

**SALINAS CITY ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2015

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds - Statement of Net Position	20
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Proprietary Funds - Statement of Cash Flows	22
Fiduciary Funds - Statement of Net Position	23
Notes to Financial Statements	24

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	63
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	64
Schedule of the District's Proportionate Share of the Net Pension Liability	65
Schedule of District Contributions	66

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	68
Local Education Agency Organization Structure	69
Schedule of Average Daily Attendance	70
Schedule of Instructional Time	71
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	72
Schedule of Financial Trends and Analysis	73
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	76
Note to Supplementary Information	78

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>	81
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the OMB Circular A-133	83
Report on State Compliance	85

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	89
Financial Statement Findings	90
Federal Awards Findings and Questioned Costs	91
State Awards Findings and Questioned Costs	92
Summary Schedule of Prior Audit Findings	95
Management Letter	96

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, 2015, 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 *2014-2015 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 12, and budgetary comparison, other postemployment benefit, net pension liability, and District contribution information on pages 63 through 66, respectively, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

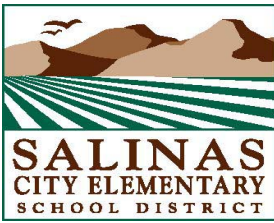
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2015, 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
November 28, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

ADMINISTRATION

JUVENAL LUZA, Ph.D.
Superintendent

GERALD STRATTON
Assistant Superintendent
Business Services

LORI SANDERS
Assistant Superintendent
Educational Services

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

PAT WILLINGHAM
Director, Personnel Services

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

BEATRIZ CHAIDEZ
Director, Pupil Personnel Services
& Special Education

BOARD OF EDUCATION

ROBERTO GARCIA
Trustee Area 1

NATHAN LARISON
Trustee Area 2

ROBERT FOSTER HOFFMAN
Trustee Area 3

JANET BARNES
Trustee Area 4

STEPHEN KIM
Trustee Area 5

The mission of Salinas City Elementary School District is to provide a quality education, qualified educators and a collaborative environment where students are challenged and encouraged to excel. The District is located in the community of Salinas in Monterey County. This community, 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 9,125 students in 2014-2015.

The District operated 13 elementary schools in 2014-2015 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.

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.

840 South Main Street
Salinas CA 93901
Phone (831) 753-5600
Fax (831) 753-5610

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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, 2015

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 \$(13.3) million for the fiscal year ended June 30, 2015. Of this amount, \$4.0 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, 2015

Table 1

(Amounts in millions)

	Governmental Activities		
	2015	2014, Restated	Difference
Assets			
Current and other assets	\$ 28.1	\$ 46.9	\$ (18.8)
Capital assets	71.6	74.8	(3.2)
Total Assets	<u>99.7</u>	<u>121.7</u>	<u>(22.0)</u>
Deferred Outflows of Resources	<u>4.1</u>	<u>3.3</u>	<u>0.8</u>
Liabilities			
Current liabilities	9.9	28.6	(18.7)
Long-term obligations	93.4	103.8	(10.4)
Total Liabilities	<u>103.3</u>	<u>132.4</u>	<u>(29.1)</u>
Deferred Inflows of Resources	<u>13.8</u>	<u>-</u>	<u>13.8</u>
Net Position			
Net investment in capital assets	30.1	32.8	(2.7)
Restricted	4.0	6.9	(2.9)
Unrestricted	(47.4)	(47.1)	(0.3)
Total Net Position	<u>\$ (13.3)</u>	<u>\$ (7.4)</u>	<u>\$ (5.9)</u>

The \$(47.4) million in unrestricted 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 two percent (\$(47.4) million compared to \$(47.1) million).

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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		
	2015	2014	Difference
Revenues			
Program revenues:			
Charges for services	\$ 0.4	\$ 0.4	\$ -
Operating grants and contributions	20.8	19.6	1.2
General revenues:			
Federal and State aid not restricted	54.5	45.3	9.2
Property taxes	16.8	15.1	1.7
Other general revenues	1.5	3.3	(1.8)
Total Revenues	94.0	83.7	10.3
Expenses			
Instruction related	66.8	57.9	8.9
Student support services	10.2	9.1	1.1
Administration	4.4	3.4	1.0
Plant services	7.9	7.0	0.9
Other	10.6	7.7	2.9
Total Expenses	99.9	85.1	14.8
Change in Net Position	\$ (5.9)	\$ (1.4)	\$ (4.5)

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$99.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$16.8 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 (\$20.8 million). We paid for the remaining "public benefit" portion of our governmental activities with, \$56 million in 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, 2015

Table 3

(Dollar amounts in millions)

		Net Cost of Services	
		2015	2014
Instruction related		\$ 55.4	\$ 46.3
Student support services		4.2	3.0
Administration		3.7	3.1
Plant services		7.2	7.0
Other		8.1	5.7
Total		\$ 78.6	\$ 65.1

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$9.5 million, which is a decrease of \$1.5 million from last year (Table 4).

Table 4

(Amounts in millions)

		Balances and Activity		
		2015	2014	Difference
General		\$ 7.8	\$ 7.7	\$ 0.1
Non-Major Funds		1.7	3.3	(1.6)
Total		\$ 9.5	\$ 11.0	\$ (1.5)

Although the General Fund increased by nearly \$0.1 million due primarily to increased State funding, the primary reason for the overall decrease in the non-major funds was required debt service payments from local property taxes for bonded debt.

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 14, 2015 (2014-2015 Unaudited Actuals). A schedule showing the General Fund original and final budget amounts compared with amounts actually paid and received is provided in the basic financial statements.

