Fiduciary Funds - Statement of Net Position	25
Notes to Financial Statements	26

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	65
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	66
Schedule of the District's Proportionate Share of the Net Pension Liability	67
Schedule of District Contributions	68
Notes to Required Supplementary Information	69

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	71
Local Education Agency Organization Structure	72
Schedule of Average Daily Attendance	73
Schedule of Instructional Time	74
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	75
Schedule of Financial Trends and Analysis	76
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	79
Note to Supplementary Information	81

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	84
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	86
Report on State Compliance	88

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	92
Financial Statement Findings	93
Federal Awards Findings and Questioned Costs	94
State Awards Findings and Questioned Costs	95
Summary Schedule of Prior Audit Findings	96
Management Letter	98

FINANCIAL SECTION



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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

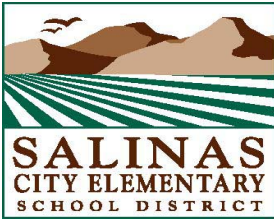
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Salinas City Elementary School District's internal control over financial reporting and compliance.

Vannink, Trine, Day & Co., LLP

Fresno, California
December 1, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

The mission of Salinas City Elementary School District is to provide a qualified educators and a collaborative environment where students receive a 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 a predominantly agricultural community and includes a large migrant population. The District served 9,105 students in 2015-2016.

The District operated 14 elementary schools in 2015-2016 and serves under a locally elected five member Board of Education. The District is designated as a Program Improvement District and provides academic performance improvement for grades K-6 through multiple state and federal educational programs. We expect that guidance to be published within the Every Student Succeeds Act (ESSA) will provide the District quantitative information to assess how we will exit Program Improvement.

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

BETH VIEIRA
Director, Special Education

BOARD OF EDUCATION

ROBERTO GARCIA
Trustee Area 1

FANCISCO ESTRADA
Trustee Area 2

ROBERT FOSTER HOFFMAN
Trustee Area 3

AMY ISH
Trustee Area 4

STEPHEN KIM
Trustee Area 5

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.

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SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, 2016

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 \$(13.8) million for the fiscal year ended June 30, 2016. Of this amount, \$5.2 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, 2016

Table 1

(Amounts in millions)

	Governmental Activities		
	2016	2015	Difference
Assets			
Current and other assets	\$ 29.7	\$ 28.1	\$ 1.6
Capital assets	67.8	71.6	(3.8)
Total Assets	97.5	99.7	(2.2)
Deferred Outflows of Resources	15.6	4.1	11.5
Liabilities			
Current liabilities	7.1	9.9	(2.8)
Long-term obligations	47.4	46.4	1.0
Net pension liability	59.7	47.0	12.7
Total Liabilities	114.2	103.3	10.9
Deferred Inflows of Resources	12.7	13.8	(1.1)
Net Position			
Net investment in capital assets	26.9	30.1	(3.2)
Restricted	5.2	4.0	1.2
Unrestricted	(45.9)	(47.4)	1.5
Total Net Position	\$ (13.8)	\$ (13.3)	\$ (0.5)

The \$(13.8) 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 3.0 percent (\$(45.9) million compared to \$(47.4) million).

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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		
	2016	2015	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.4	\$ 0.4	\$ -
Operating grants and contributions	24.5	20.8	3.7
General revenues:			
Federal and State aid not restricted	66.6	54.5	12.1
Property taxes	20.1	16.8	3.3
Other general revenues	1.4	1.5	(0.1)
Total Revenues	<u>113.0</u>	<u>94.0</u>	<u>19.0</u>
Expenses			
Instruction related	74.4	66.8	7.6
Student support services	11.4	10.2	1.2
Administration	4.4	4.4	-
Plant services	12.2	7.9	4.3
Other	11.1	10.6	0.5
Total Expenses	<u>113.5</u>	<u>99.9</u>	<u>13.6</u>
Change in Net Position	<u>\$ (0.5)</u>	<u>\$ (5.9)</u>	<u>\$ 5.4</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$113.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$20.1 million because the cost was paid by those who benefited from the programs (\$0.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$24.5 million). We paid for the remaining "public benefit" portion of our governmental activities with, \$68.0 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, 2016**

Table 3

(Dollar amounts in millions)

	Net Cost of Services	
	2016	2015
Instruction related	\$ 62.1	\$ 55.4
Student support services	5.2	4.2
Administration	3.6	3.7
Plant services	8.9	7.2
Other	8.8	8.1
Total	\$ 88.6	\$ 78.6

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$12.2 million, which is an increase of \$2.7 million from last year (Table 4).

Table 4

(Amounts in millions)

	Balances and Activity		
	2016	2015	Difference
General	\$ 9.4	\$ 7.8	\$ 1.6
Non-Major Funds	2.8	1.7	1.1
Total	\$ 12.2	\$ 9.5	\$ 2.7

The General Fund increased by nearly \$1.6 million due primarily to increased State funding, the primary reason for the overall increase in the non-major funds was a debt service contribution from the General Fund.

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 12, 2016 (2015-2016 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 a decrease in the General Fund of approximately \$2.2 million. Revenues were \$3.7 million more than originally projected and expenditures and transfers out were \$2.5 thousand less than originally projected, resulting in an increase to the General Fund of \$1.6 million.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$67.8 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$3.8 million, or five percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		
	2016	2015	Difference
Land	\$ 7.5	\$ 7.5	\$ -
Construction in progress	2.0	1.5	0.5
Buildings and improvements	57.8	62.1	(4.3)
Equipment	0.5	0.5	-
Total	\$ 67.8	\$ 71.6	\$ (3.8)

Several dated Emergency Repair Program (ERP) projects were finally funded and completed. These included roofing and pavement projects at Sherwood and Roosevelt schools, and pavement/play areas at Los Padres Elementary School. The District also continued work to complete deferred maintenance projects with numerous floor replacement projects and interior/exterior painting.

