

SOLANA BEACH SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION
associates

**SOLANA BEACH SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Solana Beach School District
Solana Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Solana Beach School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Solana Beach School 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. 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 entity'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 entity'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.

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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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Solana Beach School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Solana Beach School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 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 9, 2016 on our consideration of Solana Beach 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 Solana Beach School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 9, 2016

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

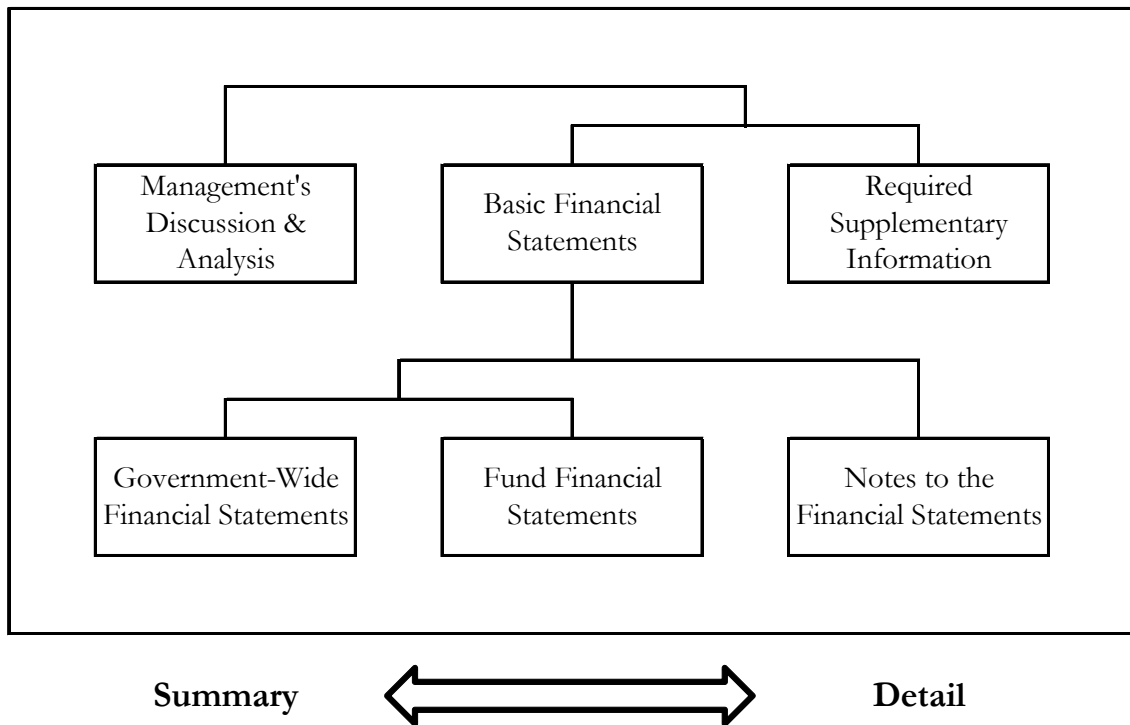
Our discussion and analysis of Solana Beach School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total combined net position was \$128,146,331 at June 30, 2016. This was a decrease of \$2,284,426 from the prior year after restatement.
- ▶ Overall revenues were \$48,509,547 which was less than total expenses of \$50,793,973.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$128,146,331 at June 30, 2016, as presented below. Of this amount, (\$8,675,678) was unrestricted. 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 that net position for day-to-day operations.

	Governmental Activities			Business-Type Activities		
	2016	2015	Net Change	2016	2015	Net Change
ASSETS						
Current and other assets	\$ 49,985,961	\$ 49,649,425	\$ 336,536	\$ 1,765,482	\$ 1,771,880	\$ (6,398)
Capital assets	117,467,308	118,937,574	(1,470,266)	167,056	185,112	(18,056)
Total Assets	167,453,269	168,586,999	(1,133,730)	1,932,538	1,956,992	(24,454)
DEFERRED OUTFLOWS OF RESOURCES	3,954,964	2,501,441	1,453,523	461,011	-	461,011
LIABILITIES						
Current liabilities	1,259,977	1,159,873	100,104	71,619	62,530	9,089
Long-term liabilities	38,643,905	33,393,242	5,250,663	2,061,357	-	2,061,357
Total Liabilities	39,903,882	34,553,115	5,350,767	2,132,976	62,530	2,070,446
DEFERRED INFLOWS OF RESOURCES	3,410,221	7,999,030	(4,588,809)	208,372	-	208,372
NET POSITION						
Net investment in capital assets	118,057,295	119,557,355	(1,500,060)	167,056	185,112	(18,056)
Restricted	18,597,658	17,819,566	778,092	-	-	-
Unrestricted	(8,560,823)	(8,840,626)	279,803	(114,855)	1,709,350	(1,824,205)
Total Net Position	\$128,094,130	\$128,536,295	\$ (442,165)	\$ 52,201	\$ 1,894,462	\$ (1,842,261)

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The following table takes the information from the Statement and rearranges them slightly, so you can see total revenues, expenses, and special items for the year.

	Governmental Activities			Business-Type Activities		
	2016	2015	Net Change	2016	2015	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 163,833	\$ 155,057	\$ 8,776	\$ -	\$ -	\$ -
Operating grants and contributions	4,290,089	2,937,621	1,352,468	2,737,778	2,889,844	(152,066)
General revenues						
Property taxes	36,865,038	34,987,851	1,877,187	-	-	-
Unrestricted federal and state aid	4,503,869	2,962,066	1,541,803	-	-	-
Other	(601,328)	601,559	(1,202,887)	550,268	577,762	(27,494)
Total Revenues	45,221,501	41,644,154	3,577,347	3,288,046	3,467,606	(179,560)
EXPENSES						
Instruction	29,799,012	29,158,931	640,081	-	-	-
Instruction-related services	3,562,900	3,594,552	(31,652)	-	-	-
Pupil services	3,077,068	3,553,606	(476,538)	-	-	-
General administration	3,980,853	2,787,484	1,193,369	-	-	-
Plant services	5,222,452	3,976,941	1,245,511	-	-	-
Depreciation	1,711,152	1,075,334	635,818	18,056	-	18,056
Other	56,932	(16,089)	73,021	3,365,548	3,445,663	(80,115)
Total Expenses	47,410,369	44,130,759	3,279,610	3,383,604	3,445,663	(62,059)
Change in net position	(2,188,868)	(2,486,605)	297,737	(95,558)	21,943	(117,501)
Net Position - Beginning*	130,282,998	131,022,900	(739,902)	147,759	1,872,519	(1,724,760)
Net Position - Ending	\$128,094,130	\$128,536,295	\$ (442,165)	\$ 52,201	\$ 1,894,462	\$ (1,842,261)

* Beginning Net Position was restated for both 2016 and 2015.

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

The total net cost of services provided for Governmental Activities for the year ended June 30, 2016 was \$42,956,447.

