

**SALINAS CITY ELEMENTARY  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2012**

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2012

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Salinas City Elementary School District  
Salinas, California

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

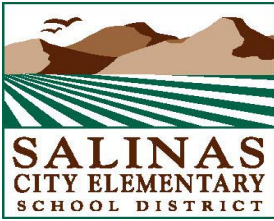
In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 4 through 13, budgetary comparison information and other postemployment benefits information on pages 55 and 56, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The 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 (Circular A-133)*, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *supplementary information* is fairly stated in all material respects in relation to the financial statements as a whole.

*Vannoy, Eric, Day & Co., LLP*

Fresno, California  
December 14, 2012



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 8,510 students in 2011-12.

The District operated 13 elementary schools in 2011-12 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.

#### ADMINISTRATION

DONNA ALONZO VAUGHAN, Ph.D.  
Superintendent

GERALD STRATTON  
Assistant Superintendent  
Business Services

JUVENAL LUZA, Ph.D.  
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

TERRI DYE  
Interim 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

DANIEL LEE  
Trustee Area 4

GENARO CARLOS  
Trustee Area 5

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, 2012

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* 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 assets and changes in them. Net assets are 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 assets are one indicator of whether *its financial health 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 Assets* and the *Statement of Activities*, we present the District activities as follows:

**Governmental Activities** - Most 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, 2012

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

**Proprietary Funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. 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 Assets*. 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 Assets

The District's net assets were \$56.8 million for the fiscal year ended June 30, 2012. Of this amount, \$11.3 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2012**

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Table 1

(Amounts in millions)

	Governmental Activities		
	2012	2011-Restated	Difference
Current and other assets	\$ 37.0	\$ 34.0	\$ 3.0
Capital assets	71.5	73.8	(2.3)
<b>Total Assets</b>	<b>108.5</b>	<b>107.8</b>	<b>0.7</b>
Current liabilities	15.0	4.8	10.2
Long-term obligations	36.8	36.3	0.5
<b>Total Liabilities</b>	<b>51.8</b>	<b>41.1</b>	<b>10.7</b>
Net assets			
Invested in capital assets, net of related debt	39.6	45.9	(6.3)
Restricted	5.9	18.5	(12.6)
Unrestricted	11.3	2.4	8.9
<b>Total Net Assets</b>	<b>\$ 56.8</b>	<b>\$ 66.8</b>	<b>\$ (10.0)</b>

The \$11.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2012**

### Changes in Net Assets

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		
	2012	2011	Difference
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 0.4	\$ 0.3	\$ 0.1
Operating grants and contributions	20.3	23.1	(2.8)
General revenues:			
Federal and State aid not restricted	37.4	35.0	2.4
Property taxes	14.3	14.4	(0.1)
Other general revenues	1.2	0.6	0.6
<b>Total Revenues</b>	<b>73.6</b>	<b>73.4</b>	<b>0.2</b>
<b>Expenses</b>			
Instruction related	53.4	55.1	(1.7)
Student support services	8.3	6.5	1.8
Administration	2.8	3.2	(0.4)
Plant services	9.8	5.7	4.1
Other	9.3	7.4	1.9
<b>Total Expenses</b>	<b>83.6</b>	<b>77.9</b>	<b>5.7</b>
<b>Change in Net Assets</b>	<b>\$ (10.0)</b>	<b>\$ (4.5)</b>	<b>\$ (5.5)</b>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$83.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.3 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 (\$20.3 million). We paid for the remaining "public benefit" portion of our governmental activities with, \$38.6 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, 2012**

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Table 3

(Dollar amounts in millions)

		Net Cost of Services	
		2012	2011
Instruction related		\$ 40.6	\$ 40.3
Student support services		3.5	2.0
Administration		2.1	0.5
Plant services		9.7	5.6
Other		7.0	6.1
<b>Total</b>		<b>\$ 62.9</b>	<b>\$ 54.5</b>

**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$16.4 million, which is a decrease of \$8.6 million from last year (Table 4).

Table 4

(Amounts in millions)

		Balances and Activity		
		2012	2011	Difference
General		\$ 8.3	\$ 11.5	\$ (3.2)
Cafeteria		0.8	0.6	0.2
Debt Service		1.3	1.6	(0.3)
Bond Interest and Redemption		0.6	1.1	(0.5)
Building		3.8	8.5	(4.7)
County School Facilities		1.1	1.2	(0.1)
Capital Facilities		0.4	0.4	-
Other		0.1	0.1	-
<b>Total</b>		<b>\$ 16.4</b>	<b>\$ 25.0</b>	<b>\$ (8.6)</b>

The primary reasons for these increases/decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased \$3.2 million to \$8.3 million. This decrease is due to:
  1. Increased salaries and benefits
  2. Decreased State revenue and increases in Special Education costs
- b. Our special revenue funds remained fairly stable from the prior year showing a net increase of approximately \$0.1 million.
- c. The Bond Interest and Redemption Fund showed a decrease of approximately \$0.5 million as debt payments exceeded current year taxes received.
- d. The capital outlay funds decreased approximately \$4.8 million primarily due to expenditures related to construction projects.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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### 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 in June 2012. A schedule showing the General Fund original and final budget amounts compared with amounts actually paid and received is provided in the basic financial statements.

The District originally projected a decrease in the General Fund of approximately \$2.3 million. Although revenues were \$2.8 million more than expected, expenditures were \$3.7 million more than originally projected, resulting in a decrease to the General Fund of approximately \$3.2 million. Salaries and fringe benefit expenditures were \$2.0 million more than originally expected due to the required addition of personnel.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2012, the District had \$71.5 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$2.3 million, or 3.1 percent, from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities		
	2012	2011-Restated	Difference
Land	\$ 7.5	\$ 7.5	\$ -
Construction in progress	0.1	3.2	(3.1)
Buildings and improvements	63.5	62.7	0.8
Equipment	0.4	0.4	-
<b>Total</b>	<b>\$ 71.5</b>	<b>\$ 73.8</b>	<b>\$ (2.3)</b>

This year's major addition was (in millions):

Monterey Park Elementary Capital Improvements	<u>\$ 2.7</u>
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This year's additions of \$4.9 million included construction and modernization projects, four vehicles (including two for the Special Education Program), cafeteria equipment and classroom equipment such as computers.

Several capital projects are planned for the 2012-13 year. We present more detailed information about our capital assets in the Notes to Financial Statements.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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### Long-Term Obligations

At the end of this year, the District had \$36.9 million in long term obligations versus \$36.5 million last year, a increase of \$0.4 million or 1.0 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		
	2012	2011	Difference
General obligation bonds	\$ 24.6	\$ 24.7	\$ (0.1)
Certificates of participation	11.0	11.0	-
Compensated absences	0.2	0.2	-
State preschool loan	0.1	-	0.1
Other postemployment benefits	1.0	0.6	0.4
<b>Total</b>	<b>\$ 36.9</b>	<b>\$ 36.5</b>	<b>\$ 0.4</b>

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 \$24.6 million is below the statutorily-imposed limit. We present more detailed information regarding our long-term obligations in the Notes to Financial Statements.

### FINANCIAL STATUS OF DISTRICT AND NEXT YEAR'S BUDGET

The District has made a steady course of continuous improvement in academic achievement, improving its facilities and meeting the priorities of the Board of Education and the community. The 2011-12 fiscal year closed with an additional Board approved reserve of 2% above the State mandated 3% and more reserves for unknown future reductions. The Adopted Budget was submitted to the Monterey County Office of Education with a positive certification that the District would be able to meet its current and two subsequent fiscal year financial obligations.

Recent news on the decline in the California State revenues will inevitably impact the overall execution in the current fiscal year, and in 2012-13. In spite of the severe reductions at the State level, the District's enrollment growth and proactive measures by the Board of Trustees on approving an annual expenditure freeze in 2011-12 have solidified the District's fiscal stability. Categorical program flexibility and other sources of revenues have supported the District's fiscal health and allowed the District to certify our 3-year budget during these troubled economic times.