The District originally projected an increase in the General Fund of approximately \$1.9 million. Revenues were \$1.4 million more than expected and expenditures were \$3.2 million more than originally projected, resulting in little increase to the General Fund.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had \$71.6 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 \$3.2 million, or 4.3 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		
	2015	2014	Difference
Land	\$ 7.5	\$ 7.5	\$ -
Construction in progress	1.5	1.2	0.3
Buildings and improvements	62.1	65.8	(3.7)
Equipment	0.5	0.3	0.2
Total	\$ 71.6	\$ 74.8	\$ (3.2)

This year's major additions included parking lot and play area improvements, new flooring, and roof improvements. Additionally, the security system of 200 cameras throughout district schools was substantially completed.

Long-Term Obligations Other Than Pensions

At the end of this year, the District had \$46.0 million in long term obligations other than pensions versus \$45.1 million last year, an increase of \$0.9 million or 2.0 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		
	2015	2014	Difference
General obligation bonds	\$ 24.1	\$ 24.4	\$ (0.3)
Certificates of participation (excludes premium)	17.4	17.6	(0.2)
Compensated absences	0.2	0.2	-
State preschool loan	0.1	0.1	-
Other postemployment benefits	4.2	2.8	1.4
Total	\$ 46.0	\$ 45.1	\$ 0.9

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 \$24.1 million is below the statutorily-imposed limit. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Net Pension Liability (NPL)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. The implementation resulted in a reduction of beginning net position of \$55.4 million. As of June 30, 2015, the District reported Deferred Outflows from pension activities of \$4.1 million, Deferred Inflows from pension activities of \$13.8 million, and a Net Pension Liability of \$47.0 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 move forward with partial restoration of funding levels versus the deep cuts and accompanying deferrals of the past six years. This has allowed the district to hire additional teachers to support growth and to reduce class sizes consistent with Grade Span Adjustment (GSA) requirements. We closed 2014-2015 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 in June 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. We have used the more conservative SSC recommendations in budgeting out years. The preponderance of new funds has been in Supplemental and Concentration dollars and is closely controlled by the Local Control and Accountability Plan.

For 2015-2016 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. 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 continued growth projections and GSA class size reductions. Additionally, we still have an unfunded liability in Fund 67 and the promise from CDE that the weight of "saving" CalSTRS and CalPERS will fall disproportionately on the District's back.

THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances, and to demonstrate the District's fiscal accountability for the money it receives. Should you have questions about this report or need additional financial information, please contact the Assistant Superintendent of Business Services at 831-784-2225.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	\$ 21,974,661
Receivables	4,197,509
Discounts on debt issuances	1,817,878
Stores inventories	41,225
Nondepreciable capital assets	8,986,099
Capital assets being depreciated	123,393,796
Accumulated depreciation	(60,733,389)
Total Assets	99,677,779
DEFERRED OUTFLOWS OF RESOURCES	
Current year pension contribution	4,060,910
Total Deferred Outflows of Resources	4,060,910
LIABILITIES	
Accounts payable	7,015,226
Unearned revenue	2,836,647
Current portion of long-term obligations other than pensions	580,297
Noncurrent portion of long-term obligations other than pensions	45,426,598
Premium on debt issuances	374,839
Aggregate net pension liability	47,021,313
Total Liabilities	103,254,920
DEFERRED INFLOWS OF RESOURCES	
Net change in proportionate share of net pension liability	1,357,700
Difference between projected and actual earnings on pension plan investments	12,471,121
Total Deferred Inflows of Resources	13,828,821
NET POSITION	
Net investment in capital assets	30,143,708
Restricted for:	
Debt service	358,917
Capital projects	168,413
Educational programs	2,595,586
Other activities	882,858
Unrestricted	(47,494,534)
Total Net Position	\$ (13,345,052)

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, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 56,044,328	\$ -	\$ 9,157,633
Instruction-related activities:			
Supervision of instruction	3,600,882	-	1,479,726
Instructional library, media, and technology	423,939	-	14,547
School site administration	6,707,241	-	743,088
Pupil services:			
Home-to-school transportation	2,390,019	-	-
Food services	5,746,253	411,579	4,593,941
All other pupil services	2,023,420	-	954,418
Administration:			
Data processing	465,485	-	-
All other administration	3,982,219	15,402	662,661
Plant services	7,967,244	-	757,156
Ancillary services	2,552	-	-
Community services	775	-	-
Enterprise services	485,503	-	458,436
Interest on long-term obligations	1,988,379	-	-
Other outgo	8,073,444	-	2,016,308
Total Governmental Activities	\$ 99,901,683	\$ 426,981	\$ 20,837,914
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Miscellaneous			
Subtotal, General Revenues			
Change in Net Position			
Net Position - Beginning, as restated			
Net Position - Ending			

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

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

**Governmental
Activities**

\$ (46,886,695)

(2,121,156)

(409,392)

(5,964,153)

(2,390,019)

(740,733)

(1,069,002)

(465,485)

(3,304,156)

(7,210,088)

(2,552)

(775)

(27,067)

(1,988,379)

(6,057,136)

(78,636,788)

15,696,738

782,501

279,869

54,539,610

52,489

1,381,907

72,733,114

(5,903,674)

(7,441,378)

\$ (13,345,052)