	Net Cost of Services	
	2016	2015
Instruction	\$ 26,945,726	\$ 27,764,820
Instruction-related services	3,464,576	3,514,136
Pupil services	2,410,107	2,851,694
General administration	3,942,466	2,750,482
Plant services	5,207,993	3,960,394
Transfers to other agencies	(782,505)	(862,690)
Depreciation	1,711,152	1,075,334
Other	56,932	(16,089)
Total Expenses	\$ 42,956,447	\$ 41,038,081

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$48,600,970, which is a slight increase from last year's ending fund balance of \$48,415,650. The District's General Fund had \$613,562 less in operating revenues than expenditures for the year ended June 30, 2016. The Cafeteria Special Revenue Fund had \$6,264 more in operating revenues than expenditures for the year ended June 30, 2016. The District's Capital Projects Fund for Blended Component Units had \$832,231 more in operating revenues than expenditures for the year ended June 30, 2016.

CURRENT YEAR BUDGET 2015-16

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested \$117,467,308 in capital assets for Governmental Activities, net of accumulated depreciation. In addition, the District had invested \$167,056 in capital for business-type activities relating to the Child Development Fund by the end of 2015-16.

	Governmental Activities			Business-Type Activities		
	2016	2015	Net Change	2016	2015	Net Change
CAPITAL ASSETS						
Land	\$ 58,982,165	\$ 58,982,165	\$ -	\$ -	\$ -	\$ -
Construction in progress	197,755	32,950,228	(32,752,473)	-	84,268	(84,268)
Land improvements	673,884	673,884	-	-	-	-
Buildings & improvements	77,392,934	44,431,883	32,961,051	84,268	-	84,268
Furniture & equipment	5,449,102	5,416,794	32,308	276,858	276,858	-
Accumulated depreciation	(25,228,532)	(23,517,380)	(1,711,152)	(194,070)	(176,014)	(18,056)
Total Capital Assets	\$117,467,308	\$118,937,574	\$ (1,470,266)	\$ 167,056	\$ 185,112	\$ (18,056)

Long-Term Debt

At year-end, the District had \$38,643,905 in long-term debt related to governmental activities, an increase of 21% from last year – as shown below. In addition, the District had long-term liabilities in the amount of \$2,061,357 relating to business-type activities at year-end. This was an increase of approximately 35% from the prior year restated balance. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2016	2015	Net Change	2016	2015	Net Change
LONG-TERM LIABILITIES						
Early retirement incentive	\$ 947,569	\$ 1,184,461	\$ (236,892)	\$ -	\$ -	\$ -
Compensated absences	278,483	257,031	21,452	-	-	-
Net OPEB obligation	3,155,666	2,362,647	793,019	-	-	-
Net pension liability	34,499,079	28,295,725	6,203,354	2,061,357	1,530,270	531,087
Less: current portion of long-term debt	(236,892)	(236,892)	-	-	-	-
Total Long-term Liabilities	\$ 38,643,905	\$ 31,862,972	\$ 6,780,933	\$ 2,061,357	\$ 1,530,270	\$ 531,087

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

Landmark legislation passed in Year 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school districts to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the District is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The District participates in state employee pensions plans, PERS and STRS, and both are underfunded. The District's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the District. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2016-17 fiscal year.

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 Lisa Davis, Assistant Superintendent of Business Services, Solana Beach District Office at (858) 794-7100.

**SOLANA BEACH SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
ASSETS				
Cash and investments	\$ 48,300,275	\$ 1,749,888	\$ 50,050,163	\$ 346,447
Accounts receivable	1,374,267	42,158	1,416,425	-
Internal balances	26,564	(26,564)	-	-
Inventory	46,013	-	46,013	-
Prepaid expenses	238,842	-	238,842	-
Beneficial interest in endowment	-	-	-	107,103
Capital assets, not depreciated	59,179,920	-	59,179,920	-
Capital assets, net of accumulated depreciation	58,287,388	167,056	58,454,444	-
Total Assets	167,453,269	1,932,538	169,385,807	453,550
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	3,954,964	461,011	4,415,975	-
Total Deferred Outflows of Resources	3,954,964	461,011	4,415,975	-
LIABILITIES				
Accrued liabilities	969,323	71,619	1,040,942	122,350
Unearned revenue	53,762	-	53,762	-
Long-term liabilities, current portion	236,892	-	236,892	-
Long-term liabilities, non-current portion	38,643,905	2,061,357	40,705,262	-
Total Liabilities	39,903,882	2,132,976	42,036,858	122,350
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	3,410,221	208,372	3,618,593	-
Total Deferred Inflows of Resources	3,410,221	208,372	3,618,593	-
NET POSITION				
Net investment in capital assets	118,057,295	167,056	118,224,351	-
Restricted:				
Capital projects	15,415,363	-	15,415,363	-
Educational programs	3,120,041	-	3,120,041	-
All others	62,254	-	62,254	565,881
Permanent endowment	-	-	-	107,103
Unrestricted	(8,560,823)	(114,855)	(8,675,678)	(341,784)
Total Net Position	\$ 128,094,130	\$ 52,201	\$ 128,146,331	\$ 331,200

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

**SOLANA BEACH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position		Discretely Presented Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 29,799,012	\$ 8,494	\$ 2,844,792	\$ (26,945,726)		
Instruction-related services						
Instructional supervision and administration	1,369,993	-	41,139	(1,328,854)		
School site administration	2,192,907	-	57,185	(2,135,722)		
Pupil services						
Home-to-school transportation	472,202	-	70,751	(401,451)		
Food services	955,338	-	164,409	(790,929)		
All other pupil services	1,649,528	-	431,801	(1,217,727)		
General administration						
Centralized data processing	646,140	-	-	(646,140)		
All other general administration	3,334,713	299	38,088	(3,296,326)		
Plant services	5,222,452	2,813	11,646	(5,207,993)		
Ancillary services	-	-	-	-		
Community services	-	-	-	-		
Enterprise activities	56,932	-	-	(56,932)		
Interest on long-term debt	-	-	-	-		
Other Outgo	-	152,227	630,278	782,505		
Depreciation (unallocated)	1,711,152	-	-	(1,711,152)		
Total Governmental Activities	\$ 47,410,369	\$ 163,833	\$ 4,290,089	(42,956,447)		
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	3,365,548	-	2,737,778	(627,770)		
Depreciation (unallocated)	18,056	-	-	(18,056)		
Total Business-Type Activities	3,383,604	-	2,737,778	(645,826)		
Total School District	\$ 50,793,973	\$ 163,833	\$ 7,027,867		\$ (43,602,273)	
DISCRETELY PRESENTED COMPONENT UNIT						
Foundation operations	\$ 951,510	\$ -	\$ 1,003,555			\$ 52,045
Total	\$ 951,510	\$ -	\$ 1,003,555			\$ 52,045
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				33,424,080	-	33,424,080
Property taxes, levied for other specific purposes				3,440,958	-	3,440,958
Federal and state aid not restricted for specific purposes				4,503,869	-	4,503,869
Interest and investment earnings				183,406	-	183,406
Miscellaneous				(784,734)	550,268	(234,466)
Subtotal, General Revenue				40,767,579	550,268	41,317,847
CHANGE IN NET POSITION						
				(2,188,868)	(95,558)	(2,284,426)
Net Position - Beginning, as Restated						
				130,282,998	147,759	130,430,757
Net Position - Ending						
				\$ 128,094,130	\$ 52,201	\$ 128,146,331

