

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2016**

# SOLEDAD UNIFIED SCHOOL DISTRICT

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JUNE 30, 2016

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Soledad Unified School District  
Soledad, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Soledad Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Soledad Unified School District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 61, schedule of other postemployment benefits funding progress on page 62, schedule of the district's proportionate share of net pension liability on page 63, and the schedule of district contributions on page 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the Soledad Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Soledad Unified School District's internal control over financial reporting and compliance.

*Varinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2016

# Soledad Unified School District

## MEMBERS OF THE BOARD

Marie Berlanga, *President*  
Jodi Massa, *Vice President*  
Josie Perez-Aguilera, *Clerk*  
Jaime Fernandez, *Trustee*  
Javier Galvan, *Trustee*



## ADMINISTRATION

Jorge Z. Guzman, *Interim Superintendent*  
Cesar Vega, *Chief Business Officer*

This section of Soledad Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## 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 Soledad Unified School District.



# SOLEDAD UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### REPORTING THE DISTRICT AS A WHOLE

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

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

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

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

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

**Governmental Activities** - The District reports all of its services 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.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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**Governmental Funds** - All 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.

### THE DISTRICT AS A TRUSTEE

#### Reporting the Districts Fiduciary Responsibilities

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

### FINANCIAL HIGHLIGHTS

The District ended the 2015-2016 fiscal year with a positive General Fund balance of \$11.7 million of which \$1.7 million is restricted in nature and represents carry-over balances from various grants. The District was able to maintain a minimum reserve for economic uncertainties of 10.1 percent which amounted to about \$5.5 million. Other components of the ending General Fund balance are set-asides for other assignments as directed by the Governing Board.

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$7.3 million for the fiscal year ended June 30, 2016. Of this amount, \$3.2 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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Table 1

(Amounts in millions)

	Governmental Activities	
	2016	2015
<b>Assets</b>		
Current and other assets	\$ 44.8	\$ 42.5
Capital assets	49.1	45.9
<b>Total Assets</b>	<b>93.9</b>	<b>88.4</b>
<b>Deferred Outflows of Resources</b>	<b>8.5</b>	<b>2.9</b>
<b>Liabilities</b>		
Current liabilities	8.4	5.0
Long-term liabilities	42.9	43.6
Net pension liability	36.5	29.8
<b>Total Liabilities</b>	<b>87.8</b>	<b>78.4</b>
<b>Deferred Inflows of Resources</b>	<b>7.3</b>	<b>8.0</b>
<b>Net Position</b>		
Net investment in capital assets	34.3	34.2
Restricted	3.2	3.0
Unrestricted	(30.2)	(32.3)
<b>Total Net Position</b>	<b>\$ 7.3</b>	<b>\$ 4.9</b>

The \$7.3 million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$2.1 million.

**Changes in Net Position**

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

Table 2

(Amounts in millions)

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 0.1	\$ 0.3
Operating grants and contributions	11.4	10.9
General revenues:		
Federal and State aid not restricted	41.8	36.2
Property taxes	8.4	7.6
Other general revenues	0.8	0.9
<b>Total Revenues</b>	<b>62.5</b>	<b>55.9</b>
<b>Expenses</b>		
Instruction-related	38.8	37.7
Student support services	7.3	7.2
Administration	4.6	3.4
Plant services	5.6	4.0
Other	3.8	4.0
<b>Total Expenses</b>	<b>60.1</b>	<b>56.3</b>
<b>Change in Net Position</b>	<b>\$ 2.4</b>	<b>\$ (0.4)</b>

**Governmental Activities**

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$60.1 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$8.4 million because the cost was paid by those who benefited from the programs (\$0.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$11.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$41.8 million in Federal and State funds and with \$0.8 million 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: regular program instruction, instruction related programs, pupil services, general administration, plant services, and other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Table 3**

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$ 31.6	\$ 30.1	\$ 25.5	\$ 24.7
Instruction related	7.2	7.6	5.9	6.5
Pupil services	7.3	7.2	4.5	3.7
General administration	4.6	3.4	4.0	3.2
Plant services	5.6	4.0	5.4	3.8
Other	3.8	4.0	3.4	3.3
<b>Total</b>	<b>\$ 60.1</b>	<b>\$ 56.3</b>	<b>\$ 48.7</b>	<b>\$ 45.2</b>

**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$36.4 million, which is a decrease of \$1.1 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances	
	June 30, 2016	June 30, 2015
Major Governmental Funds		
General <sup>1</sup>	\$ 11.7	\$ 9.6
Building	21.8	26.1
Non-Major Governmental Funds	2.9	1.8
<b>Total</b>	<b>\$ 36.4</b>	<b>\$ 37.5</b>

<sup>1</sup> Fund 17, Special Reserve Non-Capital and Fund 20, Special Reserve Postemployment Benefits Fund were consolidated with the General Fund for reporting purposes due to implementation of GASB 54.

The General Fund increased by \$2.1 million due primarily to increased State funding. The Building Fund decreased by \$4.3 million due to continued capital project expenditures. The non-major governmental funds increased by \$1.1 million due primarily to a transfer to the Special Reserve Capital Outlay Fund for contributions to the solar panel project.

**General Fund Budgetary Highlights**

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on August 10, 2016. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2016, the District had \$49.1 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$3.2 million from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities	
	2016	2015
Land and construction in progress	\$ 13.9	\$ 9.5
Buildings and improvements	34.7	35.9
Equipment	0.5	0.5
<b>Total</b>	<b>\$ 49.1</b>	<b>\$ 45.9</b>

We present more detailed information about our capital assets in Notes to Financial Statements.

#### Long-Term Obligations

At the end of this year, the District had \$42.9 million in long-term obligations versus \$43.6 million last year, a decrease of \$0.7 million. Those obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities	
	2016	2015
General obligation bonds (financed with property taxes)	\$ 32.4	\$ 33.4
Certificates of participation	4.1	4.3
Capital leases	0.1	0.2
OPEB obligation	6.3	5.7
<b>Total</b>	<b>\$ 42.9</b>	<b>\$ 43.6</b>

The District's general obligation bond Moody's rating at the time of their last issuance was "Aaa", and the District's certificates of participation S&P rating at the time of their last issuance was "AAA".

#### Net Pension Liability (NPL)

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* as of June 30, 2015, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2016, the District reported Deferred Outflows from pension activities of \$8.5 million, Deferred Inflows from pension activities of \$7.3 million, and a Net Pension Liability of \$36.5 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

# **SOLEDAD UNIFIED SCHOOL DISTRICT**

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

**JUNE 30, 2016**

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### **FOR THE FUTURE**

The State of California continues to financially benefit schools through the Local Control Funding Formula (LCFF). The LCFF uses a 3-tier calculation involving base grants plus supplemental grants and concentrated grants. Supplemental and Concentrated grants are unique to each district as they are based on unduplicated count of English Learners, Foster Youth and pupils approved for Free/Reduced price meals. The Governor proposes to fully fund the LCFF by 2021 by partially funding it a little each year. In the meantime, the difference between the old funding model and the new funding model is known as the gap. In 2015-2016 the State funded 52.56 percent of the GAP. The estimated GAP funding for 2016-2017 is 54.18 percent.

### **CONTACTING 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 any additional financial information, contact Cesar Vega, Chief Business Official at (831) 678-3950, ext. 131.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2016

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 42,888,545
Receivables	1,811,085
Prepaid expenses	36,297
Stores inventories	39,675
Nondepreciable capital assets	13,933,725
Capital assets being depreciated	75,795,747
Accumulated depreciation	(40,590,888)
<b>Total Assets</b>	<b>93,914,186</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	8,487,646
<b>LIABILITIES</b>	
Overdrafts	113,236
Accounts payable	5,973,075
Unearned revenue	2,283,438
Long-term obligations:	
Current portion of long-term obligations other than pensions	1,567,493
Noncurrent portion of long-term obligations other than pensions	41,389,516
Total Long-Term Obligations	42,957,009
Aggregate net pension liability	36,453,505
<b>Total Liabilities</b>	<b>87,780,263</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	7,296,118
<b>NET POSITION</b>	
Net investment in capital assets	34,315,891
Restricted for:	
Debt service	1,026,765
Capital projects	31,545
Educational programs	1,675,869
Other activities	489,187
Unrestricted	(30,213,806)
<b>Total Net Position</b>	<b>\$ 7,325,451</b>