Given the State's current deficit projection of \$3.7 billion in 2011-12 and up to \$13.7 billion in the following year, the District will continue to monitor the State's economy and the budget, exercise extreme caution in its multi-year forecast, and remain critically conservative in budgeting new revenues. Additionally, the State's announcement to defer 38.4% of 2011-12 revenues into the 2012-13 fiscal year will severely impact cash reserves and require the District to execute a TRANS to maintain a positive cash position and thus meet payroll and other obligations.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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### General Obligation Bond

The District placed an \$80 million Bond Measure T on the ballot for the June 3, 2008 election. Voters passed Measure T with 63.90% approval. This Measure funds up to \$80 million in construction and facility improvements.

The Board authorized the issuance of the first series of bonds within the Authorization in an aggregate principal amount not to exceed Twenty-Five Million Dollars (\$25,000,000) (the "Bonds"). This comprised Series A Bonds of \$21,565,000 and Series B Bonds (taxable) of \$3,435,000. These Bonds are the first series of bonds issued under the \$80 million Authorization.

As per Education Code 15146, the proceeds of the sale of bonds, exclusive of premium received shall be deposited in the county treasury to the credit of the building fund of the school district. The proceeds deposited shall be drawn out as other school moneys are drawn out. The bond proceeds withdrawn shall not be applied to any purposes other than those for which the bonds were issued.

The Series A and B Bonds are issued to (a) finance the acquisition, construction and improvement of certain public school facilities for the District, (b) prepay certain outstanding Certificates of Participation of the District and (c) fund a Reserve Fund for the Series A and B Bonds and (d) pay certain costs of issuance of the Series A and B Bonds.

Under Proposition 39, the District was required to establish a Citizen's Oversight Committee, the purpose of which is to inform the public about the expenditures of the bond proceeds. The Committee was formed according to the law and has met with the District Administration. The Committee has received full cooperation and was provided with detailed expenditure reports and Proposition 39 financial audit reports. The Committee members perform field visits to sites which have bond funded projects. The next site tour is scheduled for February 2012.

In 2009-10, the District completed three school front and parking lot projects at Mission Park, Kammann and Loma Vista schools. Additional work included front office relocation at Mission Park and roof replacement work at Sherwood. In 2010-11 at Los Padres Elementary School, the District added 15 modular classrooms and a restroom complex while removing 9 old, leased and non-conforming portables. The school front parking lot, staff parking lot, Kindergarten classrooms and play area, and administrative offices relocation-renovation project at El Gabilan School was also completed.

The District borrowed \$11 million under the Qualified School Construction Bond (QSCB) program in 2010-11. These funds must be used by July 2013. In the current year, the District completed a major parking, front office and library project at Monterey Park Elementary School that was started in 2010-11. Security enhancement projects and shade structures are being completed at multiple sites, spanning both 2010-11 and the current fiscal year. The final major project to use QSCB Funds will be the design and construction of a Multi-Purpose Joint Use Facility at Los Padres Elementary School.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

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

**JUNE 30, 2012**

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### **THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If 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 ASSETS JUNE 30, 2012

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 14,218,434
Receivables	20,372,582
Deferred charges	2,376,504
Stores inventories	52,904
Nondepreciable capital assets	7,638,796
Capital assets being depreciated	109,321,139
Accumulated depreciation	<u>(45,443,706)</u>
<b>Total Assets</b>	<b><u>108,536,653</u></b>
<b>LIABILITIES</b>	
Overdrafts	417,560
Accounts payable	5,086,979
Deferred revenue	79,309
Current loans	9,269,928
Current portion of long-term obligations	145,500
Noncurrent portion of long-term obligations	<u>36,771,404</u>
<b>Total Liabilities</b>	<b><u>51,770,680</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	39,587,933
Restricted for:	
Debt service	551,680
Capital projects	1,478,426
Educational programs	3,073,313
Other activities	760,205
Unrestricted	<u>11,314,416</u>
<b>Total Net Assets</b>	<b><u>\$ 56,765,973</u></b>

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

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>	
		<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>
<b>Governmental Activities:</b>			
Instruction	\$ 44,485,286	\$ -	\$ 8,378,487
Instruction-related activities:			
Supervision of instruction	3,677,068	-	2,927,193
Instructional library, media, and technology	322,583	-	101,487
School site administration	4,947,788	-	1,377,126
Pupil services:			
Home-to-school transportation	1,980,884	-	355,324
Food services	4,671,492	376,261	4,055,479
All other pupil services	1,642,226	-	-
Administration:			
Data processing	154,437	-	-
All other administration	2,699,622	18,100	754,201
Plant services	9,751,771	243	23,386
Ancillary services	901	-	370
Community services	176	-	-
Enterprise services	404,460	-	351,871
Interest on long-term obligations	1,464,858	-	-
Other outgo	7,435,528	-	1,994,117
<b>Total Governmental Activities</b>	<b>\$ 83,639,080</b>	<b>\$ 394,604</b>	<b>\$ 20,319,041</b>

General revenues and subventions:

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

**Subtotal, General Revenues**

**Change in Net Assets**

- Net Assets - Beginning as Restated
- Net Assets - Ending

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

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

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**Governmental  
Activities**

---

\$ (36,106,799)

(749,875)

(221,096)

(3,570,662)

(1,625,560)

(239,752)

(1,642,226)

(154,437)

(1,927,321)

(9,728,142)

(531)

(176)

(52,589)

(1,464,858)

(5,441,411)

(62,925,435)

13,012,099

920,246

357,260

37,443,587

121,408

1,084,427

52,939,027

(9,986,408)

66,752,381

\$ 56,765,973

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 2,811,667	\$ 3,912,816	\$ 4,210,520
Receivables	19,240,980	1,473	1,063,113
Due from other funds	569,445	-	310,599
Stores inventories	-	-	52,904
<b>Total Assets</b>	<b>\$ 22,622,092</b>	<b>\$ 3,914,289</b>	<b>\$ 5,637,136</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ -	\$ 417,560
Accounts payable	4,675,531	42,585	368,863
Due to other funds	239,733	-	640,311
Current loans	9,269,928	-	-
Deferred revenue	70,249	-	9,060
<b>Total Liabilities</b>	<b>14,255,441</b>	<b>42,585</b>	<b>1,435,794</b>
<b>Fund Balances:</b>			
Nonspendable	5,003	-	52,904
Restricted	3,031,872	3,871,704	2,778,848
Committed	-	-	8,113
Assigned	1,977,680	-	1,361,477
Unassigned	3,352,096	-	-
<b>Total Fund Balances</b>	<b>8,366,651</b>	<b>3,871,704</b>	<b>4,201,342</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 22,622,092</b>	<b>\$ 3,914,289</b>	<b>\$ 5,637,136</b>

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

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**Total  
Governmental  
Funds**

\$	10,935,003
	20,305,566
	880,044
	52,904
<u>\$</u>	<u>32,173,517</u>

\$	417,560
	5,086,979
	880,044
	9,269,928
	79,309
<u>\$</u>	<u>15,733,820</u>

	57,907
	9,682,424
	8,113
	3,339,157
	3,352,096
<u>\$</u>	<u>16,439,697</u>

<u>\$</u>	<u>32,173,517</u>
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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 16,439,697</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 116,959,935	
Accumulated depreciation is	(45,443,706)	
Net Capital Assets		71,516,229
Expenditures relating to issuance of debt were recognized on 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 Assets as deferred charges.		2,376,504
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 other postemployment benefits, are:		3,350,447
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.		
Long-term obligations at year-end consist of:		
General obligation bonds	24,695,000	
Certificates of participation	11,000,000	
Compensated absences	190,366	
State preschool loan	105,000	
Other postemployment benefits	926,538	
Total Long-Term Obligations		(36,916,904)
<b>Total Net Assets - Governmental Activities</b>		<b>\$ 56,765,973</b>