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 14,352,037	\$ 874,144	\$ 15,226,181
Receivables	3,197,703	872,586	4,070,289
Stores inventories	-	41,225	41,225
Total Assets	<u>\$ 17,549,740</u>	<u>\$ 1,787,955</u>	<u>\$ 19,337,695</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,895,809	\$ 119,417	\$ 7,015,226
Unearned revenue	2,835,832	815	2,836,647
Total Liabilities	<u>9,731,641</u>	<u>120,232</u>	<u>9,851,873</u>
Fund Balances:			
Nonspendable	5,000	41,225	46,225
Restricted	2,411,424	1,626,336	4,037,760
Committed	-	157	157
Assigned	2,804,438	5	2,804,443
Unassigned	2,597,237	-	2,597,237
Total Fund Balances	<u>7,818,099</u>	<u>1,667,723</u>	<u>9,485,822</u>
Total Liabilities and Fund Balances	<u>\$ 17,549,740</u>	<u>\$ 1,787,955</u>	<u>\$ 19,337,695</u>

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, 2015

Total Fund Balance - Governmental Funds		\$ 9,485,822
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	\$ 132,379,895	
Accumulated depreciation is	<u>(60,733,389)</u>	
Net Capital Assets		71,646,506
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.		1,443,039
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		4,060,910
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:		6,875,700
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.		(1,357,700)
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.		(12,471,121)
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	24,110,000	
Certificates of participation	17,392,509	
Compensated absences	223,430	
State preschool loan	73,500	
Other postemployment benefits	4,207,456	
Net pension liability	<u>47,021,313</u>	
Total Long-Term Obligations		<u>(93,028,208)</u>
Total Net Position - Governmental Activities		<u>\$ (13,345,052)</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, 2015

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Local Control Funding Formula	\$ 66,404,732	\$ -	\$ 66,404,732
Federal sources	6,136,492	4,773,954	10,910,446
Other State sources	8,221,883	1,559,504	9,781,387
Other local sources	5,020,121	1,708,324	6,728,445
Total Revenues	85,783,228	8,041,782	93,825,010
EXPENDITURES			
Current			
Instruction	51,518,862	915,337	52,434,199
Instruction-related activities:			
Supervision of instruction	3,490,304	6,042	3,496,346
Instructional library, media and technology	411,080	-	411,080
School site administration	6,221,411	38,960	6,260,371
Pupil services:			
Home-to-school transportation	2,153,991	-	2,153,991
Food services	64,798	5,222,210	5,287,008
All other pupil services	1,678,428	208,136	1,886,564
Administration:			
Data processing	445,109	-	445,109
All other administration	3,161,462	241,385	3,402,847
Plant services	7,630,480	33,251	7,663,731
Facility acquisition and construction	735,062	260,358	995,420
Other outgo	8,073,444	-	8,073,444
Enterprise services	123,991	361,512	485,503
Debt service			
Principal	-	491,898	491,898
Interest and other	-	1,934,616	1,934,616
Total Expenditures	85,708,422	9,713,705	95,422,127
NET CHANGE IN FUND BALANCES	74,806	(1,671,923)	(1,597,117)
Fund Balance - Beginning	7,743,293	3,339,646	11,082,939
Fund Balance - Ending	\$ 7,818,099	\$ 1,667,723	\$ 9,485,822

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, 2015

Total Net Change in Fund Balances - Governmental Funds **\$ (1,597,117)**

**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 capital outlays exceed depreciation in the period.

Depreciation expense	\$ (4,670,681)	
Capital outlays	<u>1,778,984</u>	
Net Expense Adjustment		(2,891,697)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (278,262)

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 used was more than the amounts earned by \$6,845. 6,845

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 STRS. (1,390,699)

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: (1,434,376)

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	260,000
Certificates of participation	221,398
State preschool loan	10,500

In the government-wide financial statements, discounts 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 discount	(53,763)
-------------------------------	----------

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, 2015

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.

Change in Net Position of Governmental Activities

\$ 1,243,497
<u>\$ (5,903,674)</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, 2015

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 6,748,480
Receivables	127,220
Total Current Assets	<u><u>\$ 6,875,700</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ -
Total Liabilities	<u><u>-</u></u>
NET POSITION	
Restricted	6,875,700
Total Net Position	<u><u>\$ 6,875,700</u></u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 1,216,177
Total Operating Revenues	<u>1,216,177</u>
OPERATING EXPENSES	
Retiree benefits, OPEB	-
Total Operating Expenses	<u>-</u>
Operating Gain	<u>1,216,177</u>
NONOPERATING REVENUES	
Interest income	27,320
Total Non-Operating Revenues	<u>27,320</u>
Change in Net Position	<u>1,243,497</u>
Total Net Position - Beginning	<u>5,632,203</u>
Total Net Position - Ending	<u>\$ 6,875,700</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, 2015

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from user charges	\$ 1,207,173
Net Cash Provided by Operating Activities	<u>1,207,173</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>27,320</u>
Net Cash Provided by Investing Activities	<u>27,320</u>
Net Increase in Cash and Cash Equivalents	1,234,493
Cash and Cash Equivalents - Beginning	<u>5,513,987</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 6,748,480</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,216,177
Changes in assets and liabilities:	
Receivables	<u>(9,004)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,207,173</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, 2015

	Agency Funds
ASSETS	
Deposits and investments	<u>\$ 250,671</u>
Total Assets	<u><u>\$ 250,671</u></u>
LIABILITIES	
Due to student groups	<u>\$ 250,671</u>
Total Liabilities	<u><u>\$ 250,671</u></u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015, 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, 2015

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, 2015

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, 2015, 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, 2015

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$4,005,774 of restricted net position.