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



**SOLEDAD UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Instruction	\$ 31,544,494	\$ 33,561	\$ 6,024,201	\$ (25,486,732)
Instruction-related activities:				
Supervision of instruction	2,065,357	-	727,049	(1,338,308)
Instructional library, media, and technology	812,088	84	293	(811,711)
School site administration	4,337,166	945	547,963	(3,788,258)
Pupil services:				
Home-to-school transportation	1,160,799	-	6,839	(1,153,960)
Food services	2,725,821	73,489	2,346,172	(306,160)
All other pupil services	3,453,485	-	460,144	(2,993,341)
Administration:				
Data processing	433,912	-	-	(433,912)
All other administration	4,157,433	4,225	601,780	(3,551,428)
Plant services	5,640,082	9,315	208,953	(5,421,814)
Ancillary services	389,842	-	8,401	(381,441)
Community services	1,000	120	419	(461)
Interest on long-term obligations	1,519,745	-	-	(1,519,745)
Other outgo	1,902,660	-	425,121	(1,477,539)
<b>Total Governmental Activities</b>	<b>\$ 60,143,884</b>	<b>\$ 121,739</b>	<b>\$ 11,357,335</b>	<b>(48,664,810)</b>
General revenues and subventions:				
Property taxes, levied for general purposes				6,209,327
Property taxes, levied for debt service				2,195,647
Taxes levied for other specific purposes				263
Federal and State aid not restricted to specific purposes				41,790,168
Interest and investment earnings				410,800
Miscellaneous				471,214
<b>Subtotal, General Revenues</b>				<b>51,077,419</b>
<b>Change in Net Position</b>				<b>2,412,609</b>
Net Position - Beginning				4,912,842
Net Position - Ending				<b>\$ 7,325,451</b>

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 17,853,076	\$ 23,161,410	\$ 1,874,059
Receivables	1,319,600	64,909	426,576
Due from other funds	532,346	14,612	1,353,454
Prepaid expenditures	36,297	-	-
Stores inventories	-	-	39,675
<b>Total Assets</b>	<b>\$ 19,741,319</b>	<b>\$ 23,240,931</b>	<b>\$ 3,693,764</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ -	\$ 113,236
Accounts payable	4,393,231	1,446,439	133,405
Due to other funds	1,368,066	-	532,346
Unearned revenue	2,281,592	-	1,846
<b>Total Liabilities</b>	<b>8,042,889</b>	<b>1,446,439</b>	<b>780,833</b>
<b>Fund Balances:</b>			
Nonspendable	43,797	-	39,675
Restricted	1,666,009	21,794,492	1,517,682
Committed	-	-	355,574
Assigned	4,487,255	-	1,000,000
Unassigned	5,501,369	-	-
<b>Total Fund Balances</b>	<b>11,698,430</b>	<b>21,794,492</b>	<b>2,912,931</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 19,741,319</b>	<b>\$ 23,240,931</b>	<b>\$ 3,693,764</b>

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

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	<b>Total Governmental Funds</b>
\$	42,888,545
	1,811,085
	1,900,412
	36,297
	39,675
\$	<u>46,676,014</u>

\$	113,236
	5,973,075
	1,900,412
	2,283,438
	<u>10,270,161</u>
	83,472
	24,978,183
	355,574
	5,487,255
	5,501,369
	<u>36,405,853</u>
\$	<u>46,676,014</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

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**Total Fund Balance - Governmental Funds** **\$ 36,405,853**  
**Amounts Reported for Governmental Activities in the Statement  
of Net Position are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 89,729,472	
Accumulated depreciation is	<u>(40,590,888)</u>	
Net Capital Assets		49,138,584

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	3,224,765
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The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	1,021,132
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The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	(2,554,721)
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The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	42,099
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The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(541,747)
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Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(36,453,505)
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Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds	32,446,015	
Certificates of participation	4,064,176	
Compensated absences	17,039	
Capital leases payable	106,994	
Other postemployment benefits (OPEB)	<u>6,322,785</u>	
Total Long-Term Obligations		<u>(42,957,009)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u><u>\$ 7,325,451</u></u></b>

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<b>General Fund</b>	<b>Building Fund</b>
<b>REVENUES</b>		
Local Control Funding Formula	\$ 44,386,194	\$ -
Federal sources	2,828,427	-
Other State sources	6,127,707	-
Other local sources	2,549,994	269,062
<b>Total Revenues</b>	<b>55,892,322</b>	<b>269,062</b>
<b>EXPENDITURES</b>		
Current		
Instruction	29,274,115	-
Instruction-related activities:		
Supervision of instruction	1,813,880	-
Instructional library, media and technology	776,860	-
School site administration	4,145,353	-
Pupil services:		
Home-to-school transportation	615,119	-
Food services	23,245	-
All other pupil services	3,371,020	-
Administration:		
Data processing	383,818	-
All other administration	3,764,187	-
Plant services	5,093,501	-
Facility acquisition and construction	753,125	4,588,179
Ancillary services	391,172	-
Community services	1,000	-
Other outgo	1,902,660	-
Debt service		
Principal	-	-
Interest and other	109,445	-
<b>Total Expenditures</b>	<b>52,418,500</b>	<b>4,588,179</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,473,822</b>	<b>(4,319,117)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	5,624
Transfers out	(1,348,085)	-
<b>Net Financing Sources (Uses)</b>	<b>(1,348,085)</b>	<b>5,624</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,125,737</b>	<b>(4,313,493)</b>
<b>Fund Balance - Beginning</b>	<b>9,572,693</b>	<b>26,107,985</b>
<b>Fund Balance - Ending</b>	<b>\$ 11,698,430</b>	<b>\$ 21,794,492</b>

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>
\$ -	\$ 44,386,194
2,574,087	5,402,514
1,129,937	7,257,644
2,778,840	5,597,896
<u>6,482,864</u>	<u>62,644,248</u>
1,022,694	30,296,809
234,255	2,048,135
-	776,860
55,473	4,200,826
-	615,119
2,452,823	2,476,068
-	3,371,020
-	383,818
185,503	3,949,690
199,488	5,292,989
9,521	5,350,825
-	391,172
-	1,000
-	1,902,660
1,506,855	1,506,855
1,101,229	1,210,674
<u>6,767,841</u>	<u>63,774,520</u>
<u>(284,977)</u>	<u>(1,130,272)</u>
1,342,461	1,348,085
-	(1,348,085)
1,342,461	-
1,057,484	(1,130,272)
1,855,447	37,536,125
<u>\$ 2,912,931</u>	<u>\$ 36,405,853</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (1,130,272)**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

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

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

Capital outlays	\$ 5,379,954	
Depreciation expenses	(2,169,573)	
	<u>3,210,381</u>	3,210,381

In the Statement of Activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid).

Vacation used was more than the amounts earned by \$17,024. 17,024

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

(344,162)

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:

(577,514)

Premiums received on the issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and is amortized over the life of the debt. Amortization during the year was:

39,368

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

General obligation bonds		1,160,000
Certificates of participation		279,516
Capital lease obligations		67,339

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2016**

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

**Change in Net Position of Governmental Activities**

\$ (309,071)  
\$ 2,412,609

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



**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 205,512
Receivables, local sources	44,387
<b>Total Assets</b>	<u><u>\$ 249,899</u></u>
 <b>LIABILITIES</b>	
Due to student groups	\$ 249,899
<b>Total Liabilities</b>	<u><u>\$ 249,899</u></u>

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Soledad Unified School District (the District) was established in 1908 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 - 12 as mandated by the State and/or Federal agencies. The District operates five elementary schools, one middle school, one high school, and a community education center, providing instruction from kindergarten through grade twelve, and special preschool and community education programs.

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 Soledad Unified 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 two broad fund categories: governmental 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.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$987,254, \$987,254, and \$2,520, respectively.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**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 used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

**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).

**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 debt.

**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).

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**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 category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude 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 is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental 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.

**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.

**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.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**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 LEAs 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 LEAs 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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

### **Investments**

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county pool are determined by the program sponsor.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

### 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. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

### Interfund Balances

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

### Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

### **Accounts Payable and Long-Term Obligations**

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

### **Debt Premiums**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt premiums are amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, debt premiums are recognized in the current period as other financing sources.

### **Deferred Outflows/Inflows of Resources**

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

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

### **Pensions**

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

**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 chief business officer may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$3,223,366 of restricted net position.



# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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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 on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of 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.

### Property Tax

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

### Change in Accounting Principles

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

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

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

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

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

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

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

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

### **New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

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

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

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## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental activities	\$ 42,888,545
Less overdrafts	<u>113,236</u>
Net governmental activities	42,775,309
Fiduciary funds	<u>205,512</u>
Total Deposits and Investments	<u><u>\$ 42,980,821</u></u>

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

Cash on hand and in banks	\$ 560,121
Cash in revolving	7,500
Investments with fiscal agent	7,516
Pooled investments	<u>42,405,684</u>
Total Deposits and Investments	<u><u>\$ 42,980,821</u></u>

The Adult Education Fund and the Child Development Fund ended the year with deficit cash in County Treasury balances of \$93,630, and \$19,606, respectively.