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, 2012**

	<b>General Fund</b>	<b>Building Fund</b>
<b>REVENUES</b>		
Revenue limit sources	\$ 41,095,070	\$ -
Federal sources	6,198,403	-
Other State sources	14,886,696	-
Other local sources	4,473,270	3,199
<b>Total Revenues</b>	<u>66,653,439</u>	<u>3,199</u>
<b>EXPENDITURES</b>		
Current		
Instruction	42,004,255	-
Instruction-related activities:		
Supervision of instruction	3,661,256	-
Instructional library, media and technology	321,981	-
School site administration	4,632,552	-
Pupil services:		
Home-to-school transportation	1,646,623	-
Food services	-	-
All other pupil services	1,471,735	-
Administration:		
Data processing	149,799	-
All other administration	2,247,231	-
Plant services	6,180,880	3,112,786
Facility acquisition and construction	237,532	1,550,743
Ancillary services	320	-
Other outgo	7,435,528	-
Enterprise services	125,973	-
Debt service		
Principal	-	-
Interest and other	-	-
<b>Total Expenditures</b>	<u>70,115,665</u>	<u>4,663,529</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(3,462,226)</u>	<u>(4,660,330)</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	303,219	-
Other sources	-	-
Transfers out	-	-
<b>Net Financing Sources (Uses)</b>	<u>303,219</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(3,159,007)</u>	<u>(4,660,330)</u>
<b>Fund Balance - Beginning</b>	11,525,658	8,532,034
<b>Fund Balance - Ending</b>	<u>\$ 8,366,651</u>	<u>\$ 3,871,704</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 41,095,070
3,723,980	9,922,383
1,345,455	16,232,151
1,926,599	6,403,068
<u>6,996,034</u>	<u>73,652,672</u>
858,551	42,862,806
6,291	3,667,547
-	321,981
85,877	4,718,429
-	1,646,623
4,286,603	4,286,603
149,641	1,621,376
-	149,799
273,238	2,520,469
39,042	9,332,708
90,459	1,878,734
-	320
-	7,435,528
278,487	404,460
80,000	80,000
1,464,858	1,464,858
<u>7,613,047</u>	<u>82,392,241</u>
<u>(617,013)</u>	<u>(8,739,569)</u>
-	303,219
105,000	105,000
<u>(303,219)</u>	<u>(303,219)</u>
<u>(198,219)</u>	<u>105,000</u>
<u>(815,232)</u>	<u>(8,634,569)</u>
5,016,574	25,074,266
<u>\$ 4,201,342</u>	<u>\$ 16,439,697</u>



**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012**

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ (8,634,569)**  
**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 Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

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

Depreciation expense	\$ (4,192,713)	
Capital outlays	<u>1,921,180</u>	
Net Expense Adjustment		(2,271,533)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (788)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Assets. (105,000)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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). This year, there were no special termination benefits. Vacation earned was more than the amounts used by \$28,810. (28,810)

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: (326,520)

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 Assets and does not affect the Statement of Activities:

General obligation bonds	80,000
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In the government-wide financial statements, bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. This adjustment combines the net changes of the following balances: 116,497

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, 2012**

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

	<u>\$ 1,184,315</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (9,986,408)</u></u></b>

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

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 3,283,431
Receivables	67,016
<b>Total Current Assets</b>	<b><u>\$ 3,350,447</u></b>
 <b>LIABILITIES</b>	
<b>Total Liabilities</b>	<b><u>\$ -</u></b>
 <b>NET ASSETS</b>	
Restricted	3,350,447
<b>Total Net Assets</b>	<b><u>\$ 3,350,447</u></b>

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 ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	\$ 1,173,153
<b>Total Operating Revenues</b>	<u>1,173,153</u>
<b>Operating Gain/(Loss)</b>	<u>1,173,153</u>
<b>NONOPERATING REVENUES</b>	
Interest income	11,162
<b>Total Non-Operating Revenues</b>	<u>11,162</u>
<b>Change in Net Assets</b>	1,184,315
<b>Total Net Assets - Beginning</b>	<u>2,166,132</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 3,350,447</u></u>

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

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from user charges	\$ 1,108,384
Net Cash Provided by Operating Activities	<u>1,108,384</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	11,162
Net Cash Provided by Investing Activities	<u>11,162</u>
Net Increase in Cash and Cash Equivalents	1,119,546
Cash and Cash Equivalents - Beginning	2,163,885
Cash and Cash Equivalents - Ending	<u>\$ 3,283,431</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 1,173,153
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	(64,769)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,108,384</u>

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

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 154,217
<b>Total Assets</b>	<u>\$ 154,217</u>
 <b>LIABILITIES</b>	
Due to student groups	\$ 154,217
<b>Total Liabilities</b>	<u>\$ 154,217</u>

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

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

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

#### 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:

#### Major Governmental Funds

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

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

#### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

---

**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 and report 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).

**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), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

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

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

**Debt Service Fund** The Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on various long-term obligations of the District.



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, 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 fiduciary fund 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.

Net assets should be reported as restricted when constraints placed on net asset use 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 assets restricted for other activities result from special revenue funds and the restrictions on their net asset 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**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 assets. The statement of changes in fund net assets 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.

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.

**Deferred Revenue** Deferred 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 deferred revenue is removed from the balance sheet and revenue is recognized.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred 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, 2012, 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 county and State investment pools 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.

### **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 assets. 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

### **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 assets. 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.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

### **Deferred Issuance Costs**

In the government-wide financial statements, long-term obligations are reported as liabilities in the Statement of Net Assets. Any issuance costs, related to those obligations are deferred and amortized over the life of the obligations using the straight line method.

### **Current Loans**

Current loans consist of amounts outstanding at June 30, 2012, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

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

### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are available. The government-wide financial statements reports \$5,863,624 of restricted net assets.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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### **Interfund Activity**

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

### **Estimates**

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

### **Budgetary Data**

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

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

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of 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.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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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.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

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 nonemployer 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, nonemployer 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.

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.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities, net of overdrafts	\$ 13,800,874
Fiduciary funds	154,217
Total Deposits and Investments	<u>\$ 13,955,091</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 255,559
Cash in revolving	5,003
Cash with fiscal agent	3,637,918
Investments	10,056,611
Total Deposits and Investments	<u>\$ 13,955,091</u>

The Child Development Fund reported a deficit Cash in County balance of \$417,560 at June 30, 2012.

#### 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, 2012**

### General Authorizations

Limitations as they relate to interest rate risk and concentration of credit 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 manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing 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	\$ 10,056,611	\$ 10,056,611	\$ -	\$ -	\$ -

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor have they been rated as of June 30, 2012.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
County Pool	\$ 10,056,611	N/A	\$ -	\$ -	\$ 10,056,611

N/A - Not applicable

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.