Long-Term Obligations

At the end of this year, the District had \$47.4 million in long term obligations outstanding versus \$46.4 million last year, an increase of \$1.0 million. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		
	2016	2015	Difference
General obligation bonds	\$ 23.8	\$ 24.1	\$ (0.3)
Certificates of participation (excludes premium)	17.1	17.4	(0.3)
Compensated absences	0.3	0.3	-
State preschool loan ¹	-	-	-
Other postemployment benefits	5.8	4.2	1.6
Premium on issuance	0.4	0.4	-
Total	\$ 47.4	\$ 46.4	\$ 1.0

¹ Amounts less than \$50,000.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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 \$23.8 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)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* as of June 30, 2015, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2016, the District reported Deferred Outflows from pension activities of \$15.6 million, Deferred Inflows from pension activities of \$12.7 million, and a Net Pension Liability of \$59.7 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

FINANCIAL STATUS OF DISTRICT AND NEXT YEAR'S BUDGET

Salinas City Elementary School District continues to recover from the extended period of reduced funding from the deficit factor and deferred State payments as we have implemented the Local Control Funding Formula (LCFF). This has allowed the District to hire additional teachers to reduce class sizes consistent with Grade Span Adjustment (GSA) requirements as amended in our side letter with our bargaining unit. It is notable that the recent years of growth of our student population flattened in 2015-2016 and is now projected flat in the budget year and out years. We closed 2015-2016 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 27, 2016, 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 2016-2017 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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	\$ 24,014,077
Receivables	3,818,070
Discounts on debt issuances	1,743,352
Stores inventories	54,180
Nondepreciable capital assets	9,498,018
Capital assets being depreciated	123,755,958
Accumulated depreciation	<u>(65,414,390)</u>
Total Assets	<u>97,469,265</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>15,560,747</u>
LIABILITIES	
Accounts payable	6,862,163
Unearned revenue	214,817
Long-term obligations:	
Current portion of long-term obligations other than pensions	695,788
Noncurrent portion of long-term obligations other than pensions	<u>46,314,569</u>
Total Long-Term Obligations	<u>47,010,357</u>
Premium on debt issuances	354,015
Aggregate net pension liability	<u>59,762,443</u>
Total Liabilities	<u>114,203,795</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>12,652,546</u>
NET POSITION	
Net investment in capital assets	26,917,739
Restricted for:	
Debt service	1,747,547
Capital projects	113,520
Educational programs	2,461,461
Other activities	789,647
Unrestricted	<u>(45,856,243)</u>
Total Net Position	<u>\$ (13,826,329)</u>

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, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 60,101,242	\$ -	\$ 9,226,853
Instruction-related activities:			
Supervision of instruction	5,725,840	-	2,385,633
Instructional library, media, and technology	422,911	-	29,356
School site administration	8,171,165	-	701,410
Pupil services:			
Home-to-school transportation	2,333,044	-	-
Food services	5,851,521	390,859	4,851,414
All other pupil services	3,220,165	-	926,734
Administration:			
Data processing	507,882	-	-
All other administration	3,912,223	16,494	769,998
Plant services	12,123,519	-	3,244,956
Enterprise services	739,918	-	665,172
Interest on long-term obligations	3,007,164	-	-
Other outgo	7,355,737	-	1,708,715
Total Governmental Activities	\$ 113,472,331	\$ 407,353	\$ 24,510,241

General revenues and subventions:

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

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

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

**Governmental
Activities**

\$ (50,874,389)

(3,340,207)

(393,555)

(7,469,755)

(2,333,044)

(609,248)

(2,293,431)

(507,882)

(3,125,731)

(8,878,563)

(74,746)

(3,007,164)

(5,647,022)

(88,554,737)

17,457,467

2,443,930

212,078

66,620,859

135,272

1,203,854

88,073,460

(481,277)

(13,345,052)

\$ (13,826,329)

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 13,525,068	\$ 2,025,556	\$ 15,550,624
Receivables	2,768,982	905,599	3,674,581
Stores inventories	-	54,180	54,180
Total Assets	\$ 16,294,050	\$ 2,985,335	\$ 19,279,385
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,693,981	\$ 168,182	\$ 6,862,163
Unearned revenue	214,817	-	214,817
Total Liabilities	6,908,798	168,182	7,076,980
Fund Balances:			
Nonspendable	5,000	54,180	59,180
Restricted	2,369,050	2,762,810	5,131,860
Committed	-	158	158
Assigned	3,667,643	5	3,667,648
Unassigned	3,343,559	-	3,343,559
Total Fund Balances	9,385,252	2,817,153	12,202,405
Total Liabilities and Fund Balances	\$ 16,294,050	\$ 2,985,335	\$ 19,279,385

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, 2016**

Total Fund Balance - Governmental Funds	\$ 12,202,405
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 133,253,976
Accumulated depreciation is	<u>(65,414,390)</u>
Net Capital Assets	67,839,586
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.	
	1,389,337
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	
	5,248,588
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:	
	8,606,942
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.	
	2,688,563
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.	
	(4,205,333)
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.	
	42,329
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.	
	(865,946)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	
	(59,762,443)