#### 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.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### General Authorizations

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

### 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
U.S. Treasuries	\$ 7,516	\$ 7,516	\$ -	\$ -	\$ -
County Pool	42,391,394	-	42,391,394	-	-
Total	\$ 42,398,910	\$ 7,516	\$ 42,391,394	\$ -	\$ -

### 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, 2016.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAAm	Aa	Unrated
U.S. Treasuries	\$ 7,516	N/A	\$ 7,516	\$ -	\$ -

N/A - Not applicable

### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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



**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

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

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Treasuries	\$ 7,516	\$ 7,516	\$ -	\$ -	\$ -
County Pool	-	-	-	-	42,391,394
Total	\$ 7,516	\$ 7,516	\$ -	\$ -	\$ 42,391,394

All assets have been valued using a market approach, with quoted market prices.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016, consist of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Agency Funds
Federal Government					
Categorical aid	\$ 617,218	\$ -	\$ 228,803	\$ 846,021	\$ -
State Government					
State grants and entitlements	629,767	-	119,833	749,600	-
Local Sources	72,615	64,909	77,940	215,464	44,387
Total	\$ 1,319,600	\$ 64,909	\$ 426,576	\$ 1,811,085	\$ 44,387

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets not being depreciated				
Construction in progress	\$ 1,256,651	\$ -	\$ -	\$ 1,256,651
Land	8,224,471	4,452,603	-	12,677,074
Total Capital Assets Not Being Depreciated	9,481,122	4,452,603	-	13,933,725
Capital Assets being depreciated				
Land improvements	12,209,475	21,930	-	12,231,405
Buildings and improvements	60,614,772	854,472	11,500	61,457,744
Furniture and equipment	2,063,649	50,949	8,000	2,106,598
Total Capital Assets Being Depreciated	74,887,896	927,351	19,500	75,795,747
Less Accumulated Depreciation				
Land improvements	10,095,949	399,065	-	10,495,014
Buildings and improvements	26,799,906	1,741,748	11,500	28,530,154
Furniture and equipment	1,544,960	28,760	8,000	1,565,720
Total Accumulated Depreciation	38,440,815	2,169,573	19,500	40,590,888
Governmental Activities Capital Assets, Net	<u>\$ 45,928,203</u>	<u>\$ 3,210,381</u>	<u>\$ -</u>	<u>\$ 49,138,584</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 976,308
School site administration	65,087
Home-to-school transportation	520,698
Food services	173,566
All other general administration	108,479
Data processing	43,391
Plant services	282,044
Total Depreciation Expenses, Governmental Activities	<u>\$ 2,169,573</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 6 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ 532,346	\$ 1,368,066
Building	14,612	-
Total Major Governmental Funds	<u>546,958</u>	<u>1,368,066</u>
Non-Major Governmental Funds		
Adult Education	342,461	26,145
Child Development	-	40,340
Cafeteria	10,993	119,018
Capital Facilities	-	346,843
Special Reserve Capital Outlay	1,000,000	-
Total Non-Major Governmental Funds	<u>1,353,454</u>	<u>532,346</u>
Total All Governmental Funds	<u>\$ 1,900,412</u>	<u>\$ 1,900,412</u>

**Operating Transfers**

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

The General Fund transferred to the Adult Education Fund for the Hartnell Consortium.	\$ 147,800
The General Fund transferred to the Building Fund for 2013-2014 and 2014-2015 credit card and travel expenses.	5,624
The General Fund transferred to the Special Reserve Capital Outlay Fund for the solar panel project.	1,000,000
The General Fund transferred to the Adult Education Fund per a Memorandum of Understanding from the Monterey County Office of Education.	194,661
Total	<u>\$ 1,348,085</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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**NOTE 7 - ACCOUNTS PAYABLE**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
Vendor payables	\$ 2,552,909	\$ 1,446,439	\$ 131,186	\$ 4,130,534
State principal apportionment	722,637	-	-	722,637
Salaries and benefits	1,117,685	-	2,219	1,119,904
Total	<u>\$ 4,393,231</u>	<u>\$ 1,446,439</u>	<u>\$ 133,405</u>	<u>\$ 5,973,075</u>

**NOTE 8 - UNEARNED REVENUE**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal sources	\$ 550	\$ -	\$ 550
State sources	2,264,030	-	2,264,030
Local sources	17,012	1,846	18,858
Total	<u>\$ 2,281,592</u>	<u>\$ 1,846</u>	<u>\$ 2,283,438</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds-1997	\$ 4,548,949	\$ 270,201	\$ 870,000	\$ 3,949,150	\$ 895,000
General obligation bonds-1999	849,091	38,870	115,000	772,961	115,000
2012 General obligation bonds, series A	4,880,000	-	130,000	4,750,000	135,000
2012 General obligation bonds, series A premium	337,610	-	15,346	322,264	15,346
2012 General obligation bonds, series B	22,000,000	-	45,000	21,955,000	60,000
2012 General obligation bonds, series B premium	720,662	-	24,022	696,640	24,022
Certificates of participation	4,343,692	-	279,516	4,064,176	252,619
Compensated absences	34,063	-	17,024	17,039	-
Capital leases	174,333	-	67,339	106,994	70,506
Other postemployment benefits	5,745,271	1,351,769	774,255	6,322,785	-
Total	<u>\$43,633,671</u>	<u>\$ 1,660,840</u>	<u>\$ 2,337,502</u>	<u>\$ 42,957,009</u>	<u>\$ 1,567,493</u>

The general obligation bonds will be paid by the Bond Interest and Redemption Fund utilizing local property tax revenue. The certificates of participation and the capital leases are paid by the General Fund and the Capital Facilities Fund. The compensated absences and other postemployment benefits obligations are funded by the fund that the employee worked.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2015	Interest Accreted/ Debt Issued	Bonds Redeemed	Bonds Outstanding June 30, 2016
1/9/1997	6/1/2021	4.15-5.88	\$ 9,000,000	\$ 4,548,949	\$ 270,201	\$ 870,000	\$ 3,949,150
8/28/1999	8/1/2023	4.00-5.25	1,500,000	849,091	38,870	115,000	772,961
5/21/2013	8/1/1937	3.00-8.00	5,000,000	4,880,000	-	130,000	4,750,000
7/30/2014	8/1/1944	3.00-5.00	22,000,000	22,000,000	-	45,000	21,955,000
Total				<u>\$ 32,278,040</u>	<u>\$ 309,071</u>	<u>\$1,160,000</u>	<u>\$ 31,427,111</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
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**Debt Service Requirements to Maturity**

1995, Series 1997

The bonds mature through 2021 as follows:

<u>Fiscal Year</u>	<u>Final Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>
2017	\$ 895,000	\$ 844,996	\$ 50,004
2018	915,000	815,629	99,371
2019	940,000	789,965	150,035
2020	960,000	761,370	198,630
2021	985,000	737,190	247,810
Total	<u>\$ 4,695,000</u>	<u>\$ 3,949,150</u>	<u>\$ 745,850</u>

1995, Series B (1999)

The bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Final Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>
2017	\$ 115,000	\$ 115,000	\$ -
2018	115,000	109,250	5,750
2019	115,000	103,776	11,224
2020	115,000	98,440	16,560
2021	115,000	93,472	21,528
2022-2024	345,000	253,023	91,977
Total	<u>\$ 920,000</u>	<u>\$ 772,961</u>	<u>\$ 147,039</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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2012, Series A (2013)

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 135,000	\$ 205,399	\$ 340,399
2018	140,000	194,767	334,767
2019	150,000	184,758	334,758
2020	155,000	173,807	328,807
2021	160,000	165,205	325,205
2022-2026	920,000	701,575	1,621,575
2027-2031	1,130,000	512,180	1,642,180
2032-2036	1,350,000	286,750	1,636,750
2037-2038	610,000	36,800	646,800
Total	<u>\$ 4,750,000</u>	<u>\$ 2,461,241</u>	<u>\$ 7,211,241</u>

2012, Series B (2013)

The bonds mature through 2045 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 60,000	\$ 890,313	\$ 950,313
2018	85,000	889,113	974,113
2019	115,000	887,413	1,002,413
2020	145,000	881,663	1,026,663
2021	175,000	874,413	1,049,413
2022-2026	1,435,000	4,204,815	5,639,815
2027-2031	2,595,000	3,796,714	6,391,714
2032-2036	4,165,000	3,276,887	7,441,887
2037-2041	6,245,000	2,208,050	8,453,050
2042-2045	6,935,000	717,800	7,652,800
Total	<u>\$ 21,955,000</u>	<u>\$ 18,627,181</u>	<u>\$ 40,582,181</u>

**Certificates of Participation**

On May 1, 2005, the District issued Certificates of Participation in the amount of \$5,765,000, to provide funds for the purpose of paying for the acquisition and construction of the high school with support and office facilities. As of June 30, 2016, the principal balance outstanding was \$4,064,176.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
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The certificates mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 252,619	\$ 125,990	\$ 378,609
2018	262,262	118,158	380,420
2019	271,802	110,028	381,830
2020	280,951	101,602	382,553
2021	284,758	92,892	377,650
2022-2026	1,615,095	323,328	1,938,423
2027-2030	1,096,689	68,700	1,165,389
Total	<u>\$ 4,064,176</u>	<u>\$ 940,698</u>	<u>\$ 5,004,874</u>

**Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2016, amounted to \$17,039.

**Capital Leases**

The District has entered into an agreement to certain facilities. Such agreement is, in substance, a purchase (capital lease) and is reported as a capital lease obligation. The District's liability on the lease agreement with is summarized below:

Balance, July 1, 2015	<u>City National</u> \$ 174,333
Payments	67,339
Balance, June 30, 2016	<u>\$ 106,994</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2017	\$ 74,672
2018	37,336
Total	112,008
Less: Amount Representing Interest	5,014
Present Value of Minimum Lease Payments	<u>\$ 106,994</u>

**Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2016, was \$1,093,232, and contributions made by the District during the year were \$505,282. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$258,537 and \$(268,973), respectively, which resulted in an increase to the net OPEB obligation of \$577,514. As of June 30, 2016, the net OPEB obligation was \$6,322,785. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.