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

**SOLANA BEACH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 30,877,607	\$ 92,405	\$ 13,260,666	\$ 3,747,759	\$ 47,978,437
Accounts receivable	1,156,436	28,189	14,985	134,589	1,334,199
Due from other funds	128,863	150,000	-	-	278,863
Stores inventory	29,392	16,621	-	-	46,013
Prepaid expenditures	238,842	-	-	-	238,842
Total Assets	\$ 32,431,140	\$ 287,215	\$ 13,275,651	\$ 3,882,348	\$ 49,876,354
LIABILITIES					
Accrued liabilities	\$ 875,968	\$ 53,241	\$ 10,278	\$ 29,836	\$ 969,323
Due to other funds	150,000	100,887	-	1,412	252,299
Unearned revenue	-	53,762	-	-	53,762
Total Liabilities	1,025,968	207,890	10,278	31,248	1,275,384
FUND BALANCES					
Nonspendable	283,234	17,071	-	-	300,305
Restricted	2,008,918	62,254	13,265,373	3,851,100	19,187,645
Assigned	23,510,341	-	-	-	23,510,341
Unassigned	5,602,679	-	-	-	5,602,679
Total Fund Balances	31,405,172	79,325	13,265,373	3,851,100	48,600,970
Total Liabilities and Fund Balances	\$ 32,431,140	\$ 287,215	\$ 13,275,651	\$ 3,882,348	\$ 49,876,354

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

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

Total Fund Balance - Governmental Funds \$ 48,600,970

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 142,695,840	
Accumulated depreciation	(25,228,532)	117,467,308

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Early retirement incentive	\$ 947,569	
Compensated absences	278,483	
Net OPEB obligation	3,155,666	
Net pension liability	34,499,079	(38,880,797)

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 3,954,964	
Deferred inflows of resources related to pensions	(3,410,221)	544,743

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

361,906

Total Net Position - Governmental Activities \$ 128,094,130

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

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

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 35,696,924	\$ -	\$ -	\$ -	\$ 35,696,924
Federal sources	771,223	208,664	-	-	979,887
Other state sources	4,180,796	8,094	-	-	4,188,890
Other local sources	2,157,034	523,247	1,029,987	800,913	4,511,181
Total Revenues	42,805,977	740,005	1,029,987	800,913	45,376,882
EXPENDITURES					
Current					
Instruction	29,000,377	-	-	590,760	29,591,137
Instruction-related services					
Instructional supervision and administration	1,413,927	-	-	-	1,413,927
School site administration	2,105,912	-	-	-	2,105,912
Pupil services					
Home-to-school transportation	424,980	-	-	-	424,980
Food services	215,723	733,741	-	-	949,464
All other pupil services	1,642,887	-	-	-	1,642,887
General administration					
Centralized data processing	634,467	-	-	-	634,467
All other general administration	3,277,360	-	-	20,775	3,298,135
Plant services	4,671,598	-	-	195,626	4,867,224
Facilities acquisition and maintenance	32,308	-	197,756	33,365	263,429
Total Expenditures	43,419,539	733,741	197,756	840,526	45,191,562
Excess (Deficiency) of Revenues					
Over Expenditures	(613,562)	6,264	832,231	(39,613)	185,320
Other Financing Sources (Uses)					
Transfers in	33,599	-	-	-	33,599
Transfers out	-	(33,599)	-	-	(33,599)
Net Financing Sources (Uses)	33,599	(33,599)	-	-	-
NET CHANGE IN FUND BALANCE	(579,963)	(27,335)	832,231	(39,613)	185,320
Fund Balance - Beginning	31,985,135	106,660	12,433,142	3,890,713	48,415,650
Fund Balance - Ending	\$ 31,405,172	\$ 79,325	\$ 13,265,373	\$ 3,851,100	\$ 48,600,970

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

**SOLANA BEACH 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**

Net Change in Fund Balances - Governmental Funds \$ 185,320

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 240,886	
Depreciation expense:	<u>(1,711,152)</u>	(1,470,266)

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

236,892

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

(21,452)

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:

(793,019)

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:

(377,455)

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

51,112

Change in Net Position of Governmental Activities	\$	<u>(2,188,868)</u>
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The accompanying notes are an integral part of these financial statements.

**SOLANA BEACH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016**

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Child Development</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets		
Cash and investments	\$ 1,749,888	\$ 321,838
Accounts receivable	42,158	40,068
Total current assets	<u>1,792,046</u>	<u>361,906</u>
Non-current assets		
Capital assets, net of accumulated depreciation	167,056	-
Total non-current assets	<u>167,056</u>	<u>-</u>
Total Assets	<u>1,959,102</u>	<u>361,906</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	461,011	
Total Deferred Outflows of Resources	<u>461,011</u>	
LIABILITIES		
Current liabilities		
Accrued liabilities	71,619	-
Due to other funds	26,564	-
Total current liabilities	<u>98,183</u>	<u>-</u>
Non-current liabilities	2,061,357	-
Total Liabilities	<u>2,159,540</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	208,372	
Total Deferred Inflows of Resources	<u>208,372</u>	
NET POSITION		
Net investment in capital assets	167,056	-
Unrestricted	(114,855)	361,906
Total Net Position	<u>\$ 52,201</u>	<u>\$ 361,906</u>

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

**SOLANA BEACH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
 POSITION FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities	Governmental Activities
	Child Development	Internal Service Fund
OPERATING REVENUE		
Other local revenues	\$ 3,278,253	\$ 448,015
Total operating revenues	3,278,253	448,015
OPERATING EXPENSE		
Salaries and benefits	2,501,743	398,258
Supplies and materials	252,058	-
Professional services	611,747	-
Depreciation	18,056	-
Total operating expenses	3,383,604	398,258
Operating income/(loss)	(105,351)	49,757
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	9,793	1,355
Total non-operating revenues/(expenses)	9,793	1,355
CHANGE IN NET POSITION		
	(95,558)	51,112
Net Position - Beginning, as Restated	147,759	310,794
Net Position - Ending	\$ 52,201	\$ 361,906

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

**SOLANA BEACH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Child Development</u>	<u>Internal Service Fund</u>
Cash flows from operating activities		
Cash received from user charges	\$ 3,291,461	\$ 408,200
Cash received (paid) from assessments made to (from) other funds	(9,417)	-
Cash payments for payroll, insurance, and operating costs	(3,294,444)	(398,258)
Net cash provided by (used for) operating activities	(12,400)	9,942
Cash flows from investing activities		
Interest received	9,793	1,355
Net cash provided by (used for) investing activities	9,793	1,355
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,607)	11,297
 CASH AND CASH EQUIVALENTS		
Beginning of year	1,752,495	310,541
End of year	\$ 1,749,888	\$ 321,838
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income (loss)	\$ (105,351)	\$ 49,757
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	18,056	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	11,811	(39,815)
(Increase) decrease in due from other funds	1,397	-
(Increase) decrease in deferred outflows of resources	(159,821)	-
Increase (decrease) in accounts payable	9,089	-
Increase (decrease) in due to other funds	(9,417)	-
Increase (decrease) in net pension liability	531,087	-
Increase (decrease) in deferred inflows of resources	(309,251)	-
Net cash provided by (used for) operating activities	\$ (12,400)	\$ 9,942