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, 2016**

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	\$ 23,775,000	
Certificates of participation	17,157,712	
Compensated absences	251,644	
State preschool loan	63,000	
Other postemployment benefits (OPEB)	<u>5,763,001</u>	
Total Long-Term Obligations		<u>\$ (47,010,357)</u>
Total Net Position - Governmental Activities		<u><u>\$ (13,826,329)</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, 2016**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Local Control Funding Formula	\$ 77,679,820	\$ -	\$ 77,679,820
Federal sources	6,343,860	5,320,678	11,664,538
Other State sources	13,918,086	1,559,244	15,477,330
Other local sources	4,886,505	3,467,715	8,354,220
Total Revenues	102,828,271	10,347,637	113,175,908
EXPENDITURES			
Current			
Instruction	57,322,062	999,993	58,322,055
Instruction-related activities:			
Supervision of instruction	5,618,551	2,872	5,621,423
Instructional library, media and technology	438,713	-	438,713
School site administration	7,724,960	38,028	7,762,988
Pupil services:			
Home-to-school transportation	1,901,089	-	1,901,089
Food services	-	5,329,917	5,329,917
All other pupil services	3,036,810	125,148	3,161,958
Administration:			
Data processing	502,710	-	502,710
All other administration	3,319,671	307,353	3,627,024
Plant services	11,307,170	42,083	11,349,253
Facility acquisition and construction	787,573	23,361	810,934
Other outgo	7,355,737	-	7,355,737
Enterprise services	134,080	607,745	741,825
Debt service			
Principal	-	580,297	580,297
Interest and other	761,992	2,191,410	2,953,402
Total Expenditures	100,211,118	10,248,207	110,459,325
Excess (Deficiency) of Revenues Over Expenditures	2,617,153	99,430	2,716,583
Other Financing Sources (Uses)			
Transfers in	-	1,050,000	1,050,000
Transfers out	(1,050,000)	-	(1,050,000)
Net Financing Sources (Uses)	(1,050,000)	1,050,000	-
NET CHANGE IN FUND BALANCES	1,567,153	1,149,430	2,716,583
Fund Balance - Beginning	7,818,099	1,667,723	9,485,822
Fund Balance - Ending	\$ 9,385,252	\$ 2,817,153	\$ 12,202,405

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, 2016

Total Net Change in Fund Balances - Governmental Funds **\$ 2,716,583**
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	\$ (4,694,882)	
Capital outlays	888,391	
Net Expense Adjustment		(3,806,491)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (429)

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 earned was more than the amounts used by \$28,214. (28,214)

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. (65,018)

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: (1,555,545)

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	335,000
Certificates of participation	234,797
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, 2016

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 premium	\$ 20,821
Amortization of debt discount	(74,523)

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>1,731,242</u>
Change in Net Position of Governmental Activities	<u><u>\$ (481,277)</u></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, 2016**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 8,463,453
Receivables	143,489
Total Current Assets	<u>\$ 8,606,942</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ -
Total Liabilities	<u>-</u>
NET POSITION	
Restricted	8,606,942
Total Net Position	<u>\$ 8,606,942</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, 2016**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 1,664,770
Total Operating Revenues	<u>1,664,770</u>
OPERATING EXPENSES	
Retiree benefits, OPEB	-
Total Operating Expenses	<u>-</u>
Operating Gain	<u>1,664,770</u>
NONOPERATING REVENUES	
Interest income	66,472
Total Non-Operating Revenues	<u>66,472</u>
Change in Net Position	1,731,242
Total Net Position - Beginning	6,875,700
Total Net Position - Ending	<u>\$ 8,606,942</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, 2016**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from user charges	\$ 1,648,501
Net Cash Provided by Operating Activities	<u>1,648,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	66,472
Net Cash Provided by Investing Activities	<u>66,472</u>
Net Increase in Cash and Cash Equivalents	1,714,973
Cash and Cash Equivalents - Beginning	6,748,480
Cash and Cash Equivalents - Ending	<u><u>\$ 8,463,453</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,664,770
Changes in assets and liabilities:	
Receivables	(16,269)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,648,501</u></u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 251,408
Total Assets	<u>\$ 251,408</u>
LIABILITIES	
Due to student groups	\$ 251,408
Total Liabilities	<u>\$ 251,408</u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 thirteen 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 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, 2016

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 State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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, 2016

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 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, 2016

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, 2016

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, 2016, 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, 2016

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 estimated fair market value on the date donated.

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.

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 or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accounts Payable and Long-Term Obligations

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

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 the difference between projected and actual earnings on pension plan investments specific to the net pension liability and for the unamortized amount on net change in proportionate share of net pension liability.

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, 2016, fund balances of the governmental funds are classified as follows:

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$5,112,175 of restricted net position.

Interfund Activity

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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 February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement 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*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

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.

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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

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.