**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 7,500	\$ -	\$ -	\$ 7,500
Stores inventories	-	-	39,675	39,675
Prepaid expenditures	36,297	-	-	36,297
<b>Total Nonspendable</b>	<u>43,797</u>	<u>-</u>	<u>39,675</u>	<u>83,472</u>
<b>Restricted</b>				
Legally restricted programs	1,666,009	-	459,372	2,125,381
Capital projects	-	21,794,492	31,545	21,826,037
Debt service	-	-	1,026,765	1,026,765
<b>Total Restricted</b>	<u>1,666,009</u>	<u>21,794,492</u>	<u>1,517,682</u>	<u>24,978,183</u>
<b>Committed</b>				
Adult education program	-	-	354,782	354,782
Deferred maintenance program	-	-	792	792
<b>Total Committed</b>	<u>-</u>	<u>-</u>	<u>355,574</u>	<u>355,574</u>
<b>Assigned</b>				
Main Street MS Project - Option 1b	1,500,000	-	-	1,500,000
Book adoption	1,250,000	-	-	1,250,000
New science building	1,577,319	-	-	1,577,319
Retire health and welfare benefits	159,936	-	-	159,936
Main Street MS Project	-	-	1,000,000	1,000,000
<b>Total Assigned</b>	<u>4,487,255</u>	<u>-</u>	<u>1,000,000</u>	<u>5,487,255</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	5,500,000	-	-	5,500,000
Remaining unassigned	1,369	-	-	1,369
<b>Total Unassigned</b>	<u>5,501,369</u>	<u>-</u>	<u>-</u>	<u>5,501,369</u>
<b>Total</b>	<u>\$ 11,698,430</u>	<u>\$ 21,794,492</u>	<u>\$ 2,912,931</u>	<u>\$ 36,405,853</u>

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 11 - 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 Soledad Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 88 retirees and beneficiaries currently receiving benefits and 356 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 Soledad Teachers Association (STA), the local Classified School Employees Association (CSEA), Soledad Clerical Employees Association, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$505,282 to the plan, all of which was used for current premiums.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,093,232
Interest on net OPEB obligation	258,537
Adjustment to annual required contribution	(268,973)
Annual OPEB cost (expense)	<u>1,082,796</u>
Contributions made	<u>(505,282)</u>
Increase in net OPEB obligation	577,514
Net OPEB obligation, beginning of year	<u>5,745,271</u>
Net OPEB obligation, end of year	<u><u>\$ 6,322,785</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
2016	\$ 1,082,796	\$ 505,282	46.66%	\$ 6,322,785
2015	1,034,005	326,768	31.60%	5,745,271
2014	1,031,467	551,639	53.48%	5,038,034

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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**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 Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll $([b - a] / c)$
January 1, 2016	\$ -	\$ 13,551,708	\$ 13,551,708	0%	\$ 30,460,990	44.49%

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 trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**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 January 1, 2016, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.75 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates were four percent. The cost trend rate used for the Dental and Vision programs was also four percent. The UAAL is being amortized at a level dollar method over an open 24 year amortization period.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 12 - 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. During fiscal year ending June 30, 2016, the District contracted with Monterey and San Benito County Property and Liability JPA for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### Workers' Compensation

For fiscal year 2016, the District participated in the Monterey Educational Risk Management Authority (MERMA), an insurance purchasing pool. The intent of MERMA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in MERMA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MERMA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of MERMA. Participation in MERMA is limited to districts that can meet MERMA selection criteria.

#### Employee Medical Benefits

The District has contracted with CalPERS to provide health and welfare coverage to the District's administrative classified and certificated employees. Premiums are paid to CalPERS for coverage. Additionally, the District is a member of California Valued Trust (CVT) for its CSEA classified members for Health and Welfare coverage. The District has also contracted with the Alameda County Schools Insurance Group (ACSIA) to provide employee dental and vision coverage. ACSIA and CVT are shared risk pools. 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 have the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 27,636,413	\$ 5,531,745	\$ 4,892,118	\$ 2,259,092
CalPERS	8,817,092	2,955,901	2,404,000	1,041,619
Total	<u>\$ 36,453,505</u>	<u>\$ 8,487,646</u>	<u>\$ 7,296,118</u>	<u>\$ 3,300,711</u>

The details of each plan are as follows:

### California State Teachers' Retirement System (CalSTRS)

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

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

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

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

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

**Contributions**

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$2,220,888.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 27,636,413
State's proportionate share of the net pension liability associated with the District	<u>14,616,616</u>
Total	<u><u>\$ 42,253,029</u></u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0410 percent and 0.0392 percent, resulting in a net increase in the proportionate share of 0.0018 percent.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

For the year ended June 30, 2016, the District recognized pension expense of \$2,252,092. In addition, the District recognized pension expense and revenue of \$1,132,221 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,220,888	\$ -
Net change in proportionate share of net pension liability	1,133,367	-
Difference between projected and actual earnings on pension plan investments	2,177,490	4,430,307
Differences between expected and actual experience in the measurement of the total pension liability	-	461,811
Total	<u>\$ 5,531,745</u>	<u>\$ 4,892,118</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (932,396)
2018	(932,396)
2019	(932,396)
2020	544,371
Total	<u>\$ (2,252,817)</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 111,926
2018	111,926
2019	111,926
2020	111,926
2021	111,926
Thereafter	111,926
Total	<u>\$ 671,556</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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



**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 41,728,832
Current discount rate (7.60%)	\$ 27,636,413
1% increase (8.60%)	\$ 15,924,475

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**California Public Employees Retirement System (CalPERS)**

**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

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

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$1,003,877.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$8,817,092. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0598 percent and 0.0608 percent, resulting in a net decrease in the proportionate share of 0.0010 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,041,619. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,003,877	\$ -
Net change in proportionate share of net pension liability	-	112,235
Difference between projected and actual earnings on pension plan investments	1,448,114	1,750,018
Differences between expected and actual experience in the measurement of the total pension liability	-	-
Changes of assumptions	503,910	-
	-	541,747
Total	\$ 2,955,901	\$ 2,404,000

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (221,311)
2018	(221,311)
2019	(221,311)
2020	362,029
Total	<u>\$ (301,904)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and the differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (51,749)
2018	(51,749)
2019	(46,574)
Total	<u>\$ (150,072)</u>

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

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

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 14,350,553
Current discount rate (7.65%)	\$ 8,817,092
1% increase (8.65%)	\$ 4,215,651

### 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 use Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.0 percent of an employee's gross earnings. An employee is required to contribute 6.0 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 \$1,259,344 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. 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.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 14 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

#### Litigation

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

#### Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

#### Construction Commitments

As of June 30, 2016, 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>
Main Street Middle School	\$ 34,794,492	August 1, 2018
High school science building	322,703	July 1, 2018
Total	<u>\$ 35,117,195</u>	

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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### **NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES**

The District is a member of the Monterey Educational Risk Management Authority (MERMA) and the Monterey and San Benito Property and Liability JPA (MSBCLPSA) public entity risk pools. The District pays annual premiums to each entity for its workers' compensation and property liability coverage. The relationships between the District and the JPA's 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 available from the respective entities.

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

During the year ended June 30, 2016, the District made payment of \$1,209,938 to MERMA for workers' compensation coverage.

The District has appointed one member to the governing board of MSBPLSA.

During the year ended June 30, 2016, the District made payment of \$278,923 to MSBCLPSA for property and liability insurance.



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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<b>Budgeted Amounts</b>			<b>Variances -</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Favorable</b>
				<b>(Unfavorable)</b>
				<b>Final</b>
				<b>to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 45,976,536	\$ 45,354,725	\$ 44,386,194	\$ (968,531)
Federal sources	2,812,239	3,207,012	2,828,427	(378,585)
Other State sources	4,481,541	4,492,722	6,127,707	1,634,985
Other local sources	2,365,220	2,387,687	2,549,994	162,307
<b>Total Revenues</b> <sup>1</sup>	<b>55,635,536</b>	<b>55,442,146</b>	<b>55,892,322</b>	<b>450,176</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	19,957,611	20,098,202	20,750,238	(652,036)
Classified salaries	7,285,582	7,711,343	7,852,637	(141,294)
Employee benefits	10,987,136	11,188,790	11,861,984	(673,194)
Books and supplies	3,075,355	3,530,551	2,654,920	875,631
Services and operating expenditures	8,348,342	8,306,282	6,475,096	1,831,186
Other outgo	2,458,106	2,245,066	1,717,170	527,896
Capital outlay	1,598,115	1,415,452	997,009	418,443
Debt service - principal	346,856	346,856	-	346,856
Debt service - interest	109,446	109,446	109,446	-
<b>Total Expenditures</b> <sup>1</sup>	<b>54,166,549</b>	<b>54,951,988</b>	<b>52,418,500</b>	<b>2,533,488</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	1,468,987	490,158	3,473,822	2,983,664
<b>Other Financing Sources (Uses)</b>				
Transfers out	(1,092,461)	(2,092,461)	(1,348,085)	744,376
<b>Net Financing Sources (Uses)</b>	<b>(1,092,461)</b>	<b>(2,092,461)</b>	<b>(1,348,085)</b>	<b>744,376</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>376,526</b>	<b>(1,602,303)</b>	<b>2,125,737</b>	<b>3,728,040</b>
<b>Fund Balance - Beginning</b>	<b>9,572,693</b>	<b>9,572,693</b>	<b>9,572,693</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 9,949,219</b>	<b>\$ 7,970,390</b>	<b>\$ 11,698,430</b>	<b>\$ 3,728,040</b>