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

SOLANA BEACH SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Agency Funds</u> <u>Student Body</u> <u>Fund</u>
ASSETS	
Cash and investments	\$ 44,456
Total Assets	\$ 44,456
LIABILITIES	
Due to student groups	\$ 44,456
Total Liabilities	\$ 44,456

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

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Solana Beach School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-6 as mandated by the state. A reporting entity is comprised of the primary government, component units, 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 and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASBS No. 39, Determining Whether Certain Organizations Are Component Units and GASBS No. 61, The Financial Reporting Entity: Omnibus. The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

B. Component Units (*continued*)

The District is authorized to issue special assessment debt through the Community Facilities Districts and the Solana Beach Financing Authority. The District, the Community Facilities Districts No. 99-1, 2000-1 and 2004-1, and the Authority have a financial and operating relationship which meets the reporting entity definition criteria of the GASB statement No. 14, as amended by GASBS No. 39, Determining Whether Certain Organizations Are Component Units and GASBS No. 61, The Financial Reporting Entity: Omnibus, for inclusion as component units of the District. Accordingly, the financial activities of the CFD's and special tax bonds have been included in the financial statements of the District.

The Solana Beach Foundation for Learning (the Foundation) is a California nonprofit corporation. The Foundation is a legally separate, tax-exempt component unit of the District. The Foundation was organized with the purpose of providing benefits to the educational programs and services of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

During the year ended June 30, 2016, the Foundation distributed \$856,120 to the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at Solana Beach Foundation for Learning, Solana Beach, California, 92075.

C. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be 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*).

Capital Projects Fund for Blended Component Units: This fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Foundation Special Revenue Fund: This fund is used to account for resources received from gifts or bequests pursuant to *Education Code Section 41031* under which both earnings and principal may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This 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. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Child Development Enterprise Fund: The child development enterprise fund is used to account for resources committed to child development programs maintained by the District.

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

D. Basis of Accounting – Measurement Focus (*continued*)

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the 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 that have not met eligibility requirements 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 a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Cash and Cash Equivalents

The District’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

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

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50 years
Site Improvements	7 – 30 years
Equipment	5 – 20 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

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

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner, in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. 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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. 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.

H. Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

J. New Accounting Pronouncements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 72 for the year ended June 30, 2016.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The District has implemented GASB Statement No. 73 for the year ended June 30, 2016.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Business-Type Activities	Fiduciary Funds
Investment in county treasury	\$ 45,488,131	\$ 321,838	\$ 45,809,969	\$ 1,749,888	\$ -
Cash on hand and in banks	-	-	-	-	44,456
Cash with fiscal agent	2,474,856	-	2,474,856	-	-
Cash in revolving fund	15,450	-	15,450	-	-
Total cash and investments	\$ 47,978,437	\$ 321,838	\$ 48,300,275	\$ 1,749,888	\$ 44,456

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

Cash with a Fiscal Agent – The total amount of \$2,474,856 represents cash held by the Bank of New York Mellon trust company for the Capital Projects for Blended Component Unit Fund.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$47,616,810 and an amortized book value of \$47,559,857. The average weighted maturity for this pool is 310 days.

E. 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 investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were rated at least A.

**SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (continued)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk.

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 reasonable 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 San Diego 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 at June 30, 2016 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 47,616,810
Total fair market value of investments	<u>\$ 47,616,810</u>

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of the following:

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities	Total Business- Type Activities
Federal Government							
Categorical aid	\$ 581,685	\$ 25,218	\$ -	\$ -	\$ -	\$ 606,903	\$ -
State Government							
Categorical aid	57,846	1,291	-	-	-	59,137	-
Lottery	352,689	-	-	-	-	352,689	-
Local Government							
Other local sources	164,216	1,680	14,985	134,589	40,068	355,538	42,158
Total	\$ 1,156,436	\$ 28,189	\$ 14,985	\$ 134,589	\$ 40,068	\$ 1,374,267	\$ 42,158

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 58,982,165	\$ -	\$ -	\$ 58,982,165
Construction in progress	32,950,228	197,755	32,950,228	197,755
Total Capital Assets not Being Depreciated	91,932,393	197,755	32,950,228	59,179,920
Capital assets being depreciated				
Land improvements	673,884	-	-	673,884
Buildings & improvements	44,431,883	32,961,051	-	77,392,934
Furniture & equipment	5,416,794	32,308	-	5,449,102
Total Capital Assets Being Depreciated	50,522,561	32,993,359	-	83,515,920
Less Accumulated Depreciation				
Land improvements	653,615	845	-	654,460
Buildings & improvements	18,144,186	1,549,158	-	19,693,344
Furniture & equipment	4,719,579	161,149	-	4,880,728
Total Accumulated Depreciation	23,517,380	1,711,152	-	25,228,532
Governmental Activities				
Capital Assets, net	\$ 118,937,574	\$ 31,479,962	\$ 32,950,228	\$ 117,467,308
Business-Type Activities				
Capital assets not being depreciated				
Construction in progress	\$ 84,268	\$ -	\$ 84,268	\$ -
Total Capital Assets not Being Depreciated	84,268	-	84,268	-
Capital assets being depreciated				
Buildings & improvements	-	84,268	-	84,268
Furniture & equipment	276,858	-	-	276,858
Total Capital Assets Being Depreciated	276,858	84,268	-	361,126
Less Accumulated Depreciation				
Buildings & improvements	-	4,213	-	4,213
Furniture & equipment	176,014	13,843	-	189,857
Total Accumulated Depreciation	176,014	18,056	-	194,070
Business-Type Activities				
Capital Assets, net	\$ 185,112	\$ 66,212	\$ 84,268	\$ 167,056

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2016 were as follows:

Due To Other Funds	Due From Other Funds			
	General Fund	Cafeteria Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 150,000	\$ -	\$ 150,000
Cafeteria Fund	100,887	-	-	100,887
Non-Major Governmental Funds	1,412	-	-	1,412
Other Enterprise Fund	26,564	-	-	26,564
Total Due From Other Funds	\$ 128,863	\$ 150,000	\$ -	\$ 278,863

Due from the General Fund to the Cafeteria Special Revenue Fund for the Child Nutrition Initiative.	\$ 150,000
Due from the Cafeteria Special Revenue Fund to the General Fund for OPEB costs and temporary loan to supplement cash flow.	100,887
Due from the Foundation Special Revenue Fund to the General Fund for OPEB costs.	755
Due from the Capital Facilities Fund to the General Fund for OPEB costs.	657
Due from the Child Development Enterprise Fund to the General Fund for OPEB and direct costs.	26,564
Total	\$ 278,863

B. Operating Transfers

There was an operating transfer from the Cafeteria Special Revenue Fund to the General Fund for reimbursement of costs in the amount of \$33,599 during the year ended June 30, 2016.