**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, 2012, the District's bank balance of \$37,192 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.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District has no custodial credit risk exposure because there were no related securities that were uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 1,633,435	\$ -	\$ 627,701	\$ -	\$ 2,261,136
State Government					
Apportionment	13,493,735	-	-	-	13,493,735
Other state	3,602,785	1,100	393,002	-	3,996,887
Local Sources	511,025	373	42,410	67,016	620,824
Total	<u>\$ 19,240,980</u>	<u>\$ 1,473</u>	<u>\$ 1,063,113</u>	<u>\$ 67,016</u>	<u>\$ 20,372,582</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 7,480,895	\$ -	\$ -	\$ 7,480,895
Construction in progress	3,203,714	157,901	3,203,714	157,901
Total Capital Assets Not Being Depreciated	<u>10,684,609</u>	<u>157,901</u>	<u>3,203,714</u>	<u>7,638,796</u>
Capital Assets being depreciated				
Land improvements	9,132,813	1,345,727	-	10,478,540
Buildings and improvements	92,072,509	3,578,820	-	95,651,329
Furniture and equipment	3,175,074	42,446	26,250	3,191,270
Total Capital Assets Being Depreciated	<u>104,380,396</u>	<u>4,966,993</u>	<u>26,250</u>	<u>109,321,139</u>
Less Accumulated Depreciation				
Land improvements	2,182,513	493,026	-	2,675,539
Buildings and improvements	36,340,871	3,604,765	-	39,945,636
Furniture and equipment	2,753,071	94,922	25,462	2,822,531
Total Accumulated Depreciation	<u>41,276,455</u>	<u>4,192,713</u>	<u>25,462</u>	<u>45,443,706</u>
Governmental Activities Capital Assets, Net	<u>\$ 73,788,550</u>	<u>\$ 932,181</u>	<u>\$ 3,204,502</u>	<u>\$ 71,516,229</u>

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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

Governmental Activities	
Instruction	\$ 2,557,555
School site administration	209,636
Home-to-school transportation	335,417
Food services	377,344
All other general administration	167,709
Plant services	545,052
Total Depreciation Expenses, Governmental Activities	<u><u>\$ 4,192,713</u></u>

**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 569,445	\$ 239,733
Total Major Governmental Funds	<u>569,445</u>	<u>239,733</u>
Non-Major Governmental Funds		
Child Development	307,802	199,187
Cafeteria	2,797	439,356
Capital Facilities	-	1,768
Total Non-Major Governmental Funds	<u>310,599</u>	<u>640,311</u>
Total Governmental Activities	<u><u>\$ 880,044</u></u>	<u><u>\$ 880,044</u></u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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The Child Development Fund owes the General Fund for 2010-11 indirect costs.	\$ 94,039
The General Fund owes the Child Development Fund for a 2010-11 temporary cash flow loan.	179,927
The Child Development Fund owes the Cafeteria Fund for food service expenses.	355
The Capital Facilities Fund owes the General Fund for developer fees administrative costs.	1,768
The Cafeteria Fund owes the Child Development Fund for a deposit made into the Fund in error.	70,511
The General Fund owes the Child Development Fund for a 2010-11 contribution to the Preschool Reserve Account.	57,364
The Cafeteria Fund owes the General Fund for 2010-11 indirect costs.	153,539
The Child Development Fund owes the General Fund for 2010-11 salaries.	1,484
The General Fund owes the Cafeteria Fund for Extended Day Care program food service expenses.	2,442
The Cafeteria Fund owes the General Fund for classified other post employment benefits costs.	22,145
The Child Development Fund owes the General Fund for program revenues charged to the Fund in error.	25,000
The Child Development Fund owes the General Fund for indirect costs.	78,309
The Cafeteria Fund owes the General Fund for indirect costs.	193,161
Total	<u>\$ 880,044</u>

### Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

The Debt Service Fund transferred to the General Fund for CCR five year settlement to supplement services and requirements of EIA, SIP and Title I for each site.	<u>\$ 303,219</u>
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Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendors payable	\$ 1,351,845	\$ 42,585	\$ 353,835	\$ 1,748,265
State apportionment	1,162,987	-	-	1,162,987
Accrued payroll	154,928	-	15,028	169,956
Deferred payroll	2,005,771	-	-	2,005,771
Total	<u>\$ 4,675,531</u>	<u>\$ 42,585</u>	<u>\$ 368,863</u>	<u>\$ 5,086,979</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2012, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 63,808	\$ -	\$ 63,808
State categorical aid	6,441	9,060	15,501
Total	<u>\$ 70,249</u>	<u>\$ 9,060</u>	<u>\$ 79,309</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

At July 1, 2011, the District had two outstanding Tax and revenue Anticipation Notes in the amount of \$1,985,000 and \$4,955,000, which matured on December 30, 2011 and June 1, 2012, respectively. On February 9, 2012, the District issued \$9,170,000 Tax Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Repayment deposits of \$5,043,500 and \$4,282,899 are required to be made July 31, 2012 and August 31, 2012, respectively, to the County Treasury. The deposits (principal and interest) will be held in a separate restricted account for the benefit of the District. On December 31, 2012, the Treasury will transfer the funds to the Trustee, U.S. Bank National Association.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes is as follows:

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2012</u>
March 29, 2011	0.85%	December 30, 2011	\$ 1,985,000	\$ -	\$ 1,985,000	\$ -
June 15, 2011	0.59%	June 1, 2012	4,955,000	-	4,955,000	-
February 9, 2012	2.00%	December 31, 2012	-	9,170,000	-	9,170,000
Total			<u>\$ 6,940,000</u>	<u>\$ 9,170,000</u>	<u>\$ 6,940,000</u>	<u>\$ 9,170,000</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	<u>Balance July 1, 2011</u>	<u>Additions and Accretion</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Due in One Year</u>
General obligation bonds	\$ 24,775,000	\$ -	\$ 80,000	\$ 24,695,000	\$ 135,000
Certificates of participation	11,000,000	-	-	11,000,000	-
Compensated absences	161,556	28,810	-	190,366	-
State preschool loan	-	105,000	-	105,000	10,500
Other postemployment benefits	600,018	1,511,292	1,184,772	926,538	-
Total	<u>\$ 36,536,574</u>	<u>\$ 1,645,102</u>	<u>\$ 1,264,772</u>	<u>\$ 36,916,904</u>	<u>\$ 145,500</u>

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



**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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**Bonded Debt**

General Obligation Bonds 2008 Election, Series A

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

The outstanding general obligation bonded debt is as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2011</u>	<u>Redeemed</u>	<u>Bonds Outstanding June 30, 2012</u>
9/24/2008	7/1/2033	2.2-7.153	\$ 25,000,000	\$ 24,775,000	\$ 80,000	\$ 24,695,000

**Debt Service Requirements to Maturity**

The bonds mature through 2034 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 135,000	\$ 1,400,813	\$ 1,535,813
2014	190,000	1,395,245	1,585,245
2015	260,000	1,385,396	1,645,396
2016	335,000	1,371,849	1,706,849
2017	425,000	1,354,235	1,779,235
2018-2022	2,825,000	6,420,437	9,245,437
2023-2027	6,280,000	5,259,039	11,539,039
2028-2032	11,220,000	2,956,858	14,176,858
2033	3,025,000	175,255	3,200,255
Total	\$ 24,695,000	\$ 21,719,127	\$ 46,414,127

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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**Certificates of Participation**

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. As of June 30, 2012, the principal balance outstanding was \$11,000,000. 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>
2013	\$ -	\$ 598,400	\$ 598,400
2014	-	598,400	598,400
2015	-	598,400	598,400
2016	-	598,400	598,400
2017	-	598,400	598,400
2018-2022	-	2,992,000	2,992,000
2023-2027	8,800,000	2,034,560	10,834,560
2028	2,200,000	29,920	2,229,920
Total	<u>\$ 11,000,000</u>	<u>\$ 8,048,480</u>	<u>\$ 19,048,480</u>

**Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2012, amounted to \$190,366.

**Preschool Revolving Facilities Loan**

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

	<u>Amount</u>
Balance, July 1, 2011	\$ -
Additions	105,000
Payments	-
Balance, June 30, 2012	<u>\$ 105,000</u>

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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The loan has minimum payments as follows:

Year Ending June 30,	Annual Payment
2013	\$ 10,500
2014	10,500
2015	10,500
2016	10,500
2017	10,500
2018-2022	52,500
Total	105,000
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 105,000</u>