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 requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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 requirements of this Statement are effective for reporting periods beginning after June 15, 2016, 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. Early implementation is encouraged.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 24,014,077
Fiduciary funds	251,408
Total Deposits and Investments	<u>\$ 24,265,485</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 323,210
Cash in revolving	5,000
Investments	23,937,275
Total Deposits and Investments	<u>\$ 24,265,485</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, 2016

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	\$ 23,945,338	\$ -	\$ 23,945,338	\$ -	\$ -

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, \$46,113 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, 2016

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, 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	\$ 1,380,413	\$ 511,263	\$ -	\$ 1,891,676
State Government				
State grants and entitlements	1,285,980	361,442	-	1,647,422
Local Sources	102,589	32,894	143,489	278,972
Total	<u>\$ 2,768,982</u>	<u>\$ 905,599</u>	<u>\$ 143,489</u>	<u>\$ 3,818,070</u>

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 7,480,895	\$ -	\$ -	\$ 7,480,895
Construction in progress	1,505,204	584,174	72,255	2,017,123
Total Capital Assets Not Being Depreciated	<u>8,986,099</u>	<u>584,174</u>	<u>72,255</u>	<u>9,498,018</u>
Capital Assets being depreciated				
Land improvements	10,922,177	106,864	-	11,029,041
Buildings and improvements	108,933,859	169,783	-	109,103,642
Furniture and equipment	3,537,760	99,825	14,310	3,623,275
Total Capital Assets Being Depreciated	<u>123,393,796</u>	<u>376,472</u>	<u>14,310</u>	<u>123,755,958</u>
Less Accumulated Depreciation				
Land improvements	4,289,240	544,483	-	4,833,723
Buildings and improvements	53,461,165	4,080,330	-	57,541,495
Furniture and equipment	2,982,984	70,069	13,881	3,039,172
Total Accumulated Depreciation	<u>60,733,389</u>	<u>4,694,882</u>	<u>13,881</u>	<u>65,414,390</u>
Governmental Activities Capital Assets, Net	<u>\$ 71,646,506</u>	<u>\$ (3,734,236)</u>	<u>\$ 72,684</u>	<u>\$ 67,839,586</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Governmental Activities	
Instruction	\$ 2,863,878
School site administration	234,744
Home-to-school transportation	375,591
Food services	422,539
All other general administration	187,795
Plant services	610,335
Total Depreciation Expenses, Governmental Activities	\$ 4,694,882

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2016, consisted of the following:

The General Fund transferred to the Child Development Fund to augment the program.	\$ 50,000
The General Fund transferred to the Debt Service Fund for future payments on the Certificates of Participation.	1,000,000
Total	\$ 1,050,000

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendors payable	\$ 2,372,962	\$ 143,593	\$ 2,516,555
State principal apportionment	1,453,993	-	1,453,993
Accrued payroll	351,820	-	351,820
Deferred payroll	2,515,206	24,589	2,539,795
Total	\$ 6,693,981	\$ 168,182	\$ 6,862,163

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund
Federal financial assistance	\$ 111,381
State categorical aid	103,436
Total	<u>\$ 214,817</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, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 24,110,000	\$ -	\$ 335,000	\$ 23,775,000	\$ 425,000
Certificates of participation	17,392,509	-	234,797	17,157,712	260,288
Compensated absences	223,430	28,214	-	251,644	-
State preschool loan	73,500	-	10,500	63,000	10,500
Other postemployment benefits	4,207,456	2,875,665	1,320,120	5,763,001	-
Total	<u>\$ 46,006,895</u>	<u>\$ 2,903,879</u>	<u>\$ 1,900,417</u>	<u>\$ 47,010,357</u>	<u>\$ 695,788</u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2015</u>	<u>Redeemed</u>	<u>Bonds Outstanding June 30, 2016</u>
9/24/2008	6/30/33	2.2-7.153	\$25,000,000	\$24,110,000	\$ 335,000	\$ 23,775,000

Debt Service Requirements to Maturity

The bonds mature through 2033 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 425,000	\$ 1,354,235	\$ 1,779,235
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	
2022-2026	5,495,000	5,572,519	11,067,519
2027-2031	10,075,000	3,531,299	13,606,299
2032-2033	5,765,000	509,072	6,274,072
Total	\$ 23,775,000	\$ 16,165,824	\$ 37,991,287

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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>
2017	\$ -	\$ 598,400	\$ 598,400
2018	-	598,400	598,400
2019	-	598,400	598,400
2020	-	598,400	598,400
2021	-	598,400	598,400
2022-2026	6,600,000	2,453,440	9,053,440
2027-2028	4,400,000	209,440	4,609,440
Total	<u>\$ 11,000,000</u>	<u>\$ 5,654,880</u>	<u>\$ 16,654,880</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>
2017	\$ 260,288	\$ 212,204	\$ 472,492
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
2022-2026	2,000,307	687,181	2,687,488
2027-2031	2,792,205	246,281	3,038,486
Total	<u>\$ 6,157,712</u>	<u>\$ 1,898,665</u>	<u>\$ 8,056,377</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2016, amounted to \$251,644.

Preschool Revolving Facilities Loan

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

	<u>Amount</u>
Balance, July 1, 2015	\$ 73,500
Payments	10,500
Balance, June 30, 2016	<u>\$ 63,000</u>

The loan has minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Annau Payment</u>
2017	\$ 10,500
2018	10,500
2019	10,500
2020	10,500
2021	10,500
2022	10,500
Total	<u>63,000</u>
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 63,000</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$2,675,811, and contributions made by the District during the year were \$941,975 (including an implicit rate subsidy factor of 17.5 percent). Interest on the net OPEB obligation and adjustments to the annual required contribution were \$199,854 and \$(378,145), respectively, which resulted in an increase to the net OPEB obligation of \$1,555,545. As of June 30, 2016, the net OPEB obligation was \$5,763,001. 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, 2016**