<sup>1</sup> Due to the consolidation of Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying notes to required supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Entry Age Normal Cost Method (b)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (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>
January 1, 2016	\$ -	\$ 13,551,708	\$ 13,551,708	\$ 13,551,708	0%	\$ 30,460,990	44.49%
January 1, 2014	\$ -	\$ 12,078,606	\$ 12,078,606	\$ 12,078,606	0%	\$ 28,605,962	42.22%
February 1, 2010	\$ -	\$ 17,465,058	\$ 17,465,058	\$ 17,465,058	0%	\$ 21,049,348	82.97%

See accompanying notes to required supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability (asset)	<u>0.0410%</u>	<u>0.0392%</u>
District's proportionate share of the net pension liability (asset)	\$ 27,636,413	\$ 22,927,317
State's proportionate share of the net pension liability (asset) associated with the District	<u>14,616,616</u>	<u>13,844,504</u>
Total	<u>\$ 13,019,797</u>	<u>\$ 9,082,813</u>
District's covered - employee payroll	<u>\$ 19,084,245</u>	<u>\$ 17,693,297</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>144.81%</u>	<u>129.58%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability (asset)	<u>0.0598%</u>	<u>0.0608%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 8,817,092</u>	<u>\$ 6,903,029</u>
District's covered - employee payroll	<u>\$ 10,497,120</u>	<u>\$ 10,347,736</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>84.00%</u>	<u>66.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying notes to required supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 2,220,888	\$ 1,694,681
Contributions in relation to the contractually required contribution	<u>2,220,888</u>	<u>1,694,681</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 20,697,931</u>	<u>\$ 19,084,245</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 1,003,877	\$ 1,235,616
Contributions in relation to the contractually required contribution	<u>1,003,877</u>	<u>1,235,616</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 8,473,681</u>	<u>\$ 10,497,120</u>
Contributions as a percentage of covered - employee payroll	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying notes to required supplementary information.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

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

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

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

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

#### **Schedule of District Contributions**

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

### NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

#### **Changes in Benefit Terms**

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

#### **Changes in Assumptions**

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

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***SUPPLEMENTARY INFORMATION***

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**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education:			
No Child Left Behind			
Title I - Part A, Basic	84.010	14329	\$ 1,093,859
Title I - Part C, Migrant, Regular	84.011	14326	188,910
Title I - Part C, Migrant, Summer	84.011	10005	18,004
Title I - Part G, Advanced Placement Fee Program	84.330B	14831	11,029
Title II - Part A, Teacher Quality	84.367	14341	156,764
Title III - Limited English Proficient	84.365	14346	194,379
Title III - Immigrant Education Program	84.365	15146	3,517
Adult Education Programs			
Adult Basic Education and ESL	84.002A	14508	11,462
Adult Secondary Education	84.002	13978	3,021
English Literacy and Civics Education	84.002A	14109	4,468
Special Education Programs			
IDEA, Basic Local Assistance Entitlement	84.027	13379	853,480
Supportive Inclusive Practices	84.027A	13693	3,885
Technology Secondary II C, Section 611	84.048	14894	38,684
Total U.S. Department of Education			<u>2,581,462</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through California Department of Health Care Services:			
CCDF Matching-General Child Development Program	93.596	13609	3,647
Adult Education, South County Collaboration	93.569	[2]	131,885
Medi-Cal Billing Option	93.778	10013	9,881
Medical Administration Activities	93.778	10060	177,491
Total Department of Health and Human Services			<u>322,904</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Navy Junior Reserve Officers' Training Corps	[1]	[2]	<u>78,544</u>

[1] Catalog number not available

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.



**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch	10.555	13391	\$ 1,696,494
Especially Needy Breakfast	10.553	13526	642,225
Meals Supplements - Snack	10.555	13391	55,519
Seamless Summer	10.559	13004	25,366
Food Distribution	10.555	13391	206,072
Subtotal Child Nutrition Cluster			<u>2,625,676</u>
Total U.S. Department of Agriculture			<u>2,625,676</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,608,586</u></u>

[1] Catalog number not available

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

# SOLEDAD UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2016

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### ORGANIZATION

The Soledad Unified School District was unified on July 1, 1996, and consists of an area comprising approximately 100 square miles. The District operates five elementary schools, one middle school, one high school, and a community education center, providing instruction from kindergarten through grade twelve, and special preschool and community education programs. There were no boundary changes during the year.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mrs. Marie Berlanga	President	November 2019
Mrs. Jodi Massa	Vice-President	November 2017
Mrs. Josie Perez-Aguilera	Clerk	November 2019
Mr. Jaime Fernandez	Board Member	November 2017
Mr. Javier Galvan	Board Member	November 2019

### ADMINISTRATION

Jorge Z. Guzmán	Interim Superintendent
Cesar Vega	Chief Business Officer
Fernando Cubias	Director of Fiscal Services
Letty Diaz	Director of Human Resources
Annette Trujillo	Director Technology
Horacio Pantoja	Director of Maintenance, Transportation
Dianne Witwer	Director of Teaching & Learning
Anthony Miranda	Director of Special Education
Matthew Harris	Principal (Frank Ledesma Elementary School)
Natalia Macias	Learning Director (Frank Ledesma Elementary School)
Rosalinda Silva	Principal (Gabilan Elementary School)
Nathan Douty	Learning Director (Gabilan Elementary School)
Leslie Davis	Principal (Jack Franscioni Elementary School)
Cathy Cisternino-Thompson	Learning Director (Jack Franscioni Elementary School)
Tommy Frank	Principal (Rose Ferrero Elementary School)
Michelle Ross	Learning Director (Rose Ferrero Elementary School)
Antonio Garcia	Director/Interim Principal (San Vicente Elementary School)
Michelle Farrer	Learning Director (San Vicente Elementary School)
Jessie Swift	Principal (Main Street Middle School)
Jeffery James	Principal (Soledad High School)
Jeffrey Lopez	Director/Principal (Community Education Center)
JoAnne Strong	Assistant Principal (Soledad High School)
Nathan Walker	Assistant Principal (Soledad High School)
Donald Price	Assistant Principal (Main Street Middle School)
Lori Morones	Special Ed/Preschool Coordinator
Erin Ramirez	Special Projects Coordinator

See accompanying note to supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

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	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Transitional kindergarten through third	1,446.00	1,449.96
Fourth through sixth	1,125.93	1,127.38
Seventh and eighth	691.33	690.39
Ninth through twelfth	1,383.40	1,372.08
Total Regular ADA	<u>4,646.66</u>	<u>4,639.81</u>
Extended Year Special Education		
Seventh and eighth	0.64	0.64
Ninth through twelfth	0.39	0.39
Total Extended Year Special Education	<u>1.03</u>	<u>1.03</u>
Total ADA	<u><u>4,647.69</u></u>	<u><u>4,640.84</u></u>

See accompanying note to supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

Grade Level	1986-1987 Minutes Requirement	2015-2016 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	59,780	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		55,190	180	N/A	Complied
Grade 2		55,190	180	N/A	Complied
Grade 3		55,190	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,035	180	N/A	Complied
Grade 5		56,035	180	N/A	Complied
Grade 6		56,220	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		62,596	180	N/A	Complied
Grade 8		62,596	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,544	180	N/A	Complied
Grade 10		65,544	180	N/A	Complied
Grade 11		65,544	180	N/A	Complied
Grade 12		65,544	180	N/A	Complied

See accompanying note to supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

See accompanying note to supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	(Budget) 2017 <sup>1</sup>	2016	2015	2014
GENERAL FUND <sup>3</sup>				
Revenues	\$ 56,295,223	\$ 55,889,802	\$ 49,394,245	\$ 43,109,034
Expenditures	55,526,907	52,418,500	49,302,740	43,420,301
Other uses and transfers out	342,461	2,098,085	200,000	180,588
Total Expenditures and Other Uses	55,869,368	54,516,585	49,502,740	43,600,889
INCREASE/(DECREASE) IN FUND BALANCE	\$ 425,855	\$ 1,373,217	\$ (108,495)	\$ (491,855)
ENDING FUND BALANCE	\$ 11,137,031	\$ 10,711,176	\$ 9,337,959	\$ 9,446,454
AVAILABLE RESERVES <sup>2</sup>	\$ 10,467,201	\$ 5,501,369	\$ 6,440,164	\$ 4,479,849
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	18.7%	10.1%	13.0%	10.3%
LONG-TERM OBLIGATIONS	Not Available	\$ 42,957,009	\$ 43,633,671	\$ 21,036,072
AVERAGE DAILY ATTENDANCE AT P-2	4,689	4,648	4,696	4,606

The General Fund balance has increased by \$1,264,722 over the past two years. The fiscal year 2016-2017 budget projects an increase of \$425,855 (3.98 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 deficits in two of the past three years, but anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have increased by \$21,920,937 over the past two years primarily due to the issuance of General Obligation Bonds in the 2014-2015 fiscal year.