Estimates

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

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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$55,398,524. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

New Accounting Pronouncements

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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 requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

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

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. 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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

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

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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 21,974,661
Fiduciary funds	250,671
Total Deposits and Investments	<u>\$ 22,225,332</u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 318,885
Cash in revolving	5,000
Investments	21,901,447
Total Deposits and Investments	<u>\$ 22,225,332</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, 2015

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	<u>\$ 21,900,746</u>	<u>\$ -</u>	<u>\$ 21,900,746</u>	<u>\$ -</u>	<u>\$ -</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, \$195,506 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 - RECEIVABLES

Receivables at June 30, 2015, consist of intergovernmental grants, entitlements, state apportionments, 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	\$ 1,987,744	\$ 667,541	\$ -	\$ 2,655,285
State Government				
State principal apportionment	537,091	-	-	537,091
Other state	476,837	104,608	-	581,445
Local Sources	196,031	100,437	127,220	423,688
Total	<u>\$ 3,197,703</u>	<u>\$ 872,586</u>	<u>\$ 127,220</u>	<u>\$ 4,197,509</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, are as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 7,480,895	\$ -	\$ -	\$ 7,480,895
Construction in progress	1,234,557	1,505,204	1,234,557	1,505,204
Total Capital Assets Not Being Depreciated	8,715,452	1,505,204	1,234,557	8,986,099
Capital Assets being depreciated				
Land improvements	10,922,177	-	-	10,922,177
Buildings and improvements	107,975,510	958,349	-	108,933,859
Furniture and equipment	3,332,439	273,780	68,459	3,537,760
Total Capital Assets Being Depreciated	122,230,126	1,232,129	68,459	123,393,796
Less Accumulated Depreciation				
Land improvements	3,744,755	544,485	-	4,289,240
Buildings and improvements	49,368,167	4,092,998	-	53,461,165
Furniture and equipment	3,016,191	33,198	66,405	2,982,984
Total Accumulated Depreciation	56,129,113	4,670,681	66,405	60,733,389
Governmental Activities Capital Assets, Net	\$ 74,816,465	\$ (1,933,348)	\$ 1,236,611	\$ 71,646,506

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

Governmental Activities	
Instruction	\$ 2,849,116
School site administration	233,534
Home-to-school transportation	373,654
Food services	420,361
All other general administration	186,827
Plant services	607,189
Total Depreciation Expenses, Governmental Activities	\$ 4,670,681

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendors payable	\$ 1,791,397	\$ 117,566	\$ 1,908,963
State principal apportionment	218,581	-	218,581
Accrued payroll	2,784,368	-	2,784,368
Deferred payroll	2,101,463	1,851	2,103,314
Total	<u>\$ 6,895,809</u>	<u>\$ 119,417</u>	<u>\$ 7,015,226</u>

NOTE 6 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,835,832	\$ -	\$ 2,835,832
State categorical aid	-	815	815
Total	<u>\$ 2,835,832</u>	<u>\$ 815</u>	<u>\$ 2,836,647</u>

NOTE 7 - LONG-TERM OBLIGATIONS OTHER THAN PENSIONS

Summary

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 24,370,000	\$ -	\$ 260,000	\$ 24,110,000	\$ 335,000
Certificates of participation	17,613,907	-	221,398	17,392,509	234,797
Compensated absences	230,275	-	6,845	223,430	-
State preschool loan	84,000	-	10,500	73,500	10,500
Other postemployment benefits	2,773,080	2,807,532	1,373,156	4,207,456	-
Total	<u>\$ 45,071,262</u>	<u>\$ 2,807,532</u>	<u>\$ 1,871,899</u>	<u>\$ 46,006,895</u>	<u>\$ 580,297</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

Bonded Debt

General Obligation Bonds 2008 Election, Series A and Series B

On September 24, 2008, the District issued \$25,000,000 in General Obligation Bonds 2008 Election, Series A and Series B, to finance the acquisition, construction and improvement of certain public facilities of the District, prepay certain outstanding certificates of participation of the District, and pay certain cost of issuance of the bonds. The bonds bear interest at rates ranging from 2.2 percent to 7.153 percent.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2014	Redeemed	Bonds Outstanding June 30, 2015
9/24/2008	6/30/33	2.2-7.153	\$ 25,000,000	<u>\$ 24,370,000</u>	<u>\$ 260,000</u>	<u>\$ 24,110,000</u>

Debt Service Requirements to Maturity

The bonds mature through 2033 as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 335,000	\$ 1,371,849	\$ 1,706,849
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
2021-2025	4,775,000	5,842,733	10,617,733
2026-2030	9,010,000	4,043,649	13,053,649
2031-2033	8,240,000	986,045	9,226,045
Total	<u>\$ 24,110,000</u>	<u>\$ 17,537,673</u>	<u>\$ 41,647,673</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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>
2016	\$ -	\$ 598,400	\$ 598,400
2017	-	598,400	598,400
2018	-	598,400	598,400
2019	-	598,400	598,400
2020	-	598,400	598,400
2021-2025	4,400,000	2,842,640	7,242,640
2026-2028	6,600,000	508,640	7,108,640
Total	<u>\$ 11,000,000</u>	<u>\$ 6,343,280</u>	<u>\$ 17,343,280</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>
2016	\$ 234,797	\$ 220,751	\$ 455,548
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
2021-2025	1,806,246	752,903	2,559,149
2026-2030	2,912,696	349,978	3,262,674
2031	362,193	4,761	366,954
Total	<u>\$ 6,392,509</u>	<u>\$ 2,119,417</u>	<u>\$ 8,511,926</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2015, amounted to \$223,430.