NOTE 6 – PREPAID EXPENSES

Prepaid expenses at June 30, 2016 within the General Fund in the amount of \$238,842 relates to prepayment of the 2016-17 PARS early retirement incentive installment.

NOTE 7 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Activities	Total Business-Type Activities
Payroll	\$ 282,142	\$ 2,380	\$ -	\$ 2,781	\$ 287,303	\$ 36,701
Construction	-	-	10,278	26,519	36,797	-
Vendors payable	593,826	50,861	-	536	645,223	34,918
Total	\$ 875,968	\$ 53,241	\$ 10,278	\$ 29,836	\$ 969,323	\$ 71,619

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2016 within the Cafeteria Fund relates to prepaid student lunches in the amount of \$53,762.

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Restated			Balance June 30, 2016	Balance Due In One Year
	Balance July 01, 2015	Additions	Deductions		
Governmental Activities					
Early retirement incentive	\$ 1,184,461	\$ -	\$ 236,892	\$ 947,569	\$ 236,892
Compensated absences	257,031	21,452	-	278,483	-
Net OPEB obligation	2,362,647	793,019	-	3,155,666	-
Net pension liability	28,295,725	6,203,354	-	34,499,079	-
Total	\$ 32,099,864	\$ 7,017,825	\$ 236,892	\$ 38,880,797	\$ 236,892
Business-Type Activities					
Net pension liability	\$ 1,530,270	\$ 531,087	\$ -	\$ 2,061,357	\$ -
Total	\$ 1,530,270	\$ 531,087	\$ -	\$ 2,061,357	\$ -

Payments for PARS early retirement incentive program are made in the General Fund.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$278,483. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Other Postemployment Benefits

The District follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The District’s annual required contribution for the year ended June 30, 2016, was \$1,076,757 and contributions made by the District during the year were \$223,059, which resulted in a net OPEB obligation of \$3,155,666. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016**

NOTE 9 – LONG-TERM DEBT (continued)

C. Non-Obligatory Debt

Non-obligatory debt relates to debt issuances by the Solana Beach School District and the Community Facilities Districts 99-1, 2000-1 and 2004-1, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings.

On November 15, 2012, non-obligatory debt of \$34,450,000 was issued through the Solana Beach School District Public Financing Authority to finance the acquisition and construction of certain school facilities serving the property within the Community Facilities Districts, to fund a portion of the reserve fund for the bonds, and to fund a portion of the costs of issuing the bonds and special tax bonds. As of June 30, 2016, outstanding special assessment debt of \$3,155,000 from the 2012 Special Tax Refunding Bonds and \$32,365,000 from the 2012 Special Tax Bonds, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

D. Net Pension Liability

The District’s combined restated beginning net pension liability was \$29,825,995 and increased by \$6,734,441 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$36,560,436. See Note 11 for additional information regarding the net pension liability.

E. Early Retirement Incentive

Total early retirement incentive as of June 30, 2016 is as follows:

<u>Year Ended June 30,</u>	<u>ERI Payment</u>
2017	\$ 236,892
2018	236,892
2019	236,892
2020	236,893
Total	<u>\$ 947,569</u>

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2016:

	General Fund	Cafeteria Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 15,000	\$ 450	\$ -	\$ -	\$ 15,450
Stores inventory	29,392	16,621	-	-	46,013
Prepaid expenditures	238,842	-	-	-	238,842
Total non-spendable	283,234	17,071	-	-	300,305
Restricted					
Educational programs	2,008,918	-	-	1,111,123	3,120,041
Capital projects	-	-	13,265,373	2,739,977	16,005,350
All others	-	62,254	-	-	62,254
Total restricted	2,008,918	62,254	13,265,373	3,851,100	19,187,645
Assigned					
Other assignments	15,525,847	-	-	-	15,525,847
Special reserve	5,314,769	-	-	-	5,314,769
Postemployment benefits	2,669,722	-	-	-	2,669,722
Deferred maintenance	3	-	-	-	3
Total assigned	23,510,341	-	-	-	23,510,341
Unassigned					
Reserve for economic uncertainties	1,327,986	-	-	-	1,327,986
Remaining unassigned	4,274,693	-	-	-	4,274,693
Total unassigned	5,602,679	-	-	-	5,602,679
Total	\$ 31,405,172	\$ 79,325	\$ 13,265,373	\$ 3,851,100	\$ 48,600,970

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 3 percent of General Fund expenditures and other financing uses.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment benefit plan (OPEB) that provides medical and dental insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

As of the July 1, 2015 actuarial study, membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits	22
Active plan members	261
Total*	<u>283</u>
Number of participating employers	1

B. Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and District’s bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the District contributed \$223,059 to the Plan, all of which was used for current premiums.

As of June 30, 2016, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (*continued*)

C. 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	\$ 1,076,757
Interest on net OPEB obligation	106,319
Adjustment to annual required contribution	(166,998)
Annual OPEB cost (expense)	<u>1,016,078</u>
Contributions made	(223,059)
Increase (decrease) in net OPEB obligation	<u>793,019</u>
Net OPEB obligation, beginning of the year	2,362,647
Net OPEB obligation, end of the year	<u>\$ 3,155,666</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 1,016,078	22%	\$ 3,155,666
2015	\$ 474,625	18%	\$ 2,362,647
2014	\$ 470,021	15%	\$ 1,975,451

**SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 7,342,775	\$ 7,342,775	0%	\$ 20,198,000	36%

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

E. 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 July 1, 2015 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.5% investment rate of return per year (net of administrative expenses), based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq. The UAAL is being amortized as a level percentage of payroll over a period of 25 years. The remaining amortization period at June 30, 2016, was 23 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 12 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	<u>Net pension liability</u>	<u>Deferred outflows related to pensions</u>	<u>Deferred inflows related to pensions</u>	<u>Pension expense</u>
STRS Pension	\$ 27,443,782	\$ 2,882,682	\$ 2,695,706	\$ 2,255,441
PERS Pension	9,116,654	1,533,293	922,887	947,490
Total	<u>\$ 36,560,436</u>	<u>\$ 4,415,975</u>	<u>\$ 3,618,593</u>	<u>\$ 3,202,931</u>

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 12 – PENSION PLANS (*continued*)

California State Teachers' Retirement System (CalSTRS) (*continued*)

Benefits provided (*continued*)

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$2,101,616 for the year ended June 30, 2016.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$1,279,976 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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:

District's proportionate share of the net pension liability	\$ 27,443,782
State's proportionate share of the net pension liability associated with the District	14,514,696
Total	\$ 41,958,478

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to 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. At June 30, 2015, the District’s proportion was .041 percent, which was an increase of .001 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,255,441. In addition, the District recognized pension expense and revenue of \$1,124,595 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	\$ -	\$ 2,237,114
Differences between expected and actual experience	-	458,592
Changes in proportion and differences between District contributions and proportionate share of contributions	781,066	-
District contributions subsequent to the measurement date	2,101,616	-
	\$ 2,882,682	\$ 2,695,706

**SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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

The \$2,101,616 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 130,178	\$ 635,711
2018	130,178	635,711
2019	130,178	635,711
2020	130,178	635,711
2021	130,178	76,432
2022	130,176	76,430
	<u>\$ 781,066</u>	<u>\$ 2,695,706</u>

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

* Net of investment expenses, but gross of administrative expenses.