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

The District's annual required contribution for the year ended June 30, 2012, was \$1,507,868, and contributions made by the District during the year were \$1,184,772. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$30,001 and \$(26,577), respectively, which resulted in an increase to the net OPEB obligation of \$326,520. As of June 30, 2012, the net OPEB obligation was \$926,538. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 5,003	\$ -	\$ -	\$ 5,003
Stores inventories	-	-	52,904	52,904
Total Nonspendable	<u>5,003</u>	<u>-</u>	<u>52,904</u>	<u>57,907</u>
Restricted				
Legally restricted programs	3,031,872	-	-	3,031,872
Food service	-	-	707,301	707,301
Capital projects	-	3,871,704	1,478,426	5,350,130
Childcare programs	-	-	41,441	41,441
Debt services	-	-	551,680	551,680
Total Restricted	<u>3,031,872</u>	<u>3,871,704</u>	<u>2,778,848</u>	<u>9,682,424</u>
Committed				
Deferred maintenance program	-	-	8,113	8,113
Total Committed	<u>-</u>	<u>-</u>	<u>8,113</u>	<u>8,113</u>
Assigned				
Future deficit spending (2012-13)	1,911,005	-	-	1,911,005
CSEA account	66,675	-	-	66,675
Capital projects	-	-	65,967	65,967
CCR five-year settlement	-	-	1,295,510	1,295,510
Total Assigned	<u>1,977,680</u>	<u>-</u>	<u>1,361,477</u>	<u>3,339,157</u>
Unassigned				
Reserve for economic uncertainties	1,367,508	-	-	1,367,508
Remaining unassigned	1,984,588	-	-	1,984,588
Total Unassigned	<u>3,352,096</u>	<u>-</u>	<u>-</u>	<u>3,352,096</u>
Total	<u>\$ 8,366,651</u>	<u>\$ 3,871,704</u>	<u>\$ 4,201,342</u>	<u>\$ 16,439,697</u>

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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

At June 30, 2012, the following District major fund exceeded the budgeted amounts as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated salaries	\$ 28,502,508	\$ 29,234,427	\$ 731,919
Employee benefits	\$ 15,152,883	\$ 16,092,407	\$ 939,524
Services and operating expenditures	\$ 5,935,822	\$ 6,127,583	\$ 191,761
Other outgo	\$ 6,671,775	\$ 7,164,060	\$ 492,285

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

**Plan Description**

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Salinas City Elementary School District. The Plan provides healthcare benefits to eligible retirees and their dependents. Membership of the Plan consists of 96 retirees and beneficiaries currently receiving benefits and over 600 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 2011-12, the District contributed \$1,184,772 to the plan, all of which was used for current premiums.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**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	\$ 1,507,868
Interest on net OPEB obligation	30,001
Adjustment to annual required contribution	(26,577)
Annual OPEB cost (expense)	<u>1,511,292</u>
Contributions made	<u>(1,184,772)</u>
Increase in net OPEB obligation	326,520
Net OPEB obligation, beginning of year	<u>600,018</u>
Net OPEB obligation, end of year	<u><u>\$ 926,538</u></u>

**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
2012	\$ 1,511,292	\$ 1,184,772	78%	\$ 926,538
2011	1,509,380	1,174,253	77%	600,018
2010	1,139,252	874,361	77%	264,891

**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)
February 1, 2011	\$ -	\$ 11,157,319	\$ 11,157,319	0%	\$ 38,309,934	29%

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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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.

In the February 1, 2011, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a five 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 June 30, 2012, was 27 years.

### **NOTE 13 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District is a member of the Northern California Schools' Regional Liability Excess Fund (NCSRLEF), 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 2012, the District participated in the Monterey County Schools Workers' Compensation (MCSWC), an insurance purchasing pool. The intent of MCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in MCSWC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MCSWC. 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 MCSWC. Participation in MCSWC is limited to districts that can meet MCSWC selection criteria.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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### **Employee Medical Benefits**

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

### **NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

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

#### **CalSTRS**

##### **Plan Description**

The District contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

##### **Funding Policy**

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,405,730, \$2,320,466, and \$2,478,251, respectively, and equal 100 percent of the required contributions for each year.



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### CalPERS

#### Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$980,840, \$608,283, and \$898,811, respectively, and equal 100 percent of the required contributions for each year.

#### 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 \$1,437,065 (4.855 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*.

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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### NOTE 15 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

#### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

#### Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Los Padres Joint Use MPR	\$ 287,595	9/1/13
Loma Vista Safe School Hardware	17,700	7/1/12
Lincoln Staff Parking Design	[1]	8/1/13
Lincoln ADA Ramp Design	[1]	8/1/13
Total	<u>\$ 305,295</u>	

[1] Remaining construction costs unknown at this time due to the project being temporarily on hold.

### NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the Monterey County Schools Workers' Compensation (MCSWC), the Monterey County Schools Insurance Group (MCSIG), and the Northern California Schools' Regional Liability Excess Fund (NCSRLEF) joint powers authorities (JPAs). The District pays an annual premium to the applicable entity for its workers' compensation, health and welfare, and property liability coverage. The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

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

# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2012**

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

During the year ended June 30, 2012, the District made payments of \$878,264 to MCSWC for workers' compensation coverage.

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

During the year ended June 30, 2012, the District made payments of \$11,251,119 to MCSIG for property and liability coverage.

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

During the year ended June 30, 2012, the District made payments of \$237,201 to NCSRLEF for property and liability coverage.

### NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

### NOTE 18 - RESTATEMENT OF PRIOR YEAR NET ASSETS

The beginning balance of the Districts entity-wide Net Assets was increased to account for a new fixed asset valuation that was prepared for the District. The District had not kept an accurate database of its fixed assets and related accumulated depreciation. At the conclusion of the new valuation for the fiscal year ending June 30, 2012, the beginning accumulated depreciation was materially different from that which was reported in the audit report as of June 30, 2011. The restatement is summarized below:

Beginning Net Assets, prior year audited financial statements	\$ 64,830,457
Restatements:	
Fixed Assets: Accumulated Depreciation	1,921,924
Beginning Net Assets, Restated	<u><u>\$ 66,752,381</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable</b>
				<b>(Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 40,083,322	\$ 40,681,713	\$ 41,095,070	\$ 413,357
Federal sources	6,007,054	6,883,901	6,198,403	(685,498)
Other State sources	12,668,013	13,289,622	13,449,631	160,009
Other local sources	3,901,857	4,385,646	4,473,270	87,624
<b>Total Revenues</b> <sup>1</sup>	<u>62,660,246</u>	<u>65,240,882</u>	<u>65,216,374</u>	<u>(24,508)</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	27,742,755	28,502,508	29,234,427	(731,919)
Classified salaries	6,968,334	7,639,530	7,606,208	33,322
Employee benefits	16,249,655	15,152,883	16,092,407	(939,524)
Books and supplies	4,140,066	4,152,201	2,337,938	1,814,263
Services and operating expenditures	4,234,475	5,935,822	6,127,583	(191,761)
Other outgo	5,640,777	6,671,775	7,164,060	(492,285)
Capital outlay	-	119,827	115,977	3,850
<b>Total Expenditures</b> <sup>1</sup>	<u>64,976,062</u>	<u>68,174,546</u>	<u>68,678,600</u>	<u>(504,054)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,315,816)</u>	<u>(2,933,664)</u>	<u>(3,462,226)</u>	<u>(528,562)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	303,219	303,219	-
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>303,219</u>	<u>303,219</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,315,816)</u>	<u>(2,630,445)</u>	<u>(3,159,007)</u>	<u>(528,562)</u>
<b>Fund Balance - Beginning</b>	<u>5,524,961</u>	<u>11,525,658</u>	<u>11,525,658</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 3,209,145</u>	<u>\$ 8,895,213</u>	<u>\$ 8,366,651</u>	<u>\$ (528,562)</u>