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	-	54,180	54,180
Total Nonspendable	<u>5,000</u>	<u>54,180</u>	<u>59,180</u>
Restricted			
Legally restricted programs	2,369,050	827,878	3,196,928
Capital projects	-	187,385	187,385
Debt service	-	1,747,547	1,747,547
Total Restricted	<u>2,369,050</u>	<u>2,762,810</u>	<u>5,131,860</u>
Committed			
Deferred maintenance program	-	158	158
Total Committed	<u>-</u>	<u>158</u>	<u>158</u>
Assigned			
CalSTRS and CalPERS rate increases	3,667,643	-	3,667,643
Capital projects	-	5	5
Total Assigned	<u>3,667,643</u>	<u>5</u>	<u>3,667,648</u>
Unassigned			
Reserve for economic uncertainties	3,343,559	-	3,343,559
Total Unassigned	<u>3,343,559</u>	<u>-</u>	<u>3,343,559</u>
Total	<u>\$ 9,385,252</u>	<u>\$ 2,817,153</u>	<u>\$ 12,202,405</u>

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2016, the following District major fund exceeded the budgeted amounts as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Classified salaries	\$ 10,711,169	\$ 10,842,044	\$ 130,875
Employee benefits	<u>\$ 22,527,438</u>	<u>\$ 23,945,860</u>	<u>\$ 1,418,422</u>
Other outgo	<u>\$ 7,080,900</u>	<u>\$ 7,081,617</u>	<u>\$ 717</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 2015-2016, the District contributed \$801,681 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	199,854
Adjustment to annual required contribution	(378,145)
Annual OPEB cost (expense)	<u>2,497,520</u>
Contributions made	<u>(941,975)</u>
Increase in net OPEB obligation	1,555,545
Net OPEB obligation, beginning of year	<u>4,207,456</u>
Net OPEB obligation, end of year	<u><u>\$ 5,763,001</u></u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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
2016	\$ 2,497,520	\$ 941,975	38%	\$ 5,763,001
2015	2,558,302	1,123,926	44%	4,207,456
2014	2,123,820	962,667	45%	2,773,080

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, 2016

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 24 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 2016, 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, 2016

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, 2016, 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:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 45,668,903	\$ 9,352,147	\$ 8,084,177	\$ 3,574,057
CalPERS	14,093,540	6,208,600	4,568,369	2,237,661
Total	<u>\$ 59,762,443</u>	<u>\$ 15,560,747</u>	<u>\$ 12,652,546</u>	<u>\$ 5,811,718</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, 2014, 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, 2016

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, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

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, 2016, are presented above and the District's total contributions were \$3,849,349.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

At June 30, 2016, 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	\$ 45,668,903
State's proportionate share of the net pension liability associated with the District	24,153,815
Total	<u><u>\$ 69,822,718</u></u>

The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, respectively was 0.0678 percent and 0.0648 percent, resulting in a net increase in the proportionate share of 0.0031 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$3,574,057. In addition, the District recognized pension expense and revenue of \$1,870,984 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 3,849,349	\$ -
Net change in proportionate share of net pension liability	1,904,516	-
Difference between projected and actual earnings on pension plan investments	3,598,281	7,321,039
Differences between expected and actual experience in the measurement of the total pension liability	-	763,138
Total	<u><u>\$ 9,352,146</u></u>	<u><u>\$ 8,084,177</u></u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,540,776)
2018	(1,540,776)
2019	(1,540,776)
2020	899,570
Total	<u>\$ (3,722,758)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and the 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 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 190,230
2018	190,230
2019	190,230
2020	190,230
2021	190,230
Thereafter	190,238
Total	<u>\$ 1,141,388</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
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' 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 independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on 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%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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%)	\$ 68,956,487
Current discount rate (7.60%)	\$ 45,668,903
1% increase (8.60%)	\$ 26,315,040

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, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. 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, 2016

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, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

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, 2016, are presented above and the total District contributions were \$1,399,239.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$14,093,540. The net pension liability was measured as of June 30, 2015. 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, 2015 and June 30, 2014, respectively was 0.0956 percent and 0.0807 percent, resulting in a net increase in the proportionate share of 0.0149 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$2,237,661. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,399,239	\$ -
Net change in proportionate share of net pension liability	1,689,181	905,134
Difference between projected and actual earnings on pension plan investments	2,314,714	2,797,289
Differences between expected and actual experience in the measurement of the total pension liability	805,467	-
Changes of assumptions	-	865,946
Total	\$ 6,208,601	\$ 4,568,369

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (353,751)
2018	(353,751)
2019	(353,751)
2020	578,678
Total	\$ (482,575)

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and the 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 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 109,055
2018	109,053
2019	505,460
Total	<u>\$ 723,568</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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
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, 2016

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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

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:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 22,938,410
Current discount rate (7.65%)	\$ 14,093,540
1% increase (8.65%)	\$ 6,738,439

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$2,055,838 (7.12589 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, 2016.

Litigation

The District is not currently a party to any legal proceedings.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, 2016, the District made payments of \$1,213,187 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, 2016, the District made payments of \$13,727,217 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, 2016, the District made payments of \$485,201 to MSBCLP for property and liability coverage.