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006 through June 30, 2010.

**SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016**

NOTE 12 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial assumptions (continued)

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 (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that 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 by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-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%
	100%	

* 10-year geometric average

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan’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 the total pension liability.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 12 – PENSION PLANS (*continued*)

California State Teachers’ Retirement System (CalSTRS) (*continued*)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District’s proportionate share of the net pension liability	\$ 41,437,974	\$ 27,443,782	\$ 15,813,478

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 12 – PENSION PLANS (*continued*)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits provided

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$661,845 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$9,116,654 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to 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. At June 30, 2015, the District's proportion was .062 percent, which was an increase of .003 percent from its proportion measured as of June 30, 2014.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 12 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2016, the District recognized pension expense of \$947,490. 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>
Differences between projected and actual earnings on plan investments	\$ -	\$ 312,162
Differences between expected and actual experience	521,030	-
Changes in assumptions	-	560,153
Changes in proportion and differences between District contributions and proportionate share of contributions	350,418	50,572
District contributions subsequent to the measurement date	661,845	-
	<u>\$ 1,533,293</u>	<u>\$ 922,887</u>

The \$661,845 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 300,499	\$ 288,054
2018	300,499	288,054
2019	270,450	268,739
2020	-	78,040
	<u>\$ 871,448</u>	<u>\$ 922,887</u>

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 12 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

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. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 12 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Discount rate

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District’s proportionate share of the net pension liability	\$ 14,838,114	\$ 9,116,654	\$ 4,358,878

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. 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.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

C. Construction Commitments

As of June 30, 2016, the District had outstanding commitments with respect to unfinished capital projects in the amount of \$2,380,671.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the San Diego County Schools Risk Management JPA (SDCSRMS) public entity risk pool and the North City West School Facilities Financing Authority. The District pays an annual premium to each entity for its health, worker’s compensation, and property liability coverage. The relationships between the District, the pools, 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.

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental and Business-Type Activities have been restated in order to record the District’s business-type activities proportionate share of net pension liability and deferred outflows of resources related to pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The effect on beginning net position is presented as follows:

	Governmental Activities	Business-Type Activities
Net Position - Beginning, as Previously Reported	\$ 128,536,295	\$ 1,894,462
Restatement	1,746,703	(1,746,703)
Net Position - Beginning, as Restated	<u>\$ 130,282,998</u>	<u>\$ 147,759</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SOLANA BEACH SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 34,162,102	\$ 34,399,850	\$ 35,696,924	\$ 1,297,074
Federal sources	815,966	717,566	771,223	53,657
Other state sources	1,697,269	2,537,270	4,180,796	1,643,526
Other local sources	1,129,613	1,234,242	2,115,194	880,952
Total Revenues	37,804,950	38,888,928	42,764,137	3,875,209
EXPENDITURES				
Certificated salaries	19,866,051	20,450,701	20,259,490	191,211
Classified salaries	5,267,566	4,992,571	5,392,477	(399,906)
Employee benefits	7,773,519	8,032,131	9,762,460	(1,730,329)
Books and supplies	4,417,850	5,904,332	1,816,795	4,087,537
Services and other operating expenditures	3,556,434	3,761,543	6,084,484	(2,322,941)
Capital outlay	-	-	103,833	(103,833)
Other outgo				
Transfers of indirect costs	(48,240)	(43,256)	-	(43,256)
Total Expenditures	40,833,180	43,098,022	43,419,539	(321,517)
Excess (Deficiency) of Revenues				
Over Expenditures	(3,028,230)	(4,209,094)	(655,402)	3,553,692
Other Financing Sources (Uses)				
Transfers in	-	-	33,599	33,599
Transfers out	-	-	(550,000)	(550,000)
Net Financing Sources (Uses)	-	-	(516,401)	(516,401)
NET CHANGE IN FUND BALANCE	(3,028,230)	(4,209,094)	(1,171,803)	3,037,291
Fund Balance - Beginning	25,246,420	24,592,481	24,592,481	-
Fund Balance - Ending	\$ 22,218,190	\$ 20,383,387	\$ 23,420,678	\$ 3,037,291

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reason:

- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Deferred Maintenance Fund, Special Reserve Other than Capital Outlay Fund, and Special Reserve for Post-Employment Benefits Fund in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
CAFETERIA FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 143,667	\$ 146,310	\$ 155,762	\$ 9,452
Other state sources	7,423	-	8,094	8,094
Other local sources	458,750	675,000	523,247	(151,753)
Total Revenues	609,840	821,310	687,103	(134,207)
EXPENDITURES				
Classified salaries	\$ 305,725	\$ 278,941	\$ 315,834	\$ (36,893)
Employee benefits	33,715	50,282	56,586	(6,304)
Books and supplies	284,124	320,344	290,438	29,906
Services and other operating expenditures	37,760	44,350	17,981	26,369
Capital outlay	-	75,000	-	75,000
Other outgo				
Transfers of indirect costs	48,240	43,256	-	43,256
Total Expenditures	709,564	812,173	680,839	131,334
Excess (Deficiency) of Revenues Over Expenditures	(99,724)	9,137	6,264	(2,873)
Other Financing Sources (Uses):				
Transfers out	-	-	(33,599)	(33,599)
Net Financing Sources (Uses)	-	-	(33,599)	(33,599)
NET CHANGE IN FUND BALANCE	(99,724)	9,137	(27,335)	(36,472)
Fund Balance - Beginning	205,550	106,660	106,660	-
Fund Balance - Ending	\$ 105,826	\$ 115,797	\$ 79,325	\$ (36,472)

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2015	\$ -	\$ 7,342,775	\$ 7,342,775	0%	\$ 20,198,000	36%
July 1, 2013	\$ -	\$ 3,441,905	\$ 3,441,905	0%	\$ 17,442,000	20%
July 1, 2011	\$ -	\$ 2,855,451	\$ 2,855,451	0%	\$ 17,377,000	16%

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.041%	0.040%
District's proportionate share of the net pension liability	\$ 27,443,782	\$ 23,104,397
States's proportionate share of the net pension liability associated with the District	14,514,696	13,951,433
Total	<u>\$ 41,958,478</u>	<u>\$ 37,055,830</u>
District's covered-employee payroll	\$ 19,646,013	\$ 19,058,278
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.7%	121.2%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.062%	0.059%
District's proportionate share of the net pension liability	\$ 9,116,654	\$ 6,721,598
District's covered-employee payroll	\$ 7,107,339	\$ 6,886,607
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.3%	97.6%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,101,616	\$ 1,690,830
Contributions in relation to the contractually required contribution*	(2,101,616)	(1,690,830)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 19,646,013	\$ 19,058,278
Contributions as a percentage of covered-employee payroll	10.70%	8.87%

*Amounts do not include on behalf contributions

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 661,845	\$ 810,611
Contributions in relation to the contractually required contribution	(661,845)	(810,611)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,107,339	\$ 6,886,607
Contributions as a percentage of covered-employee payroll	9.31%	11.77%