Preschool Revolving Facilities Loan

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

	Amount
Balance, July 1, 2014	\$ 84,000
Payments	10,500
Balance, June 30, 2015	<u>\$ 73,500</u>

The loan has minimum payments as follows:

Year Ending June 30,	Annual Payment
2016	\$ 10,500
2017	10,500
2018	10,500
2019	10,500
2020	10,500
2021-2022	21,000
Total	<u>73,500</u>
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 73,500</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$2,675,811, and contributions made by the District during the year were \$1,123,926 (including an implicit rate subsidy factor of 1.175). Interest on the net OPEB obligation and adjustments to the annual required contribution were \$131,721 and \$(249,230), respectively, which resulted in an increase to the net OPEB obligation of \$1,434,376. As of June 30, 2015, the net OPEB obligation was \$4,207,456. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 8 - 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	-	41,225	41,225
Total Nonspendable	5,000	41,225	46,225
Restricted			
Legally restricted programs	2,411,424	1,025,795	3,437,219
Capital projects	-	241,624	241,624
Debt services	-	358,917	358,917
Total Restricted	2,411,424	1,626,336	4,037,760
Committed			
Deferred maintenance program	-	157	157
Total Committed	-	157	157
Assigned			
Reserve for legal settlement	2,489,150	-	2,489,150
Lottery reserve	314,428	-	314,428
EPA adjustment for CDE owed funds	860	-	860
Capital projects	-	5	5
Total Assigned	2,804,438	5	2,804,443
Unassigned			
Reserve for economic uncertainties	2,597,237	-	2,597,237
Total Unassigned	2,597,237	-	2,597,237
Total	\$ 7,818,099	\$ 1,667,723	\$ 9,485,822

NOTE 9 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2015, the following District major fund exceeded the budgeted amounts as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Books and supplies	\$ 4,752,975	\$ 5,141,366	\$ 388,391
Services and operating expenditures	\$ 8,545,887	\$ 8,740,114	\$ 194,227
Other outgo	\$ 7,133,665	\$ 7,833,660	\$ 699,995

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 10 - 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 2014-2015, the District contributed \$956,533 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	131,721
Adjustment to annual required contribution	(249,230)
Annual OPEB cost (expense)	<u>2,558,302</u>
Contributions made	<u>(1,123,926)</u>
Increase in net OPEB obligation	1,434,376
Net OPEB obligation, beginning of year	<u>2,773,080</u>
Net OPEB obligation, end of year	<u><u>\$ 4,207,456</u></u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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
2015	\$ 2,558,302	\$ 1,123,926	44%	\$ 4,207,456
2014	2,123,820	962,667	45%	2,773,080
2013	2,121,642	1,436,253	68%	1,611,927

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%	\$ 42,286,278	48%

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, 2015

In the June 1, 2015, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 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, 2015, was 25 years.

NOTE 11 - RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

For fiscal year 2015, 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, 2015

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 37,857,550	\$ 2,815,454	\$ 9,322,350	\$ 3,268,329
CalPERS	9,163,763	1,245,456	4,506,471	2,172,171
Total	<u>\$ 47,021,313</u>	<u>\$ 4,060,910</u>	<u>\$ 13,828,821</u>	<u>\$ 5,440,500</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, 2013, 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, 2015

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, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

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, 2015, are presented above and the District's total contributions were \$2,815,454.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

At June 30, 2015, 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	\$ 37,857,550
State's proportionate share of the net pension liability associated with the District	<u>22,860,023</u>
Total	<u><u>\$ 60,717,573</u></u>

The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.0648 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$3,268,329. In addition, the District recognized revenue and pension expense of \$1,973,588 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,815,454	\$ -
Difference between projected and actual earnings on pension plan investments	-	9,322,350
Total	<u><u>\$ 2,815,454</u></u>	<u><u>\$ 9,322,350</u></u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The deferred outflow 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 year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 2,330,587
2017	2,330,587
2018	2,330,587
2019	2,330,589
Total	<u>\$ 9,322,350</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
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:

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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%

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:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 59,010,020
Current discount rate (7.60%)	\$ 37,857,550
1% increase (8.60%)	\$ 20,220,235

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.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. 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>.

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, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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, 2015, are presented above and the total District contributions were \$1,245,456.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$9,163,763. The net pension liability was measured as of June 30, 2014. 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, 2014 and June 30, 2013, respectively was 0.0781 percent and 0.0907 percent, resulting in a net decrease in the proportionate share of 0.0126 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$814,471. At June 30, 2015, 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	\$ 1,245,456	\$ -
Net change in proportionate share of net pension liability	-	1,357,700
Difference between projected and actual earnings on pension plan investments	-	3,148,771
Total	<u>\$ 1,245,456</u>	<u>\$ 4,506,471</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflows of resources related to the net change in proportionate share of net pension liability will be amortized over the expected average remaining service lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years and the pension expense will be recognized as follows:

Year Ended June 30,	Amortization
2016	\$ 452,566
2017	452,566
2018	452,568
Total	<u>\$ 1,357,700</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2015**

The deferred inflows of resources related to the differences 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,	Amortization
2016	\$ 787,193
2017	787,193
2018	787,193
2019	787,192
Total	<u>\$ 3,148,771</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, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

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, 2015

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.50%)	\$ 16,078,331
Current discount rate (7.50%)	\$ 9,163,762
1% increase (8.50%)	\$ 3,388,450

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 \$1,800,559 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted and actual amounts reported in the General Fund - Budgetary Comparison Schedule.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

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

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITIES

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, the District made payments of \$875,898 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, 2015, the District made payments of \$13,030,011 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, 2015, the District made payments of \$412,042 to MSBCLP for property and liability coverage.