<sup>1</sup> 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, 2012**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Entry Age Liability (AAL) - Actuarial Cost (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
February 1, 2011	\$ -	\$ 11,157,319	\$ 11,157,319	0%	\$ 38,309,934	29%
April 3, 2009	\$ -	\$ 10,881,965	\$ 10,881,965	0%	\$ 40,771,737	27%

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***SUPPLEMENTARY INFORMATION***

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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education (CDE):			
Education Jobs Fund	84.410	25152	\$ 184,351
No Child Left Behind Act			
Title I, Part A - Basic	84.010	14329	1,861,534
Title I, Part B - Reading First	84.357	14328	62,703
Title I, Part B - Even Start Family Literacy	84.213	14331	11,227
Title I, Part C - Migrant Education, Regular	84.011	14326	453,971
Title I, Part C - Migrant Education, Summer	84.011	10005	298,556
Title II, Part A - Improving Teacher Quality	84.367	14341	718,879
Title II, Part D - EETT	84.318	14334	15,840
Title II, Part B - Ca. Mathematics and Science	84.366	14512	803,670
Title III, Limited English Proficient	84.365	10084	510,318
Title X, McKinney-Vento Homeless	84.196	14332	14,639
IDEA, Basic Local Assistance Entitlement	84.027	13379	974,896
Total U.S. Department of Education			<u>5,910,584</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through California Department of Education:			
Medicaid Programs			
Medi-Cal Billing Option	93.778	10013	157,069
Medi-Cal Administrative Activities	93.778	10060	130,750
Subtotal - Medicaid Programs			<u>287,819</u>
Total U.S. Department of Health and Human Services			<u>287,819</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	2,840,344
Especially Needy Breakfast	10.553	13526	425,502
Meal Supplement Program	10.555	13391	120,747
Summer Food Program	10.559	13004	33,830
Food Distribution	10.555	13391	236,317
Subtotal - Child Nutrition Cluster			<u>3,656,740</u>
Child and Adult Care Food Program	10.558	13666	32,421
Child Nutrition, Fresh Fruit and Vegetable Program	10.582	14968	271,136
Total U.S. Department of Agriculture			<u>3,960,297</u>
Total Expenditures of Federal Awards			<u>\$ 10,158,700</u>

See accompanying note to supplementary information.



# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**

**JUNE 30, 2012**

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### **ORGANIZATION**

The Salinas City Elementary School District was established 1957 and consists of an area comprising approximately fourteen square miles located in Monterey County. The District operates thirteen K-6 elementary schools. There were no boundary changes during the year.

### **GOVERNING BOARD**

<b>MEMBER</b>	<b>OFFICE</b>	<b>TERM EXPIRES</b>
Robert Foster Hoffman	President	2013
Nathan Larison	Vice President	2015
Genaro Carlos	Clerk	2013
Roberto Garcia	Member	2013
Daniel Lee	Member	2015

### **ADMINISTRATION**

Dr. Donna Alonzo Vaughan	Superintendent
Gerald Stratton	Assistant Superintendent, Business Services
Juvenal Luza, Ph.D.	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, 2012**

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	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	1,282.12	1,276.40
First through third	3,613.96	3,610.13
Fourth through sixth	3,104.09	3,099.19
Home and hospital	1.02	1.38
Special education	103.42	103.52
Total Elementary	<u>8,104.61</u>	<u>8,090.62</u>

See accompanying note to supplementary information.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced	1986-87	Reduced	2011-12	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Actual	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,500	29,400	36,000	33,600	36,000	180	N/A	Complied
Grades 1 - 3	47,250	44,100	50,400	47,040				
Grade 1					50,506	180	N/A	Complied
Grade 2					50,506	180	N/A	Complied
Grade 3					50,506	180	N/A	Complied
Grades 4 - 6	52,500	49,000	54,000	50,400				
Grade 4					54,033	180	N/A	Complied
Grade 5					54,033	180	N/A	Complied
Grade 6					54,033	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, 2012

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Child Development Fund
NET ASSETS	<u>\$ 111,013</u>
Balance, June 30, 2012, Unaudited Actuals	
Decrease in:	
Accounts receivable	<u>(69,572)</u>
Balance, June 30, 2012, Audited Financial Statement	<u><u>\$ 41,441</u></u>

See accompanying note to supplementary information.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 <sup>1</sup>	2012	2011	2010
GENERAL FUND				
Revenues and transfers in <sup>3</sup>	\$ 62,044,188	\$ 65,519,593	\$ 67,241,533	\$ 64,947,427
Expenditures	64,431,539	68,678,600	67,741,573	67,666,225
Other uses and transfers out	-	-	237,292	-
Total Expenditures and Other Uses <sup>3</sup>	64,431,539	68,678,600	67,978,865	67,666,225
INCREASE/(DECREASE) IN FUND BALANCE	\$ (2,387,351)	\$ (3,159,007)	\$ (737,332)	\$ (2,718,798)
ENDING FUND BALANCE	\$ 5,979,300	\$ 8,366,651	\$ 11,525,658	\$ 12,262,990
AVAILABLE RESERVES <sup>2</sup>	\$ 1,932,946	\$ 3,352,096	\$ 2,031,369	\$ 2,863,724
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	4.9%	3.0%	4.2%
LONG-TERM OBLIGATIONS	Not Available	\$ 36,916,904	\$ 36,536,574	\$ 25,267,640
AVERAGE DAILY ATTENDANCE AT P-2	8,195	8,105	7,810	7,538

The General Fund balance has decreased by \$3,896,339 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$2,387,351 (28.5 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 deficit in each of the past three years and anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long-term obligations have increased by \$11,649,264 over the past two years primarily due to the issuance of general obligation bonds.

Average daily attendance has increased by 567 over the past two years. Additional growth of 90 ADA is anticipated during fiscal year 2012-13.

<sup>1</sup> Budget 2013 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On behalf payments are not included in revenues and expenditures in this schedule.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2012**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ -	\$ 812,203	\$ 8,102
Receivables	386,693	673,273	11
Due from other funds	307,802	2,797	-
Stores inventories	-	52,904	-
<b>Total Assets</b>	<b>\$ 694,495</b>	<b>\$ 1,541,177</b>	<b>\$ 8,113</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 417,560	\$ -	\$ -
Accounts payable	27,247	341,616	-
Due to other funds	199,187	439,356	-
Deferred revenue	9,060	-	-
<b>Total Liabilities</b>	<b>653,054</b>	<b>780,972</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	-	52,904	-
Restricted	41,441	707,301	-
Committed	-	-	8,113
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>41,441</b>	<b>760,205</b>	<b>8,113</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 694,495</b>	<b>\$ 1,541,177</b>	<b>\$ 8,113</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>
\$ 382,852	\$ 1,095,865	\$ 65,901	\$ 551,680	\$ 1,293,917
382	1,095	66	-	1,593
-	-	-	-	-
-	-	-	-	-
<u>\$ 383,234</u>	<u>\$ 1,096,960</u>	<u>\$ 65,967</u>	<u>\$ 551,680</u>	<u>\$ 1,295,510</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
1,768	-	-	-	-
-	-	-	-	-
<u>1,768</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
381,466	1,096,960	-	551,680	-
-	-	-	-	-
-	-	65,967	-	1,295,510
<u>381,466</u>	<u>1,096,960</u>	<u>65,967</u>	<u>551,680</u>	<u>1,295,510</u>
<u>\$ 383,234</u>	<u>\$ 1,096,960</u>	<u>\$ 65,967</u>	<u>\$ 551,680</u>	<u>\$ 1,295,510</u>

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2012**

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	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>	
Deposits and investments	\$ 4,210,520
Receivables	1,063,113
Due from other funds	310,599
Stores inventories	52,904
<b>Total Assets</b>	<b>\$ 5,637,136</b>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Overdrafts	\$ 417,560
Accounts payable	368,863
Due to other funds	640,311
Deferred revenue	9,060
<b>Total Liabilities</b>	<b>1,435,794</b>
<b>Fund Balances:</b>	
Nonspendable	52,904
Restricted	2,778,848
Committed	8,113
Assigned	1,361,477
<b>Total Fund Balances</b>	<b>4,201,342</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,637,136</b>

See accompanying note to supplementary information.