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedules by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 4,992,571	\$ 5,392,477	\$ 399,906
Employee benefits	\$ 8,032,131	\$ 9,762,460	\$ 1,730,329
Services and other operating expenditures	\$ 3,761,543	\$ 6,084,484	\$ 2,322,941
Capital outlay	\$ -	\$ 103,833	\$ 103,833
Other outgo			
Transfers of indirect costs	\$ (43,256)	\$ -	\$ 43,256
Cafeteria Special Revenue Fund			
Classified salaries	\$ 278,941	\$ 315,834	\$ 36,893
Employee benefits	\$ 50,282	\$ 56,586	\$ 6,304

**SUPPLEMENTARY
INFORMATION**

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic School Support	84.010	14416	\$ 157,700
Title II, Part A, Teacher Quality	84.367	14341	97,089
Special Education Cluster [1]			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	421,541
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	35,198
Part B, Preschool Grants	84.173	13430	20,919
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	38,561
Preschool Staff Development	84.173A	13431	215
Subtotal Special Education Cluster			<u>516,434</u>
Total U. S. Department of Education			<u>771,223</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	155,762
USDA Commodities [2]	10.555	*	52,902
Subtotal Child Nutrition Cluster			<u>208,664</u>
Total U. S. Department of Agriculture			<u>208,664</u>
Total Federal Expenditures			<u>\$ 979,887</u>

[1] - Major Program

[2] - In-Kind Contribution

* - Pass-Through Entity Identifying Number not available or not applicable

**SOLANA BEACH SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2016**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	1,686.96	1,690.58
Special Education - Nonpublic Schools	15.24	15.28
Total TK/K through Third	1,702.20	1,705.86
Fourth through Sixth		
Regular ADA	1,327.02	1,328.26
Special Education - Nonpublic Schools	7.03	7.00
Total Fourth through Sixth	1,334.05	1,335.26
TOTAL SCHOOL DISTRICT	3,036.25	3,041.12

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	Minutes Requirement	2015-16 Actual Minutes	Number of Days	Status
Kindergarten	36,000	60,902	180	Complied
Grade 1	50,400	54,142	180	Complied
Grade 2	50,400	54,142	180	Complied
Grade 3	50,400	54,142	180	Complied
Grade 4	54,000	54,142	180	Complied
Grade 5	54,000	54,142	180	Complied
Grade 6	54,000	54,142	180	Complied

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 38,716,168	\$ 42,797,736	\$ 38,647,868	\$ 36,227,810
Expenditures And Other Financing Uses	44,487,791	43,969,539	40,308,029	35,631,827
Net change in Fund Balance	\$ (5,771,623)	\$ (1,171,803)	\$ (1,660,161)	\$ 595,983
Ending Fund Balance	\$ 17,649,056	\$ 23,420,678	\$ 24,592,481	\$ 26,252,642
Available Reserves*	\$ 15,471,533	\$ 5,602,678	\$ 22,523,279	\$ 1,074,521
Available Reserves As A Percentage Of Outgo	34.78%	12.74%	55.88%	3.02%
Long-term Debt	\$ 38,643,905	\$ 38,880,797	\$ 33,630,134	\$ 2,205,198
Average Daily Attendance At P-2	3,151	3,036	3,053	2,942

The General Fund balance has decreased by \$2,831,964 over the past two years. The fiscal year 2016-17 budget projects a further decrease of \$5,771,623. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$36,675,599 over the past two years.

Average daily attendance has increased by 94 ADA over the past two years. An additional increase of 115 ADA is anticipated during the 2016-17 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of Deferred Maintenance Fund, Special Reserve Fund for Other than Capital Outlay Projects, and Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

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

	General Fund	Deferred Maintenance Fund	3	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Other Enterprise Fund Child Development
June 30, 2016, annual financial and budget report fund balance	\$ 23,420,678	\$	3	\$ 5,314,769	\$ 2,669,722	\$ 1,693,863
Adjustments and reclassifications:						
Increase for recording of capital assets	-	-		-	-	167,056
Decrease for allocation of net pension liability	-	-		-	-	(1,808,718)
Increase (decrease) in total fund balances:						
Fund balance transfer (GASB 54)	7,984,494		(3)	(5,314,769)	(2,669,722)	-
Net adjustments and reclassifications	7,984,494		(3)	(5,314,769)	(2,669,722)	(1,641,662)
June 30, 2016, audited financial statement fund balance	\$ 31,405,172	\$	-	\$	-	\$ 52,201

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Foundation		Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
	Special Revenue Fund	Building Fund				
ASSETS						
Cash and investments	\$ 1,005,996	\$ 615,618	\$ 676,009	\$ 18	\$ 1,450,118	\$ 3,747,759
Accounts receivable	107,670	888	23,953	-	2,078	134,589
Total Assets	\$ 1,113,666	\$ 616,506	\$ 699,962	\$ 18	\$ 1,452,196	\$ 3,882,348
LIABILITIES						
Accrued liabilities	\$ 1,788	\$ 26,519	\$ 1,529	\$ -	\$ -	\$ 29,836
Due to other funds	755	-	657	-	-	1,412
Total Liabilities	2,543	26,519	2,186	-	-	31,248
FUND BALANCES						
Restricted	1,111,123	589,987	697,776	18	1,452,196	3,851,100
Total Fund Balances	1,111,123	589,987	697,776	18	1,452,196	3,851,100
Total Liabilities and Fund Balance	\$ 1,113,666	\$ 616,506	\$ 699,962	\$ 18	\$ 1,452,196	\$ 3,882,348

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Foundation Special Revenue Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
REVENUES						
Other local sources	\$ 617,851	\$ 3,571	\$ 171,162	\$ 1	\$ 8,328	\$ 800,913
Total Revenues	617,851	3,571	171,162	1	8,328	800,913
EXPENDITURES						
Current						
Instruction	590,760	-	-	-	-	590,760
General administration	-	-	20,775	-	-	20,775
All other general administration	-	-	195,626	-	-	195,626
Plant services	-	-	-	-	-	-
Facilities acquisition and maintenance	-	33,365	-	-	-	33,365
Total Expenditures	590,760	33,365	216,401	-	-	840,526
Excess (Deficiency) of Revenues Over Expenditures	27,091	(29,794)	(45,239)	1	8,328	(39,613)
NET CHANGE IN FUND BALANCE	27,091	(29,794)	(45,239)	1	8,328	(39,613)
Fund Balance - Beginning	1,084,032	619,781	743,015	17	1,443,868	3,890,713
Fund Balance - Ending	\$ 1,111,123	\$ 589,987	\$ 697,776	\$ 18	\$ 1,452,196	\$ 3,851,100

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2016**

The Solana Beach School District was established in 1887. The District boundaries include the City of Solana Beach and portions of the unincorporated area of San Diego County. There were no changes to the District’s boundaries during the year. The District operates one preschool and seven elementary schools.