NOTE 15 - SUBSEQUENT EVENTS

A legal settlement was determined in favor of the California Teachers Association (CTA)/Salinas Elementary Teacher Council (SETC). This settlement reversed a previously agreed step/column freeze from 2005-2006 when the District was close to financial insolvency.

The settlement resulted in a pay out of salary and benefits, as well as interest for 173 certificated staff. Of those affected, 133 were current employees, 36 were former or retired staff and four people were deceased.

All 173 people, with the exception of the three deceased employees' estates, were paid out in September 2015 as follows:

Salaries and benefits	\$ 2,349,491.75
Interest earned	762,652.96
Total	<u><u>\$ 3,112,144.71</u></u>

The estimated total with the last three estate pay outs is \$3,145,843.40. These estates will be compensated upon confirmation of surviving spouse/beneficiary per review of court documents.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 47,957,146
Restatement - GASB Statement No. 68, Net Pension Liability	<u>(55,398,524)</u>
Net Position - Beginning as Restated	<u><u>\$ (7,441,378)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local Control Funding Formula	\$ 66,296,049	\$ 66,000,829	\$ 66,404,732	\$ 403,903
Federal sources	5,858,655	7,056,924	6,136,492	(920,432)
Other State sources	4,508,840	9,021,557	6,421,324	(2,600,233)
Other local sources	4,712,803	4,361,581	5,020,124	658,543
Total Revenues ¹	81,376,347	86,440,891	83,982,672	(2,458,219)
EXPENDITURES				
Current				
Certificated salaries	32,417,742	34,021,905	32,578,240	1,443,665
Classified salaries	8,656,326	9,454,385	9,352,161	102,224
Employee benefits	20,161,239	19,812,807	19,341,205	471,602
Books and supplies	4,761,971	4,752,975	5,141,366	(388,391)
Services and operating expenditures	7,234,762	8,545,887	8,740,114	(194,227)
Capital outlay	571,811	1,114,214	921,120	193,094
Other outgo	6,938,329	7,133,665	7,833,660	(699,995)
Total Expenditures ¹	80,742,180	84,835,838	83,907,866	927,972
Excess (Deficiency) of Revenues Over Expenditures	634,167	1,605,053	74,806	(1,530,247)
Other Financing Sources				
Transfers in	1,223,962	-	-	-
Net Financing Sources	1,223,962	-	-	-
NET CHANGE IN FUND BALANCES	1,858,129	1,605,053	74,806	(1,530,247)
Fund Balance - Beginning	7,743,293	7,743,293	7,743,293	-
Fund Balance - Ending	\$ 9,601,422	\$ 9,348,346	\$ 7,818,099	\$ (1,530,247)

¹ On behalf payments are not included in the revenues and expenditures in this schedule.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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%	\$ 42,286,278	48%
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%

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability (asset)	<u>0.0648%</u>
District's proportionate share of the net pension liability (asset)	\$ 37,857,550
State's proportionate share of the net pension liability (asset) associated with the District	<u>22,860,023</u>
Total	<u><u>\$ 60,717,573</u></u>
District's covered - employee payroll	<u>\$ 28,219,164</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>134.16%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 CalPERS	
District's proportion of the net pension liability (asset)	<u>0.0807%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 9,163,762</u>
District's covered - employee payroll	<u>\$ 8,194,328</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>111.83%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 2,815,454
Contributions in relation to the contractually required contribution	<u>2,815,454</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
 District's covered - employee payroll	 <u>\$ 31,705,563</u>
 Contributions as a percentage of covered - employee payroll	 <u>8.88%</u>
 CalPERS	
Contractually required contribution	\$ 1,245,456
Contributions in relation to the contractually required contribution	<u>1,245,456</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
 District's covered - employee payroll	 <u>\$ 10,580,715</u>
 Contributions as a percentage of covered - employee payroll	 <u>11.771%</u>

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

SUPPLEMENTARY INFORMATION

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

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	\$ 2,965,179
Migrant Education programs			
Title I, Part C - Migrant Education, Regular	84.011	14326	611,560
Title I, Part C - Migrant Education, Summer	84.011	10005	229,792
Total Migrant Education programs			<u>841,352</u>
Title II, Part A - Improving Teacher Quality	84.367	14341	322,047
Title II, Part B - Ca. Mathematics and Science	84.366	14512	482,462
Title III, Limited English Proficient	84.365	10084	222,212
IDEA, Basic Local Assistance Entitlement	84.027	13379	1,149,808
Total U.S. Department of Education			<u>5,983,060</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Education:			
Medi-Cal Billing Option	93.778	10013	<u>153,432</u>
Total U.S. Department of Health and Human Services			<u>153,432</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	3,213,127
Especially Needy Breakfast	10.553	13526	501,807
Summer Food Program	10.559	13004	93,133
Food Distribution - Commodities	10.555	13391	268,395
Subtotal - Child Nutrition Cluster			<u>4,076,462</u>
Child and Adult Care Food Program	10.558	13666	491,974
Child Nutrition, Fresh Fruit and Vegetable Program	10.582	14968	196,655
Total U.S. Department of Agriculture			<u>4,765,091</u>
Total Expenditures of Federal Awards			<u>\$ 10,901,583</u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

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. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Roberto Garcia	President	2017
Robert Foster Hoffman	Vice President	2017
Stephen Kim	Clerk	2017
Janet Barnes	Member	2015
Nathan Larison	Member	2015