Average daily attendance has increased by 42 over the past two years. Growth of 41 ADA is anticipated during fiscal year 2016-2017.

<sup>1</sup> Budget 2017 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> General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Fund and the Special Reserve Fund for Retiree Benefits as required by GASB Statement No. 54.

See accompanying note to supplementary information.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 13,383	\$ -	\$ 477,597
Receivables	150,418	86,287	167,005
Due from other funds	342,461	-	10,993
Stores inventories	-	-	39,675
<b>Total Assets</b>	<b>\$ 506,262</b>	<b>\$ 86,287</b>	<b>\$ 695,270</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 93,630	\$ 19,606	\$ -
Accounts payable	31,705	14,635	87,065
Due to other funds	26,145	40,340	119,018
Unearned revenue	-	1,846	-
<b>Total Liabilities</b>	<b>151,480</b>	<b>76,427</b>	<b>206,083</b>
<b>Fund Balances:</b>			
Nonspendable	-	-	39,675
Restricted	-	9,860	449,512
Committed	354,782	-	-
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>354,782</b>	<b>9,860</b>	<b>489,187</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 506,262</b>	<b>\$ 86,287</b>	<b>\$ 695,270</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 790	\$ 355,524	\$ -	\$ 1,026,765	\$ 1,874,059
2	22,864	-	-	426,576
-	-	1,000,000	-	1,353,454
-	-	-	-	39,675
<u>\$ 792</u>	<u>\$ 378,388</u>	<u>\$ 1,000,000</u>	<u>\$ 1,026,765</u>	<u>\$ 3,693,764</u>
\$ -	\$ -	\$ -	\$ -	\$ 113,236
-	-	-	-	133,405
-	346,843	-	-	532,346
-	-	-	-	1,846
<u>-</u>	<u>346,843</u>	<u>-</u>	<u>-</u>	<u>780,833</u>
-	-	-	-	39,675
-	31,545	-	1,026,765	1,517,682
792	-	-	-	355,574
-	-	1,000,000	-	1,000,000
<u>792</u>	<u>31,545</u>	<u>1,000,000</u>	<u>1,026,765</u>	<u>2,912,931</u>
<u>\$ 792</u>	<u>\$ 378,388</u>	<u>\$ 1,000,000</u>	<u>\$ 1,026,765</u>	<u>\$ 3,693,764</u>



**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 150,835	\$ 3,647	\$ 2,419,605
Other State sources	297,759	622,716	195,937
Other local sources	79,766	12,453	84,160
<b>Total Revenues</b>	<b>528,360</b>	<b>638,816</b>	<b>2,699,702</b>
<b>EXPENDITURES</b>			
Current			
Instruction	508,320	514,374	-
Instruction-related activities:			
Supervision of instruction	160,096	74,159	-
School site administration	55,473	-	-
Pupil services:			
Food services	-	-	2,452,823
Administration:			
All other administration	26,145	40,340	119,018
Plant services	-	9,528	189,960
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>750,034</b>	<b>638,401</b>	<b>2,761,801</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(221,674)</b>	<b>415</b>	<b>(62,099)</b>
<b>Other Financing Sources</b>			
Transfers in	342,461	-	-
<b>Net Financing Sources</b>	<b>342,461</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>120,787</b>	<b>415</b>	<b>(62,099)</b>
<b>Fund Balance - Beginning</b>	<b>233,995</b>	<b>9,445</b>	<b>551,286</b>
<b>Fund Balance - Ending</b>	<b>\$ 354,782</b>	<b>\$ 9,860</b>	<b>\$ 489,187</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ 2,574,087
-	-	-	13,525	1,129,937
32	385,056	-	2,217,373	2,778,840
<u>32</u>	<u>385,056</u>	<u>-</u>	<u>2,230,898</u>	<u>6,482,864</u>
-	-	-	-	1,022,694
-	-	-	-	234,255
-	-	-	-	55,473
-	-	-	-	2,452,823
-	-	-	-	185,503
-	-	-	-	199,488
-	9,521	-	-	9,521
-	346,855	-	1,160,000	1,506,855
-	-	-	1,101,229	1,101,229
<u>-</u>	<u>356,376</u>	<u>-</u>	<u>2,261,229</u>	<u>6,767,841</u>
32	28,680	-	(30,331)	(284,977)
-	-	1,000,000	-	1,342,461
-	-	1,000,000	-	1,342,461
32	28,680	1,000,000	(30,331)	1,057,484
760	2,865	-	1,057,096	1,855,447
<u>\$ 792</u>	<u>\$ 31,545</u>	<u>\$ 1,000,000</u>	<u>\$ 1,026,765</u>	<u>\$ 2,912,931</u>

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of fair market value of commodities which are not reported as revenues and expenditures in the financial statements.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 5,402,514
Reconciling item:		
Food Distribution	10.555	206,072
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,608,586</u>

#### Local Education Agency Organization Structure

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

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

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

#### Schedule of Instructional Time

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

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

# SOLEDAD UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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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 AUDITOR'S REPORTS***

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

Governing Board  
Soledad Unified School District  
Soledad, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Soledad Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Soledad Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Soledad Unified School District in a separate letter dated December 15, 2016.

## **Soledad Unified School District's Responses to Findings**

Soledad Unified School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Soledad Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

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

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2016



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

Governing Board  
Soledad Unified School District  
Soledad, California

**Report on Compliance for Each Major Federal Program**

We have audited Soledad Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Soledad Unified School District's (the District) major Federal programs for the year ended June 30, 2016. Soledad Unified School District's (the District) major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Soledad Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Soledad Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Soledad Unified School District's compliance.



### ***Basis for Qualified Opinion on Child Nutrition Cluster***

As described in the accompanying schedule of findings and questioned costs, Soledad Unified School District did not comply with requirements regarding the Child Nutrition Cluster, CFDA numbers 10.553, 10.555, and 10.559, as described in finding numbers 2016-003 for Reporting and 2016-004 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for Soledad Unified School District to comply with the requirements applicable to that program.

### ***Qualified Opinion on Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Soledad Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the *Child Nutrition Cluster* for the year ended June 30, 2016.

Soledad Unified School District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Soledad Unified School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of Soledad Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Soledad Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Soledad Unified School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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 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. We do not consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-003 and 2016-004 to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004 to be significant deficiencies.

Soledad Unified School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Soledad Unified School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2016



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Soledad Unified School District  
Soledad, California

### Report on State Compliance

We have audited Soledad Unified School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Soledad Unified School District's State government programs as noted below for the year ended June 30, 2016.

### *Management's Responsibility*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance of each of the Soledad Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Soledad Unified 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 Soledad Unified School District's compliance with those requirements.

### ***Basis for Qualified Opinion on Classroom Teacher Salaries, Administrator to Teacher Ratio, Instructional Materials Funding Realignment Program, Educator Effectiveness, and Local Control and Accountability Plan***

As described in the accompanying Schedule of Findings and Questioned Costs as item 2016-005 through 2016-009, Soledad Unified School District did not comply with requirements regarding Classroom Teacher Salaries, Administrator to Teacher Ratio, Instructional Materials Funding Realignment Program, Educator Effectiveness, and Local Control and Accountability Plan. Compliance with such requirements is necessary, in our opinion, for Soledad Unified School District to comply with the requirements applicable to that program.

***Qualified Opinion on Classroom Teacher Salaries, Administrator to Teacher Ratio, Instructional Materials Funding Realignment Program, Educator Effectiveness, and Local Control and Accountability Plan***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Soledad Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

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

In our opinion, Soledad Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

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

Procedures  
Performed

CHARTER SCHOOLS

Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

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

We did not perform Continuation Education procedures because the Continuation Education program ADA was under the level that requires testing.

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

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

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

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

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

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

*Vavrinak, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2016

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

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**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>Yes</u>
Identification of major Federal programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555, 10.553, 10.559</u>	<u>Child Nutrition Cluster</u>

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

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Qualified</u>
Unmodified for all programs except for the following programs which were qualified:	

<u>Name of Program</u>
<u>Classroom Teacher Salaries</u>
<u>Administrator to Teacher Ratio</u>
<u>Instructional Materials Funding Realignment Program</u>
<u>Educator Effectiveness</u>
<u>Local Control and Accountability Plan</u>

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

***DISTRICT OFFICE***

**2016-001    30000**

***Internal Controls - Purchasing***

**Criteria**

Good internal control dictates that District purchases be authorized prior to expenditures being made. All purchases, including credit card purchases, should be supported with documentation to show approvals were obtained, amounts paid to vendors are accurate, the purpose is appropriate, and the coding is correct. All of this documentation should be on file at the district office.