REQUIRED SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 78,761,911	\$ 77,582,452	\$ 77,679,820	\$ 97,368
Federal sources	7,025,041	7,264,419	6,343,860	(920,559)
Other State sources	8,889,749	13,003,123	13,918,086	914,963
Other local sources	4,423,605	4,483,012	4,886,505	403,493
Total Revenues	99,100,306	102,333,006	102,828,271	495,265
EXPENDITURES				
Current				
Certificated salaries	35,630,607	38,322,112	38,024,996	297,116
Classified salaries	10,316,817	10,711,169	10,842,044	(130,875)
Employee benefits	22,064,007	22,527,438	23,945,860	(1,418,422)
Books and supplies	7,613,433	5,643,155	5,287,281	355,874
Services and operating expenditures	11,141,231	15,677,970	13,915,188	1,762,782
Capital outlay	1,009,348	433,940	352,140	81,800
Other outgo	7,224,110	7,080,900	7,081,617	(717)
Debt service - interest	-	800,760	761,992	38,768
Total Expenditures	94,999,553	101,197,444	100,211,118	986,326
Excess (Deficiency) of Revenues Over Expenditures	4,100,753	1,135,562	2,617,153	1,481,591
Other Financing Sources				
Transfers out	(6,264,045)	(1,050,000)	(1,050,000)	-
Net Financing Sources	(6,264,045)	(1,050,000)	(1,050,000)	-
NET CHANGE IN FUND BALANCES	(2,163,292)	85,562	1,567,153	1,481,591
Fund Balance - Beginning	7,818,099	7,818,099	7,818,099	-
Fund Balance - Ending	\$ 5,654,807	\$ 7,903,661	\$ 9,385,252	\$ 1,481,591

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age Normal (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%
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, 2016

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability (asset)	<u>0.0678%</u>	<u>0.0648%</u>
District's proportionate share of the net pension liability (asset)	\$ 45,668,903	\$ 37,857,550
State's proportionate share of the net pension liability (asset) associated with the District	<u>24,153,815</u>	<u>22,860,023</u>
Total	<u>\$ 69,822,718</u>	<u>\$ 60,717,573</u>
District's covered - employee payroll	<u>\$ 31,705,552</u>	<u>\$ 28,219,164</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>144.04%</u>	<u>134.16%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability (asset)	<u>0.0956%</u>	<u>0.0807%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 14,093,540</u>	<u>\$ 9,163,762</u>
District's covered - employee payroll	<u>\$ 10,580,724</u>	<u>\$ 8,194,328</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>133.20%</u>	<u>111.83%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 3,849,349	\$ 2,815,454
Contributions in relation to the contractually required contribution	<u>3,849,349</u>	<u>2,815,454</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 35,874,641</u>	<u>\$ 31,705,563</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 1,399,239	\$ 1,245,456
Contributions in relation to the contractually required contribution	<u>1,399,239</u>	<u>1,245,456</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 11,810,914</u>	<u>\$ 10,580,715</u>
Contributions as a percentage of covered - employee payroll	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying note to required supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

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.

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.

NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education (CDE):			
No Child Left Behind Act			
Title I, Part A - Basic	84.010	14329	\$ 2,526,557
Migrant Education programs			
Title I, Part C - Migrant Education, Regular	84.011	14838	782,658
Title I, Part C - Migrant Education, Summer	84.011	10005	141,641
Title I, Part C - Migrant Education, Even Start	84.011	14768	50,000
Total Migrant Education programs			<u>974,299</u>
Title II, Part A - Improving Teacher Quality	84.367	14341	509,661
Title II, Part B - Ca. Mathematics and Science	84.366	14512	507,044
Title III, Limited English Proficient	84.365	14346	447,623
IDEA, Basic Local Assistance Entitlement	84.027	13379	1,233,852
Total U.S. Department of Education			<u>6,199,036</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medicaid Programs			
Medi-Cal Billing Option	93.778	10013	44,195
Medi-Cal Administrative Activities	93.778	10060	100,630
Subtotal - Medicaid Programs			<u>144,825</u>
Total U.S. Department of Health and Human Services			<u>144,825</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	3,293,983
Especially Needy Breakfast	10.553	13526	523,852
Summer Food Program	10.559	13004	63,654
Food Distribution - Commodities	10.555	13391	267,212
Subtotal - Child Nutrition Cluster			<u>4,148,701</u>
Child and Adult Care Food Program	10.558	13666	594,386
Child Nutrition, Fresh Fruit and Vegetable Program	10.582	14968	288,590
Total U.S. Department of Agriculture			<u>5,031,677</u>
Total Expenditures of Federal Awards			<u>\$ 11,375,538</u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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 thirteen Transitional Kindergarten through Sixth grade elementary schools and reopened a 14th, Boronda Elementary School with Transitional Kindergarten and Kindergarten. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Stephen Kim	President	2017
Roberto Garcia	Vice President	2017
Robert Foster Hoffman	Clerk	2017
Amy Ish	Member	2019
Francisco Estrada	Member	2019

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, 2016

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	4,976.01	4,968.27
Fourth through sixth	3,708.88	3,704.80
Total Regular ADA	<u>8,684.89</u>	<u>8,673.07</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	-	0.41
Total Special Education, Nonpublic, Nonsectarian Schools	<u>-</u>	<u>0.41</u>
Total ADA	<u>8,684.89</u>	<u>8,673.48</u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-1987	2015-2016	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,400	180	N/A	Complied
Grade 2		50,400	180	N/A	Complied
Grade 3		50,400	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,000	180	N/A	Complied
Grade 5		54,000	180	N/A	Complied
Grade 6		54,000	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, 2016**