GOVERNING BOARD

Member	Office	Term Expires
Vicki F. King, Esq.	President	2018
Debra H. Schade, Ph.D.	Vice President	2018
Julie Union	Clerk	2016
Holly Lewry	NCCSE Representative	2018
Richard H. Leib, Esq.	Member	2016

DISTRICT ADMINISTRATORS

Terry Decker
Superintendent

Carlos Estrella
Assistant Superintendent of Business Services

Sabrina Lee
Assistant Superintendent, Instructional Services

**SOLANA BEACH SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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 to 10 percent de minimis indirect cost rate for the year ended June 30, 2016.

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

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 46208. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

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.

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit. As of June 30, 2016, the District is not a sponsoring local educational agency for any charter schools.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

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.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
Solana Beach School District
Solana Beach, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Solana Beach School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Solana Beach School District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solana Beach 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 Solana Beach School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Solana Beach 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 entity'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.

SAN DIEGO
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SAN FRANCISCO/BAY AREA

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State Board of Accountancy*

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

Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 9, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Solana Beach School District
Solana Beach, California

Report on Compliance for Each Major Federal Program

We have audited Solana Beach 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 Solana Beach School District's major federal programs for the year ended June 30, 2016. Solana Beach School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Solana Beach 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 Solana Beach 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 Solana Beach School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Solana Beach School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Solana Beach 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 Solana Beach 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 Solana Beach School District's internal control over compliance.

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

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

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

Christy White Associates

San Diego, California
December 9, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Solana Beach School District
Solana Beach, California

Report on State Compliance

We have audited Solana Beach School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Solana Beach School District's state programs for the fiscal year ended June 30, 2016, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Solana Beach School District's state 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 *2015-16 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Solana Beach 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 with the requirements referred to above. However, our audit does not provide a legal determination of Solana Beach School District's compliance with those requirements.

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State Board of Accountancy*

Opinion on State Compliance

In our opinion, Solana Beach School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as item #2016-1. Our opinion on state compliance is not modified with respect to these matters.

Solana Beach School District’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Solana Beach School District’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

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

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	No
California Clean Energy Jobs Act	No

Procedures Performed (continued)

<u>PROGRAM NAME</u>	<u>PROCEDURES PERFORMED</u>
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	No
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for the following programs because there were no expenditures of program funds during the year ended June 30, 2016:

- Educator Effectiveness
- California Clean Energy Jobs Act
- Education Protection Account

Christy White Associates

San Diego, California
December 9, 2016

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SOLANA BEACH SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster	
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

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

SOLANA BEACH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE
30000

AB 3627 FINDING TYPE
Internal Control

There were no financial statement findings for the year ended June 30, 2016.

SOLANA BEACH SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE
50000

AB 3627 FINDING TYPE
Federal Compliance

There were no audit findings or questioned costs related to federal awards for the year ended June 30, 2016.

**SOLANA BEACH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2016-1: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination. Auditors are required to verify compliance with Education Code Section 42238.02(b)(3)(b) in Section W of the 2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting.

Condition: One (1) out of three students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM did not have proper supporting documentation to justify their designation. The student in question was designated as “Reduced” for the National School Lunch Program in 2014-15 but did not submit a new application in 2015-16. Upon further testing of 100% students fitting this criteria for 2015-16, we identified an additional 10 students without proper supporting documentation for a total of 11 ineligible students.

Cause: Based on inquiry with Child Nutrition department, it was determined that applications not renewed from the previous school year must be manually deactivated in NutriKids point of sale software in order to reflect the proper status change.

Effect: The District is not in compliance with State requirements.

Context: 11 of 1,633 (563 in 2013-14, 553 in 2014-15, and 517 in 2015-16) students reported in the District’s Total Adjusted Unduplicated Pupil Count from the Unduplicated Pupil Percentage Exhibit at P-2 were inaccurately classified based on the outcome of NSLP Income Verification procedures.

**SOLANA BEACH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2016-1: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)
(continued)

Questioned Cost: \$2,895, as calculated below:

UPP Audit Adjustment		Section 1: Regular UPP	Section 2: Alternate UPP*
1	Total Adjusted Enrollment from the UPP exhibit as of P-2	9,316	9,431
2	Total Adjusted Unduplicated Pupil Count from the UPP exhibit as of P-2	1,633	1,623
3	Number of Unduplicated Pupil Count audit adjustment		(11)
4	Revised Adjusted Unduplicated Pupil Count	1,622	1,612
5	UPP calculated as of P-2	0.1753	0.1721
6	Revised UPP for audit finding	0.1741	0.1709
7	Greater of Revised UPP for audit finding from Section 1 or 2		0.1741
LCFF Target Base Grant Funding		Estimated Values	
10	Total Base Grant Funding as of P-2	\$22,950,947	
LCFF Target Supplemental Grant Funding Audit Adjustment			
11	Target Supplemental Grant Funding calculated as of P-2	\$804,660	
12	Revised Target Supplemental Grant Funding for audit finding	\$799,152	
13	Target Supplemental Grant Funding audit adjustment	(\$5,508)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded at LCFF Target			
17	Total Target Supplemental and Concentration audit adjustment	(\$5,508)	
Estimated Cost of Unduplicated Pupil Count Audit Adjustment for LEAs funded on LCFF Floor and Gap			
18	Statewide Gap Funding Rate as of P-2	0.5255761597	
21	Estimated Cost of Unduplicated Pupil Count audit adjustment	(\$2,895)	

Recommendation: We recommend that the District ensure that all changes in FRPM eligibility based on changes in application status from prior year to current year be made in a timely fashion prior to the close of the fall amendment window.

District Response: District will implement the following procedures to ensure that the reporting data for CALPADS FRPM/English Learner/Foster Youth will be correct in the future.

On the following dates or closest to the working date the following procedures will be applied:

- Sept. 18 - Check prior fiscal year temporary eligibility list & send letters home to families requesting current fiscal year application.
- Sept. 22 - Make calls to homes if current fiscal year application has not been turned in.
- Sept 26 - Second letter to request for current fiscal year application.
- Oct. 10 (30 operating days) - Update student eligibility to paid status if current fiscal year application/DC not completed.
- Oct. 12 - CNS to perform audit of Nutritkids and CALPADS student eligibility status and clean up any applications that are not eligible.

**SOLANA BEACH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING #2015-1: PURCHASING & ACCOUNTS PAYABLE ACCRUALS (30000)

Criteria: Accrual accounting requires that expenditures be recorded in the period in which they are incurred. Internal controls should be implemented to ensure that accounting transactions are recorded in the proper period and follow proper accrual accounting standards.

Condition:

- During testing of purchase orders and contracts we found 2 transactions that had a purchase order dated after the invoice date and one item that did not have a contract on file.
- During testing of accounts payable, we found one operating expenditures for a total of \$41,077.05 for work completed prior to June 30, 2015 that should have been recorded as accrued liabilities in 2014-15.

Cause: The District does not have a purchasing department to centralize the monitoring of signed contracts, purchase orders and accruals.

Effect: This could result in payments made to unallowable vendors. Also transactions not recorded in the proper period could lead to material misstatements.

Perspective: We tested the various functions related to purchasing, vendor payments to determine proper purchase order and contract approvals. Accrual balance and subsequent disbursements to determine the accurate balance.

Recommendation: We recommend that the District implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

District Response: District Administration will follow the independent auditor's recommendation to implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

Current Status: Implemented.