**Condition**

During our audit of the District's disbursement and credit card procedures, we found that many purchases were made without prior approval and many lacked proper supporting documentation on file.

**Effect**

This condition leaves the District with uncertainty as to the legitimacy of purchases and whether the District's budgets can support such purchases.

**Cause**

Due to management and employee turnover in the District and periods of time without a business manager or CBO, proper procedures over purchasing have not been implemented or followed, and management override of any controls in place may have played a key role in the condition.

**Recommendation**

The District should take the necessary steps required to comply with Board policies that govern purchases which include prior authorizations and maintenance of proper supporting documentation for all disbursements.



# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### **Corrective Action Plan**

The District's Chief Business Official (CBO) agrees with VTD's Internal Control finding regarding past "Purchasing" practices and procedures as this subject was also audited and outlined as a "Finding" in the *AB-139 Extraordinary Audit Report* published by the Fiscal Crisis Management and Assistance Team, also known as FCMAT, on May 24, 2016.

Since the announcement of the *AB-139 Extraordinary Audit Report*, the District's Chief Business Official, in collaboration with the Monterey County Office of Education, has developed a comprehensive FCMAT Action Plan that addresses the report's findings and introduces a strategic plan to improve the District's business (i.e., Purchasing) and Human Resource practices.

Furthermore, the Chief Business Official has developed a "Business Department Manual" that addresses topics like: 1) how to create requisitions in Escape (the District Financial System); 2) How to process a Purchase Order, or PO; 3) how to code materials and supplies in Escape; 4) instructions on how to pay invoices; 5) how to use District credit cards when attending conferences; and 5) and other topics related to Public Contract Code. Additionally, the CBO is currently working on updating the District's Travel and Conference Policy, and in collaboration with our legal team, the CBO is developing use of credit card policies and procedures.

In conclusion, our "Purchasing" practices and procedures have significantly improved since the start of FY 2015-16. All Business Department staff members (accountants, accounts payable, accounts receivable, payroll) have received training related to their job classification by organizations like CASBO, ACSA, SSC, and MCOE to name a few. Next year, this area of weakness should be an area of strength as we keep building our knowledge base.

**2016-002      30000**

### ***Internal Controls – Receipting Procedures***

#### **Criteria**

Good internal control dictates that all collections received by the District office be receipted and or logged at the time of receipt in a pre-numbered receipt book or log. All collections, including cash and checks, should then be placed in a safe until it is time to prepare and make a deposit.

#### **Condition**

During our audit, we found that the District is using as many as eight receipt books in which the business services staff record collections. Upon collection, all cash is placed into a safe, but all checks are placed into an unlocked cabinet. When deposits are prepared, there is no reconciliation back to all of these receipt books to ensure that all collections made since the last deposit are included in the current deposit, thus, we were unable to determine if deposits were intact and timely. We also found a segregation of duties issue in that the District Accountant can issue receipts, prepares and makes the deposits and county transmittals, and reconciles the bank account.

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### **Effect**

The conditions noted increase the risk that collections could be misplaced or stolen, and without proper reconciliation of deposits to supporting receipt books or logs, the District would be unaware of the problem.

### **Cause**

Due to management and employee turnover in the District and periods of time without a business manager or CBO, proper procedures over collections have not been implemented or followed.

### **Recommendation**

The District should implement procedures to ensure that all collections are receipted/logged properly, securely stored, and that deposits are reconciled with receipting documentation. The process should include segregation of duties so that one individual is not performing each task in the process.

### **Corrective Action Plan**

The District's Chief Business Official (CBO) agrees with VTD's Internal Control finding regarding "Receipting Procedures" as this subject was also audited and outline as a "Finding" in the *AB-139 Extraordinary Audit Report* published by the Fiscal Crisis Management and Assistance Team, also known as FCMAT, on May 24, 2016.

Since the announcement of the *AB-139 Extraordinary Audit Report*, the District's Chief Business Official, in collaboration with the Monterey County Office of Education, has developed a comprehensive FCMAT Action Plan that addresses the report's findings and introduces a strategic plan to improve the District's business (i.e., Cash Handling, Receipts, and Segregation of Duties) and Human Resource practices.

Furthermore, the Chief Business Official has segregated the accounts receivable duties so that separate employees receive the cash, post to the general ledger, and make deposits. To enhance our knowledge base, the Business Department has partaken in many official events, seminars, and trainings related to accounts receivable and payable to ensure proper internal controls are in place to avoid cash mismanagement.

In conclusion, this finding has been addressed as recommended by FCMAT, and now VTD, and it shouldn't be an area of concern anymore.

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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The following findings represent significant deficiencies and material weakness of noncompliance including questioned costs that are required to be reported by the Uniform Guidance. The findings have been coded as follows:

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

**2016-003      50000**

### **Federal Program Affected**

Program Name: Child Nutrition Cluster  
CFDA Number: 10.553, 10.555, 10.559  
Pass-Through Entity: California Department of Education  
Federal Agency: U.S. Department of Agriculture

### **Criteria**

To receive reimbursement payments for meals the School Food Authority (Soledad Unified School District) must submit claims for reimbursement to its administering agency (California Department of Education). The claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR Sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11)

### **Condition**

The meal counts are not accurately claimed for reimbursement by the District for the period of August 2015 through January 2016. The District has two Provision 2 school sites in which the approved alternative method is used. The meal counts for those Provision 2 school sites were not applied to the monthly percentages established in the sites first year of the Provision 2 program. All meal counts were claimed as free meals for reimbursement. No paid and reduced meals were claimed.

### **Effect**

The District is out of compliance with Codes 7 CFR Sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11.

### **Cause**

The Soledad Unified School District utilizes the California Department of Education's web based system, Child Nutrition Information & Payment System (CNIPS), for submitting claims for reimbursement. CNIPS will automatically apply the monthly percentages established for the Provision 2 sites when the meal counts are entered. However, for the period of August 2015 through January 2016, the CNIPS system did not apply those percentages and the District did not follow up with the California Department of Education regarding the system error.

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### Questioned Costs

The questioned cost is \$7,931.

### Recommendation

The District should contact the California Department of Education regarding the system error and submit revised claims for reimbursement for the period of August 2015 through January 2016. The District should also implement control procedures that ensure compliance with Provision 2 reporting requirement in future years.

### Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to the District's Child Nutrition Program - Federal Meal Reimbursement Claiming Issues.

The District has contacted the California Department of Education and has revised the claims for reimbursement for the months affected.

To avoid future claiming issues, the Chief Business Official is directly overseeing the District's Food Services Program where as before it was under the Director of MOTF. Further, the Chief Business Official has provided: 1) training and development to the existing Food Services Manager; and 2) a Secretary has been hired to process applications and meal claims on a monthly basis. Additionally, the District's Accountant monitors all revenues/expenditures and provides monthly reports to the CBO to ensure we meet all federal/state compliance regulations.

**2016-004      50000**

### Federal Program Affected

Program Name: Child Nutrition Cluster  
CFDA Number: 10.553, 10.555, 10.559  
Pass-Through Entity: California Department of Education  
Federal Agency: U.S. Department of Agriculture

### Criteria

In order to be compliant with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e), a school food authority (SFA) participating in the National School Lunch Program (NSLP) is required to ensure that sufficient funds are provided to its school food service accounts from lunches served to students not eligible for free or reduced priced meals. The SFA can meet this requirement by (a) raising the prices charged for paid lunches; or (b) through contributions from other non-federal sources.

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### **Condition**

During our audit of the paid lunch equity, we noted that the District's average paid lunch price of \$1.90 was less than 2015-16 weighted average price requirement of \$2.13. A difference of \$0.23 per paid lunch meals. Additionally, no contribution was made from non-federal resources for the difference noted.

### **Effect**

The District is out of compliance with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e).

### **Cause**

The District did not raise its paid lunch prices or make a contribution from non-federal sources to ensure compliance with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e).

### **Questioned Costs**

The questioned cost associated with the condition noted above is \$12,770 (56,634 paid meals at \$0.23). However, the question cost could increase due to a condition noted regarding the District's incorrect reporting of paid lunches for Provision 2 school sites.

### **Recommendation**

The District will need to determine the correct amount of paid lunches during the 2015-2016 year and apply that to the \$0.23 paid lunch equity difference. A contribution from non-federal resources should be made in the 2016-2017 year for the amount calculated. The District should also implement control procedures that ensure compliance with this requirement in future years.

### **Corrective Action Plan**

The District's Chief Business Official (CBO) agrees with VTD's findings related to the District's average paid lunches. To address the problem, the District, by resolution, will adopt the recommended National School Lunch Program fee scheduled for 2016-2017.

The District will determine the correct amount of paid lunches during 2015-2016 and apply the \$0.23 difference.

The District will update its paid breakfast/lunch schedule on a yearly basis to adhere to the National School Lunch Program recommended fees.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials

**2016-005      61000**

***Classroom Teacher Salaries***

**Criteria**

*Education Code* Section 41372 requires that the payment of classroom teacher salaries and benefits meet or exceed 55 percent (for unified districts) of total expenditures of the District.