**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Federal sources	\$ -	\$ 3,723,980	\$ -
Other State sources	1,055,555	280,997	-
Other local sources	285,050	630,912	9,294
<b>Total Revenues</b>	<b>1,340,605</b>	<b>4,635,889</b>	<b>9,294</b>
<b>EXPENDITURES</b>			
Current			
Instruction	858,551	-	-
Instruction-related activities:			
Supervision of instruction	6,291	-	-
School site administration	85,877	-	-
Pupil services:			
Food services	-	4,286,603	-
All other pupil services	149,641	-	-
Administration:			
All other administration	78,309	193,161	-
Plant services	-	2,594	3,268
Facility acquisition and construction	-	-	-
Enterprise services	278,487	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>1,457,156</b>	<b>4,482,358</b>	<b>3,268</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(116,551)</b>	<b>153,531</b>	<b>6,026</b>
<b>Other Financing Sources (Uses)</b>			
Other sources	105,000	-	-
Transfers out	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>105,000</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(11,551)</b>	<b>153,531</b>	<b>6,026</b>
<b>Fund Balance - Beginning</b>	<b>52,992</b>	<b>606,674</b>	<b>2,087</b>
<b>Fund Balance - Ending</b>	<b>\$ 41,441</b>	<b>\$ 760,205</b>	<b>\$ 8,113</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -
-	460	-	8,443	-
61,709	10,600	396	917,381	11,257
<u>61,709</u>	<u>11,060</u>	<u>396</u>	<u>925,824</u>	<u>11,257</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,768	-	-	-	-
33,180	-	-	-	-
-	90,459	-	-	-
-	-	-	-	-
-	-	-	80,000	-
-	3,485	-	1,404,180	57,193
<u>34,948</u>	<u>93,944</u>	<u>-</u>	<u>1,484,180</u>	<u>57,193</u>
<u>26,761</u>	<u>(82,884)</u>	<u>396</u>	<u>(558,356)</u>	<u>(45,936)</u>
-	-	-	-	-
-	-	-	-	(303,219)
-	-	-	-	(303,219)
26,761	(82,884)	396	(558,356)	(349,155)
354,705	1,179,844	65,571	1,110,036	1,644,665
<u>\$ 381,466</u>	<u>\$ 1,096,960</u>	<u>\$ 65,967</u>	<u>\$ 551,680</u>	<u>\$ 1,295,510</u>

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>	
Federal sources	\$ 3,723,980
Other State sources	1,345,455
Other local sources	1,926,599
<b>Total Revenues</b>	<b>6,996,034</b>
<b>EXPENDITURES</b>	
Current	
Instruction	858,551
Instruction-related activities:	
Supervision of instruction	6,291
School site administration	85,877
Pupil services:	
Food services	4,286,603
All other pupil services	149,641
Administration:	
All other administration	273,238
Plant services	39,042
Facility acquisition and construction	90,459
Enterprise services	278,487
Debt service	
Principal	80,000
Interest and other	1,464,858
<b>Total Expenditures</b>	<b>7,613,047</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(617,013)</b>
<b>Other Financing Sources (Uses)</b>	
Other sources	105,000
Transfers out	(303,219)
<b>Net Financing Sources (Uses)</b>	<b>(198,219)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(815,232)</b>
<b>Fund Balance - Beginning</b>	<b>5,016,574</b>
<b>Fund Balance - Ending</b>	<b>\$ 4,201,342</b>

See accompanying note to supplementary information.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2012**

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**NOTE 1 - PURPOSE OF SCHEDULES**

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 9,922,383
Reconciling items:		
Food Distribution	10.555	<u>236,317</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 10,158,700</u></u>

**Local Education Agency Organization Structure**

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

**Schedule of Average Daily Attendance (ADA)**

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

**Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 either the 1982-1983 actual minutes or the 1986-1987 requirement, whichever is greater, as required by Education Code Section 46201.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION**

**JUNE 30, 2012**

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

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

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

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

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

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

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***INDEPENDENT AUDITORS' REPORTS***

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**INDEPENDENT AUDITORS' 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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salinas City Elementary School District as of and for the year ended June 30, 2012, which collectively comprise Salinas City Elementary School District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

**Internal Control Over Financial Reporting**

Management of Salinas City Elementary School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Salinas City Elementary School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Salinas City Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Salinas City Elementary School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Salinas City Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

We noted certain matters that we reported to management of Salinas City Elementary School District in a separate letter dated December 14, 2012.

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. We did not audit Salinas City Elementary School District's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Fresno, California  
December 14, 2012





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board  
Salinas City Elementary School District  
Salinas, California

We have audited Salinas City Elementary School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Salinas City Elementary School District's major Federal programs for the year ended June 30, 2012. Salinas City Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Salinas City Elementary School District's management. Our responsibility is to express an opinion on Salinas City Elementary School District's compliance based on our audit.

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. Our audit does not provide a legal determination of Salinas City Elementary School District's compliance with those requirements.

In our opinion, Salinas City Elementary School District complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

## Internal Control Over Compliance

Management of Salinas City Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Salinas City Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1. *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.

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. We did not audit Salinas City Elementary School District's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannest, Eric, Day & Co., LLP*

Fresno, California  
December 14, 2012



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Salinas City Elementary School District  
 Salinas, California

We have audited Salinas City Elementary School District's compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, applicable to Salinas City Elementary School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Salinas City Elementary School District's management. Our responsibility is to express an opinion on Salinas City Elementary School District's compliance based on our audit.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Salinas City Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Salinas City Elementary School District's compliance with those requirements.

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, 2012.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No (see below)
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Not Applicable

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannoy, Eric, Day & Co., LLP*

Fresno, California  
December 14, 2012

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

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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Unqualified for all major programs except for the following programs which were qualified:	

84.010	Title I, Part A, Basic (non-major program)
84.027	IDEA, Basic Local Assistance Entitlement

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>Yes</u>
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.410	Education Jobs Fund
84.367	Title II - Part A, Improving Teacher Quality
84.027	IDEA, Basic Local Assistance Entitlement
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 304,761</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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The following finding represents a significant deficiency and instance of noncompliance including questioned costs that is required to be reported by OMB Circular A-133. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

**2012-1 50000**

Title I, Part A Basic  
CFDA No. 84.010  
Questioned Cost: \$24,141

Special Education – IDEA, Basic Local Assistance  
CFDA No. 84.027  
Questioned Cost: \$12,235

**Criteria**

The District may allocate other post employment benefit (OPEB) "contributions" to all activities in proportion to total salaries or total full time equivalents (FTEs) in all activities within the District. A "contribution" is the payment of a premium related to the coverage, the payment of actual claims if the District is self funded, or the contribution into an irrevocable trust for the sole purpose of paying such costs in the future.

**Condition**

During our testing of the OPEB cost allocations during the year, we identified that the Title I, Part A, Basic and the Special Education-IDEA, Basic Local Assistance programs were overcharged by \$24,141 and \$12,235, respectively. These amounts were calculated based on the proportion of salaries and wages being charged to these specific programs and then multiplied by the total qualifying "contributions" for retiree health and welfare costs as calculated below.