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND				
Revenues and transfers in	\$ 105,309,977	\$ 102,828,271	\$ 83,982,669	\$ 74,948,883
Expenditures	105,088,542	100,211,118	83,907,863	73,549,862
Other uses and transfers out	-	1,050,000	-	-
Total Expenditures and Other Uses	105,088,542	101,261,118	83,907,863	73,549,862
INCREASE/(DECREASE) IN FUND BALANCE	\$ 221,435	\$ 1,567,153	\$ 74,806	\$ 1,399,021
ENDING FUND BALANCE	\$ 9,606,687	\$ 9,385,252	\$ 7,818,099	\$ 7,743,293
AVAILABLE RESERVES²	\$ 3,152,597	\$ 3,343,559	\$ 2,597,237	\$ 1,647,202
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	3.3%	3.1%	2.2%
LONG-TERM OBLIGATIONS	Not Available	\$ 47,010,357	\$ 46,006,895	\$ 45,071,262
AVERAGE DAILY ATTENDANCE AT P-2	8,673	8,685	8,678	8,522

The General Fund balance has increased by \$1,641,959 over the past two years. The fiscal year 2016-2017 budget projects an increase of \$221,435 (2.4 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 and anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have increased by \$1,939,095 over the past two years.

Average daily attendance has increased by 163 over the past two years. No growth of ADA is anticipated during fiscal year 2016-2017.

¹ Budget 2017 is included for analytical purposes only and has not been subjected to audit.

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 4,506	\$ 113,471	\$ 158
Receivables	184,589	693,494	-
Stores inventories	-	54,180	-
Total Assets	\$ 189,095	\$ 861,145	\$ 158
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 96,684	\$ 71,498	\$ -
Total Liabilities	96,684	71,498	-
Fund Balances:			
Nonspendable	-	54,180	-
Restricted	92,411	735,467	-
Committed	-	-	158
Assigned	-	-	-
Total Fund Balances	92,411	789,647	158
Total Liabilities and Fund Balances	\$ 189,095	\$ 861,145	\$ 158

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ 73,721	\$ 83,249	\$ 30,005	\$ 5	\$ 813,790
144	207	59	-	-
-	-	-	-	-
<u>\$ 73,865</u>	<u>\$ 83,456</u>	<u>\$ 30,064</u>	<u>\$ 5</u>	<u>\$ 813,790</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	-
-	-	-	-	-
73,865	83,456	30,064	-	813,790
-	-	-	-	-
-	-	-	5	-
<u>73,865</u>	<u>83,456</u>	<u>30,064</u>	<u>5</u>	<u>813,790</u>
<u>\$ 73,865</u>	<u>\$ 83,456</u>	<u>\$ 30,064</u>	<u>\$ 5</u>	<u>\$ 813,790</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, Continued
JUNE 30, 2016**

	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 906,651	\$ 2,025,556
Receivables	27,106	905,599
Stores inventories	-	54,180
Total Assets	\$ 933,757	\$ 2,985,335
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ 168,182
Total Liabilities	-	168,182
Fund Balances:		
Nonspendable	-	54,180
Restricted	933,757	2,762,810
Committed	-	158
Assigned	-	5
Total Fund Balances	933,757	2,817,153
Total Liabilities and Fund Balances	\$ 933,757	\$ 2,985,335

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, 2016**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 4,764,466	\$ -
Other State sources	1,236,692	302,725	-
Other local sources	460,422	418,099	1
Total Revenues	1,697,114	5,485,290	1
EXPENDITURES			
Current			
Instruction	999,993	-	-
Instruction-related activities:			
Supervision of instruction	2,872	-	-
School site administration	38,028	-	-
Pupil services:			
Food services	-	5,329,917	-
All other pupil services	125,148	-	-
Administration:			
All other administration	48,896	225,223	-
Plant services	5,683	-	-
Facility acquisition and construction	-	23,361	-
Enterprise services	607,745	-	-
Debt service			
Principal	10,500	-	-
Interest and other	-	-	-
Total Expenditures	1,838,865	5,578,501	-
Excess (Deficiency) of Revenues Over Expenditures	(141,751)	(93,211)	1
Other Financing Sources (Uses)			
Transfers in	50,000	-	-
Net Financing Sources (Uses)	50,000	-	-
NET CHANGE IN FUND BALANCES	(91,751)	(93,211)	1
Fund Balance - Beginning	184,162	882,858	157
Fund Balance - Ending	\$ 92,411	\$ 789,647	\$ 158

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	19,827
654	14,475	266	-	2,432,931
<u>654</u>	<u>14,475</u>	<u>266</u>	<u>-</u>	<u>2,452,758</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	33,234	-	-	-
-	36,400	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	335,000
-	-	-	-	1,371,848
<u>-</u>	<u>69,634</u>	<u>-</u>	<u>-</u>	<u>1,706,848</u>
654	(55,159)	266	-	745,910
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
654	(55,159)	266	-	745,910
73,211	138,615	29,798	5	67,880
<u>\$ 73,865</u>	<u>\$ 83,456</u>	<u>\$ 30,064</u>	<u>\$ 5</u>	<u>\$ 813,790</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ 556,212	\$ 5,320,678
Other State sources	-	1,559,244
Other local sources	140,867	3,467,715
Total Revenues	697,079	10,347,637
EXPENDITURES		
Current		
Instruction	-	999,993
Instruction-related activities:		
Supervision of instruction	-	2,872
School site administration	-	38,028
Pupil services:		
Food services	-	5,329,917
All other pupil services	-	125,148
Administration:		
All other administration	-	307,353
Plant services	-	42,083
Facility acquisition and construction	-	23,361
Enterprise services	-	607,745
Debt service		
Principal	234,797	580,297
Interest and other	819,562	2,191,410
Total Expenditures	1,054,359	10,248,207
Excess (Deficiency) of Revenues Over Expenditures	(357,280)	99,430
Other Financing Sources (Uses)		
Transfers in	1,000,000	1,050,000
Net Financing Sources (Uses)	1,000,000	1,050,000
NET CHANGE IN FUND BALANCES	642,720	1,149,430
Fund Balance - Beginning	291,037	1,667,723
Fund Balance - Ending	\$ 933,757	\$ 2,817,153