ADMINISTRATION

Juvenal Luza, Ph.D.	Superintendent
Gerald Stratton	Assistant Superintendent, Business Services
Lori Sanders	Assistant Superintendent, Educational Services

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2015

	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	5,053.74	5,059.22
Fourth through sixth	<u>3,623.54</u>	<u>3,626.55</u>
Total Regular ADA	<u><u>8,677.28</u></u>	<u><u>8,685.77</u></u>

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-1987	Reduced	2014-2015	Number of Days		Status
	Minutes Requirement	1986-1987 Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,408	180	N/A	Complied
Grade 2			50,408	180	N/A	Complied
Grade 3			50,408	180	N/A	Complied
Grades 4 - 6	54,000	52,500				
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, 2015

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

	(Budget) 2016 ¹	2015	2014 ⁴	2013
GENERAL FUND				
Revenues and transfers in ³	\$ 99,100,306	\$ 83,982,669	\$ 74,948,883	\$ 65,089,667
Expenditures	94,999,554	83,907,863	73,549,862	67,066,803
Other uses and transfers out	6,264,045	-	-	45,244
Total Expenditures and Other Uses ³	101,263,599	83,907,863	73,549,862	67,112,047
INCREASE/(DECREASE) IN FUND BALANCE	\$ (2,163,293)	\$ 74,806	\$ 1,399,021	\$ (2,022,380)
ENDING FUND BALANCE	\$ 5,654,806	\$ 7,818,099	\$ 7,743,293	\$ 6,344,271
AVAILABLE RESERVES ²	\$ 516,747	\$ 2,597,237	\$ 1,647,202	\$ 2,623,950
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	0.5%	3.1%	2.2%	3.9%
LONG-TERM OBLIGATIONS	Not Available	\$ 93,028,208	\$ 103,819,861	\$ 44,302,600
AVERAGE DAILY ATTENDANCE AT P-2	8,778	8,678	8,522	8,337

The General Fund balance has increased by \$1,473,828 over the past two years. The fiscal year 2015-2016 budget projects a decrease of \$2,163,293 (27.7 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2015-2016 fiscal year. Total long-term obligations have increased by \$48,725,608 over the past two years due primarily to the recognition of a net pension liability totaling \$47,021,313 as required by the implementation of GASB Statement No. 68.

Average daily attendance has increased by 341 over the past two years. Additional growth of 100 ADA is anticipated during fiscal year 2015-2016.

¹ Budget 2016 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments are not included in revenues and expenditures in this schedule.

⁴ The long-term obligations were restated for 2014 due to the implementation of GASB Statement No. 68.

See accompanying note to supplementary information.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2015

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 83,373	\$ 208,332	\$ 157
Receivables	103,455	750,867	-
Stores inventories	-	41,225	-
Total Assets	\$ 186,828	\$ 1,000,424	\$ 157
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,851	\$ 117,566	\$ -
Unearned revenue	815	-	-
Total Liabilities	2,666	117,566	-
Fund Balances:			
Nonspendable	-	41,225	-
Restricted	184,162	841,633	-
Committed	-	-	157
Assigned	-	-	-
Total Fund Balances	184,162	882,858	157
Total Liabilities and Fund Balances	\$ 186,828	\$ 1,000,424	\$ 157

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
\$ 73,124	\$ 138,453	\$ 29,763	\$ 5	\$ 67,880
87	162	35	-	-
-	-	-	-	-
<u>\$ 73,211</u>	<u>\$ 138,615</u>	<u>\$ 29,798</u>	<u>\$ 5</u>	<u>\$ 67,880</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
73,211	138,615	29,798	-	67,880
-	-	-	-	-
-	-	-	5	-
<u>73,211</u>	<u>138,615</u>	<u>29,798</u>	<u>5</u>	<u>67,880</u>
\$ 73,211	\$ 138,615	\$ 29,798	\$ 5	\$ 67,880

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET, Continued JUNE 30, 2015

	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 273,057	\$ 874,144
Receivables	17,980	872,586
Stores inventories	-	41,225
Total Assets	\$ 291,037	\$ 1,787,955
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ 119,417
Unearned revenue	-	815
Total Liabilities	-	120,232
Fund Balances:		
Nonspendable	-	41,225
Restricted	291,037	1,626,336
Committed	-	157
Assigned	-	5
Total Fund Balances	291,037	1,667,723
Total Liabilities and Fund Balances	\$ 291,037	\$ 1,787,955

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, 2015

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 4,496,696	\$ -
Other State sources	1,238,810	315,233	-
Other local sources	374,536	442,522	-
Total Revenues	1,613,346	5,254,451	-
EXPENDITURES			
Current			
Instruction	915,337	-	-
Instruction-related activities:			
Supervision of instruction	6,042	-	-
School site administration	38,960	-	-
Pupil services:			
Food services	-	5,222,210	-
All other pupil services	208,136	-	-
Administration:			
All other administration	44,387	195,397	-
Plant services	71	-	-
Facility acquisition and construction	31,496	62,684	-
Enterprise services	361,512	-	-
Debt service			
Principal	10,500	-	-
Interest and other	-	-	-
Total Expenditures	1,616,441	5,480,291	-
NET CHANGE IN FUND BALANCES	(3,095)	(225,840)	-
Fund Balance - Beginning	187,257	1,108,698	157
Fund Balance - Ending	\$ 184,162	\$ 882,858	\$ 157