**Condition**

The District spent 53.32 percent of their current expense of education (\$46,822,321) on classroom teacher salaries and benefits.

**Questioned Costs**

The deficiency was calculated to be \$786,615.

**Effect**

The deficiency amount was determined to be \$786,615; therefore, the District is out of compliance with *Education Code* Section 41372.

**Recommendation**

We recommend the District continue to work on this requirement and apply for a waiver of the requirement from the Monterey County Office of Education.

**Corrective Action Plan**

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code* Section 41372 and has submitted an Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries to the County Superintendent for FY 2015-2016.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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**2016-006      40000**

*Administrator to Teacher Ratio*

**Criteria**

*Education Code* Section 41402 requires that the number of administrators per hundred teachers does not exceed the allowable ratio.

**Condition**

During our audit of the District's Administrator to Teacher Ratio, we found that the District exceeded the allowable number of administrators per 100 teachers by four administrators.

**Effect**

The penalty for the excess number of administrators was calculated to be \$307,717.

**Cause**

The District exceeded the number of administrators allowed per 100 teachers; therefore, the District is out of compliance with *Education Code* Section 41402.

**Recommendation**

We recommend the District comply with the state requirements for Administrator to Teacher Ratio and reduce the number of administrators per 100 teachers.

**Corrective Action Plan**

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code* Section 41402 – Administrator to Teacher Ratio.

The Superintendent and Chief Business Official are working on a plan to ensure compliance with this section of the law.

**2016-007      70000**

*Instructional Materials Funding Realignment Program*

**Criteria**

According to Standards and Procedures for Audits of California K-12 Local Educational Agencies 2015-2016, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, the school district must hold a public hearing on or before the eight week from the first day pupils attended school for that year and make a determination through a resolution as the sufficiency of textbooks or other instructional materials [*Education Code* Section 60119].

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### Condition

During our audit of the District's School Instructional Materials Funding Realignment Program, we found that the District did not hold the public hearing on or before the eighth week of school from the first day pupils attended school for that year.

### Effect

There is no questioned cost.

### Cause

The District did not hold the public hearing on or before the eighth week of school from the first day pupils attended school for that year.

### Recommendation

The District needs to comply with the state requirements for instructional materials funding realignment program and hold the public hearing on or before the eighth week of school from the first day pupils attended for the year.

### Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code* Section 60119 – Instructional Materials Funding Realignment Program.

For this finding, the District offers the following responses:

- Publishers held on to textbook orders until they were paid.
- Soledad High School kept adding students to classes even though they were supposed to limit the number of students so additional books needed to be ordered at the last minute and because of the changes they did to the master schedule.
- Former Superintendent, Dr. Rupi Boyd let Soledad High School administration staff add classes at the last minute.

**2016-008 40000**

### *Educator Effectiveness*

#### Criteria

*Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015) and Assembly Bill 104, Section 58 (Chapter 13, Statutes of 2015)* requires that the District develop and adopt a plan delineating how the Educator Effectiveness funds will be spent and whether the plan was explained in a public meeting of the governing board of the school district, county board of education, or governing body of the charter school, before its adoption in a subsequent public meeting.



# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### Condition

The District spent \$11,220.28 of Education Effectiveness funds without developing or adopting a plan to delineate how the funds will be spent.

### Questioned Costs

The questioned cost was calculated to be \$11,220.28.

### Effect

The questioned cost amount was determined to be \$11,220.28; therefore, the District is out of compliance with *Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015)* and *Assembly Bill 104, Section 58 (Chapter 13, Statues of 2015)*.

### Recommendation

We recommend the District return the funds for Educator Effectiveness or develop and adopt a plan as required.

### Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015)* and *Assembly Bill 104, Section 58 (Chapter 13, Statues of 2015)*.

The District has created and adopted an expenditure plan that meets the guidelines set forth in SB-103, Section 8; and AB-104, Sec. 58.

**2016-009      62000**

### *Local Control and Accountability Plan (LCAP)*

#### Criteria

*Education Code* Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3) requires school districts to present the LCAP to the parent advisory and English learner parent advisory committees, provide public notification, and hold a public hearing before the governing board or county board of education. The district governing board of education must then adopt the LCAP at a public meeting held after the public hearing.

#### Condition

The District did not present the LCAP to the parent advisory and English learner parent advisory committees and did not provide public notification regarding specific actions and expenditures proposed to be included in the LCAP.

# SOLEDAD UNIFIED SCHOOL DISTRICT

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

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### **Questioned Costs**

There is no questioned costs.

### **Effect**

The District not presenting the LCAP to the parent advisory and English learner parent advisory committees and not providing public notification regarding specific actions and expenditures proposed indicates that the District is out of compliance with *Education Code* Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3).

### **Recommendation**

The District should take the necessary steps to present the LCAP or approved annual update to the parent advisory committee and to the English learner parent advisory committee and also notify members of the public of the opportunity to submit comments regarding specific actions and proposed expenditures in accordance with Education Code Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3).

### **Corrective Action Plan**

The District will follow VTD's recommendation of presenting the District's Local Control Accountability Plan, or LCAP, and any approved annual update to all District stakeholders, including, but not limited to, Parent Advisory Committee, English Learner Parent Advisory Committee.

**SOLEDAD UNIFIED SCHOOL DISTRICT**

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

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



Governing Board  
Soledad Unified School District  
Soledad, California

In planning and performing our audit of the financial statements of Soledad Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2016, on the government-wide financial statements of the District.

***SOLEDAD HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

***Cash Disbursements***

**Observation**

During our audit of cash disbursement procedures, we determined that internal controls over the disbursement process are not operating as designed. We found that 12 out of 18 requisitions/ reimbursement requests tested were dated after the date on the invoice. This would indicate that items are being purchased prior to their approval. We also found that none of the approval signatures were dated by the signers, we had to rely on the date noted on the top of the requisition. Three of the requisition forms did not include a date of request.

**Recommendation**

All purchases must be preapproved by a board-designated official, a student organization representative, and the certificated employee who is the student organization advisor. Each approving signature should be dated by the signer. In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to the item being purchased.

***Ticket Sales***

**Observation**

A "Report of Ticket Sales" form is prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper. However, the majority of the form is being completed by the ASB bookkeeper rather than the individual who sold the tickets. The "Report of Ticket Sales" form supplies an element of control through a segregation of duties. If one individual is completing all aspects of the form, the segregation of duties is never implemented and the internal controls do not exist.

**Recommendation**

The ASB bookkeeper should only complete the portions of the ticket sales necessary, such as the beginning ticket number. At the conclusion of the event, the individual in custody of the ticket sales should report on the form, the total number of tickets sold by ticket type, total amount of cash collected, and any differences between actual cash collected and total ticket sales should be explained. The form should then be submitted to the ASB bookkeeper with the remaining tickets and cash collected for review.

***Student Store***

**Finding**

During our audit of the cash receipts, we found that the student store sales are not being reconciled to the ending inventory on a regular basis. Student store sales should be reconciled everyday it is opened to ensure that all items purchased for resale have been sold or accounted for. Also, copies of student store sub-receipts or cash register tapes must be submitted with deposits to the ASB bookkeeper in order to determine timeliness of deposits.

**Recommendation**

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

***MAIN STREET MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

***Ticket Sales***

**Observation**

During our audit we found that ticket takers at athletic events are not using a Ticket Recap Form to reconcile cash collected to the number of tickets sold at the completion of the event. We also found two of the events tested, took place in September but were not turned in until March of the next year.

**Recommendation**

At the completion of the athletic event, the total number of tickets issued should be counted and recorded on a Ticket Recap Form. The amount of cash collected should be compared to the Ticket Recap Form. If the number of tickets sold does not equal the amount of cash collected the ticket taker should determine the reason for the cash overage or shortage. All money collected and a completed Ticket Recap Form should be turned in within a day after the event.

***Concession Stand Inventory***

**Observation**

During our audit, we noted that a reconciliation of inventory to sales was not performed for concession stand sales.

**Recommendation**

Without taking inventory the site is unable to determine if merchandise has been misplaced or that all money collected was subsequently deposited. An inventory before and after the sales event should be completed and reconciled to the sales revenue.

***Cash Receipts***

**Observation**

During the audit of the cash receipts system, we discovered the ASB bookkeeper is not consistently using receipts to document immediately when funds are being turned in, how much, and by which teacher or advisor. Without this supporting documentation, we cannot determine if deposits are intact or timely.

**Recommendation**

Prenumbered receipts should be utilized immediately for all collections by the ASB bookkeeper which would include a specific description of the source of the funds. The receipts by the bookkeeper should be totaled and reconciled to the current bank deposit.

***GABILAN ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

***Cash Receipts***

**Observation**

While auditing the cash receipts system, we found that teachers are not using sub-receipt books or a class roster correctly to document when money is being turned in, the amount of money, and by which students. Teachers share one receipt book and track the monies turned in on a spreadsheet, but it does not document when the funds were received. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding money to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the money back to any documentation to determine the accuracy of the cash count sheet and the actual money turned in.

**Recommendation**

Prenumbered receipts should be issued for all cash collections by teachers which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current deposit.

Governing Board  
Soledad Unified School District

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

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 15, 2016