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30,**

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.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 11,664,538
Reconciling items:		
Food Distribution - Commodities	10.555	267,212
Federal interest subsidy	Unknown	<u>(556,212)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 11,375,538</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,

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.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Salinas City Elementary School District
Salinas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salinas City Elementary School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Salinas City Elementary School District's basic financial statements, and have issued our report thereon dated December 1, 2016.

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 December 1, 2016.

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.

Varrink, Trine, Day & Co., LLP

Fresno, California
December 1, 2016



**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 (the District) major Federal programs for the year ended June 30, 2016. 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, 2016.

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 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.

Varrink, Trine, Day & Co., LLP

Fresno, California
December 1, 2016



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 *2015-2016 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, 2016.

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 *2015-2016 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 opinion. 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 2016-001, 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, 2016.

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, 2016, 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	No (see below)
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
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	Yes

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

We did not perform procedures for Classroom Teachers Salaries as the district had obtained a waiver from their County Office of Education as allowed in *Education Code* Section 41372.

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.

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
December 1, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic</u>
<u>84.011</u>	<u>Title I, Part C Programs</u>

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

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

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:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
61000	Classroom Teacher Salaries

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 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, 2016

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.

2015-001 40000

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

Unduplicated Local Control Funding Formula Pupil Count

Criteria

With the new Local Control Funding Formula, school districts receive supplemental funding known as the Supplement Grant and Concentration Grant. The amount of funding received is generated by the number of students who are either English learners (EL) or participants in the Free/Reduced Meal Program.

Condition

During the audit of the unduplicated local control funding formula pupil count, numerous pupils were incorrectly reported as free/reduced on the CalPADS report with either no current application available for review or the application stated the student was denied for the free/reduced classification.

Effect

Forty pupils were initially selected as a sample and two were missing an application on file and three were denied based on income information provided. The district provided a list of pupils identified as Paid status, per their Mealtime software, and that list was compared to pupils on the CalPADS 1.18 report that were not direct certified, not foster/homeless, were participants in the free/reduced program, not migrant, and not designated as ELs. The lists were compared to identify pupils that were marked paid on the Mealtime database but reported as free/reduced on the CalPADS database. As a result, two hundred eleven (211) pupils were identified as being incorrectly designated as free/reduced on the CalPADS database.

The below table summarizes the effect of students who were incorrectly reported.

Salinas City Elementary School District (excluding County programs)	
Certified total enrollment	9,125
Certified total unduplicated pupil count	7,876
Unduplicated pupil count adjustment based on eligibility for FRPM	(211)
Adjusted total enrollment	9,125
Adjusted total unduplicated pupil count	7,655

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Cause

During the annual updating process of student records, applications are collected and verified by the Food Services department of the District and the appropriate designations are input to the Mealtime software. The list of these students is then forwarded to the Testing and Information Services department to be uploaded to the Powerschools attendance software. Once all changes have been made, the updated pupil records are uploaded to the CalPADS database via internet. The error occurred due to the list provided by the Food Service department only including free/reduced pupils and not pupils designated as paid. As a result, students who were free/reduced in the prior year (2013-2014 fiscal year) that changed to paid status were not appropriately updated.

Questioned Cost

The above mention net effect has a questioned cost of \$217,133.

Recommendation

During the annual update process, the Food Services department must provide the Testing and Information Services department with the students designated as paid. This list should then be used to update the students reported in the prior year as free/reduced to the current paid status.

Current Status

Implemented.



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, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 1, 2016, on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

During the current year and prior year audit of the cash receipts system, we discovered sites that are still not consistently using receipt books to document when funds are being turned in, the amount, and by which students. Without this supporting documentation, we cannot determine the deposit's intactness or if the teachers are forwarding the funds to the ASB bookkeeper in a timely manner. Since there is no back up attached to the funds turned in, the bookkeeper cannot reconcile the funds back to any documentation to determine the accuracy of the cash count sheet and the actual amount of funds turned in. Of the deposits that did have receipts, the receipts were not reconciled to the deposit and it appears that deposits were not made in a timely manner.

Recommendation

Prenumbered receipts (or other sufficient forms of back up) should be used for all collections by teachers and the site bookkeeper, which would include a specific description of the source of the funds. Teachers have the option to use a classroom roster as a log to document which students turn in funds as long as the roster has the name, amount, date, and is reconciled to the total funds received by that teacher or advisor. The bookkeeper must use prenumbered receipts when collecting funds. Best business practices show that triplicate copy receipt books are ideal as one copy goes to the individual turning in funds to the bookkeeper, the second copy goes with the deposit, and the third copy stays in the receipt book. When the bookkeeper is ready to make a deposit to the bank account (or District Office) they must reconcile the receipts to the funds deposited. Receipts should be issued in sequential order.

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

Vavrinek, Trine, Day & Co., LLP

Fresno, California
December 1, 2016