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
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	5,461
333	53,878	319	-	781,352
333	53,878	319	-	786,813
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	1,601	-	-	-
-	33,180	-	-	-
-	-	166,178	-	-
-	-	-	-	-
-	-	-	-	260,000
-	-	-	-	1,385,396
-	34,781	166,178	-	1,645,396
333	19,097	(165,859)	-	(858,583)
72,878	119,518	195,657	5	926,463
\$ 73,211	\$ 138,615	\$ 29,798	\$ 5	\$ 67,880

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, 2015

	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ 277,258	\$ 4,773,954
Other State sources	-	1,559,504
Other local sources	55,384	1,708,324
Total Revenues	332,642	8,041,782
EXPENDITURES		
Current		
Instruction	-	915,337
Instruction-related activities:		
Supervision of instruction	-	6,042
School site administration	-	38,960
Pupil services:		
Food services	-	5,222,210
All other pupil services	-	208,136
Administration:		
All other administration	-	241,385
Plant services	-	33,251
Facility acquisition and construction	-	260,358
Enterprise services	-	361,512
Debt service		
Principal	221,398	491,898
Interest and other	549,220	1,934,616
Total Expenditures	770,618	9,713,705
NET CHANGE IN FUND BALANCES	(437,976)	(1,671,923)
Fund Balance - Beginning	729,013	3,339,646
Fund Balance - Ending	\$ 291,037	\$ 1,667,723

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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of federal commodities received by the District that are not included as revenues or expenditures on the District's financial statements and the federal interest subsidy received.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 10,910,446
Reconciling items:		
Food Distribution - Commodities	10.555	268,395
Federal interest subsidy	Unknown	(277,258)
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,901,583</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30,

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, 2015, and the related notes to the financial statements, which collectively comprise Salinas City Elementary School District's basic financial statements, and have issued our report thereon dated November 28, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salinas City Elementary School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standard* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

We noted certain matters that we reported to management of Salinas City Elementary School District in a separate letter dated November 28, 2015.

Salinas City Elementary School District's Response to Finding

Salinas City Elementary School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Salinas City Elementary School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Vannink, Trine, Day & Co., LLP

Fresno, California
November 28, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vannink, Trine, Day & Co, LLP

Fresno, California
November 28, 2015



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 *2014-2015 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, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's 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 *2014-2015 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 Unduplicated Local Control Funding Formula Pupil Count

As described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001, Salinas City Elementary School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Count. 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 Unduplicated Local Control Funding Formula Pupil Count

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, 2015.

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, 2015, 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:

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	No (see below)
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	No (see below)
Adult Education Maintenance of Effort	No (see below)
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
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes

	Procedures Performed
Charter Schools:	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study	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 testing for independent study because the independent study ADA was under the level that requires testing. We did not perform continuation education compliance procedures because the District does not offer the program. The District does not offer an Early Retirement Incentive Program; therefore, we did not perform procedures related to the Early Retirement Incentive Program. The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools. The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools. The District did not receive any State revenue for the Regional Occupational Centers/Programs in the 2012-2013 fiscal year; therefore, we did not perform any procedures related to Regional Occupational Centers or Programs Maintenance of Effort. The District did not receive any State revenue for the Adult Education Programs in the 2012-2013 fiscal year; therefore, we did not perform any procedures related to Adult Education Maintenance of Effort. The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program. Additionally, the District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vannink, Trine, Day & Co, LLP

Fresno, California
November 28, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2015

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 .510(a) of OMB Circular A-133?	<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>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>84.366</u>	<u>Title II, Part B - Ca. Mathematics and Science</u>
<u>84.027</u>	<u>IDEA, Basic Local Assistance Entitlement</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 327,047</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>Unduplicated Local Control Funding Formula</u>
<u>Pupil Counts</u>

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

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>
40000	State Compliance

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 Mealttime 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 Mealttime 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

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

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.

Corrective Action Plan

This concern was addressed immediately in April when it was discovered by our Auditors. We had a meeting with all the departments involved: Business, Food Services, Migrant, Homeless, and Student Information Systems. We discussed how the CALPADS information moves from one department to the next, how it is formulated and how it is used.

The Fiscal Year 2014-2015 report had an especially tight time turn around to get Free and Reduced Meal Applications submitted from students since the first Wednesday in October 2014 was October 1. Prior year applications were allowed to stay active until September 30. It is these 2014-2015 applications that were erroneously included in the CALPADS Unduplicated count and did not have new application turned in yet. It must be noted that, although the count was overstated, the actual population was not represented since some families remain reluctant to complete the required documentation.

Since our large, but understated, Homeless student population are automatically included in the Free and Reduced program and are allowed to be updated throughout the whole year, the timing was also a problem for our Homeless student count.

Our staff now understands the significance, both in terms of funding for the District's LCAP and benefits to students. Additional staff has been hired to assist in getting Homeless students identified and logged into the reporting systems. The additional week until CBEDS date, October 7, 2015, also has helped this year.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

We had a second inter-departmental meeting this year to review our procedures and methodology to get both Free and Reduced applications and Homeless applications submitted in a timely fashion.

The change of 211 less unduplicated students was reported to CDE via the new options for CALPADS adjustments during the P3 Attendance Report in June. I am confident that this type of error in our Unduplicated student count will not occur again.

SALINAS CITY ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no audit findings reported in the prior year's schedule of financial statement findings.



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, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 28, 2015, on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODIES (ASB)

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered sites are 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.

Governing Board
Salinas City Elementary School District

Furthermore, deposits should be made on a weekly basis to either the bank account or the District Office. Funds should not be allowed to accumulate at the site for extended periods of time.

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

Vannink, Trine, Day & Co, LLP

Fresno, California
November 28, 2015