**Title I, Part A Basic**

Total salaries	a	\$ 38,828,488
Title I, Part A Basic salaries	b	\$ 868,291
Percentage of Title I salaries compared to total salaries (a divided by b)	c	2.24%
District retiree health and welfare costs	d	\$ 1,184,772
Maximum allowable charge (c time d)	e	\$ 26,494
Actual costs charged	f	\$ 50,635
Unallowable costs charged (e minus f)	g	\$ 24,141



# SALINAS CITY ELEMENTARY SCHOOL DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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### Special Education - IDEA, Basic Local Assistance

Total salaries	a	\$	38,828,488
Special Education salaries	b	\$	608,150
Percentage of Special Education salaries compared to total salaries (a divided by b)	c		1.57%
District retiree health and welfare costs	d	\$	1,184,772
Maximum allowable costs (c time d)	e	\$	18,556
Actual costs charged	f	\$	30,791
Unallowable costs charged (e minus f)	g	\$	12,235

### Effect

The Title I, Part A Basic and Special Education – IDEA, Basic Local Assistance were overcharged by \$24,141 and \$12,235, respectively as calculated above.

### Cause

For specific programs, the District was charging actual OPEB premiums to object codes 3701 and 3702, however; they were also charging a rate to the programs and charging accounts 3751 and 3752 for the difference between the premiums and the annual required contribution (ARC). The amounts charged to 3751 and 3752 were moved by the District into a Self Insurance Fund, this is not allowed because the District has not established an irrevocable trust so these contributions over and above the premiums cannot be allocated to the programs as those are not "contributions" since the District does not have an Irrevocable Trust.

### Recommendation

The District should not charge the programs a rate in excess of the actual "contributions" to the OPEB obligations. Should the District wish to set aside funds for future retiree costs, these can not be charged to categorical programs and would need to be funded by unrestricted funds unless an Irrevocable Trust is established. In addition, the District should reimburse Title I, Part A Basic and Special Education – IDEA, Basic Local Assistance in the amount of \$24,141 and \$12,235, respectively, from an unrestricted source. The District should closely review the California School Accounting Manual (CSAM), Procedure 785 which describes the compliance requirements and outlines options for allocating "contributions" to various cost objectives in the District, including Federal and State resources.

### Corrective Action Plan

The District's administration has ceased charging amounts in excess of actual premium costs to federal and state categorical programs until a decision can be made on whether or not an Irrevocable Trust would be desirable. Additionally, the Title I and Special Education-IDEA programs will be reimbursed for the over allocation during the current fiscal year. The program charges will also be reviewed during the current year and adjusted to ensure they are not allocated more than their share of the actual premium costs of OPEB.

**SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012**

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

### **2011-1 MATERIAL WEAKNESS - CAPITAL ASSETS (30000)**

#### **Criteria**

Accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board, require entities to establish and maintain effective internal control over financial reporting. This includes establishing policies for recording the historical costs of capital assets, as well as establishing depreciable lives and appropriately depreciating those assets.

#### **Condition**

Capital asset records were not updated throughout the year.

#### **Effect**

At the time the June 30, 2011 Unaudited Actuals were prepared, the District did not have information to determine the current year capital asset additions, deletions or depreciation expense.

#### **Cause**

Due to personnel changes during the year, capital asset records were not updated throughout the year. Subsequent to year end, District staff were required to spend significant time recording capital asset activity and reconciling the capital asset ledgers to the District's financial statements.

#### **Fiscal Impact**

There is no immediate fiscal impact.

#### **Recommendation**

The District should establish procedure to update the capital asset ledgers at regular intervals throughout the year. In addition, the District should implement procedures as part of the year-end closing process to reconcile capital asset activity to the District's financial statements.

#### **Current Status**

Implemented.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012**

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### **2011-2 FEDERAL PROGRAM REPORTING (50000) - CFDA 84.410 EDUCATION JOBS FUND**

#### **Criteria**

Under Section 101 of the American Reinvestment and Recovery Act (ARRA), LEAs must fulfill the quarterly reporting requirements under Section 1512 of ARRA. Section 101 also requires LEAs to provide annual reports as outlined under Section 14008 of ARRA that would include information on the number of education personnel affected by the Education Jobs program.

#### **Condition**

The District filed the required Section 1512 Report quarterly, however, there is no indication of how many jobs were retained or created.

#### **Effect**

Not determinable.

#### **Cause**

Procedures were not in place.

#### **Fiscal Impact**

Not applicable.

#### **Recommendation**

The District should implement procedures to ensure that they include information on the number of education personnel affected by the Education Jobs Program.

#### **Current Status**

Implemented.

### **2011-3 ATTENDANCE ACCOUNTING AND REPORTING (10000)**

#### **Criteria**

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 - Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

# **SALINAS CITY ELEMENTARY SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012**

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### **Condition**

The Annual Report of Attendance prepared by the District and submitted to the State was not correct.

### **Effect**

The Annual Report of Attendance was overstated by approximately 258 ADA.

### **Cause**

PowerSchool reports used to generate the information for the Annual Report of Attendance were incorrect, and mathematical errors were made in the preparation of the Annual Report of Attendance.

### **Fiscal Impact**

There is no immediate fiscal impact. However, the Annual Report of Attendance is overstated by approximately 258 ADA.

### **Recommendation**

The District should recalculate and resubmit the Annual Report of Attendance. The District should implement procedures to ensure that the information used to generate attendance reports to the State is reviewed and verified before the reports are completed.

### **Current Status**

Implemented.



December 14, 2012

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, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2012, on the financial statements of Salinas City Elementary School District.

***DISTRICT OFFICE***

***Credit Card Charges***

**Finding**

During our audit of internal controls, we discovered the authorization for credit card use form is not consistently prepared. It is the District's policy that the form be completed for credit card purchases.

**Recommendation**

The District should require that all employees be required to complete the credit card use form and have it properly approved before the credit card is given to the employee for purchases.

***Fiscal Conditions***

**Finding**

School Districts must practice proper planning, budgeting and fiscal management to ensure that proper reserves and cash are set aside for economic uncertainties so they can continue as a going concern.

During our audit found the following conditions that we felt could be indicators of fiscal difficulties for the future.

- Although the District ended the year with available reserves of \$3,352,096, or 4.9 percent of total General Fund outgo as well as assigned General Fund balance in the amount of \$1,911,005, the entire reserve was tied to State Apportionment receivables, including deferrals, which totaled \$13,493,735.
- The District has budgeted to deficit spend in 2012-13 after deficit spending by \$ 2.7 million, \$ .8 million, and \$3.2 million the fiscal years ending June 30, 2010, 2011 and 2012, respectively. The deficit reflected for 2012-13 includes a budgeted decrease in expenditures for 2012-13 of approximately \$2 million in Certificated Salaries. As salaries and benefits are the largest expenditure of the District, budgeted cuts must be accompanied by actual cuts which, even then, may not be enough to ensure solvency in the coming years if the State economy continues to decline. Proposition 30 did pass and that should reduce the level of deficit spending in 2012-13, however, the impact of Proposition 30 must be carefully monitored and not over relied upon. Even with sufficient reserves, the District will be dealing with continued cash flow strains.
- The District has experienced a trend of increasing enrollment that it expects to continue into 2012-13 which is an aid to the District however, even with this continued increasing enrollment, the costs and cash demands of the District appear to be exceeding the additional state revenues generated by the additional students.

Although we do not feel that there is substantial doubt about the District's ability to continue as a going concern for the 2012-13 fiscal year, the fiscal condition of the District has raised concerns about the District's financial solvency in the coming years and their ability to maintain the minimum required reserves and cash needs over the near future despite the trend of increasing enrollment.

### **Recommendation**

The District should continue to develop and implement budget reductions that take into account potential continued reductions in state funding levels. Payroll costs and benefits, being by far the largest cost to the District, must be closely monitored including cash flow requirements. Timing of processes dealing with payroll related reductions including union agreements, furlough days, and lay-offs further complicate large reductions in this area which is apparently where the projected cuts are vested in future years to balance the budget.

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

*Vannetta, Eric, Day & Co., LLP*

Fresno, California  
December 14, 2012