

SOLANA BEACH SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2017

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

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 FOR THE YEAR ENDED JUNE 30, 2017**

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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, 2017, 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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State Board of Accountancy*

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, 2017, 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 1, 2017 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 solely 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 1, 2017

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

INTRODUCTION

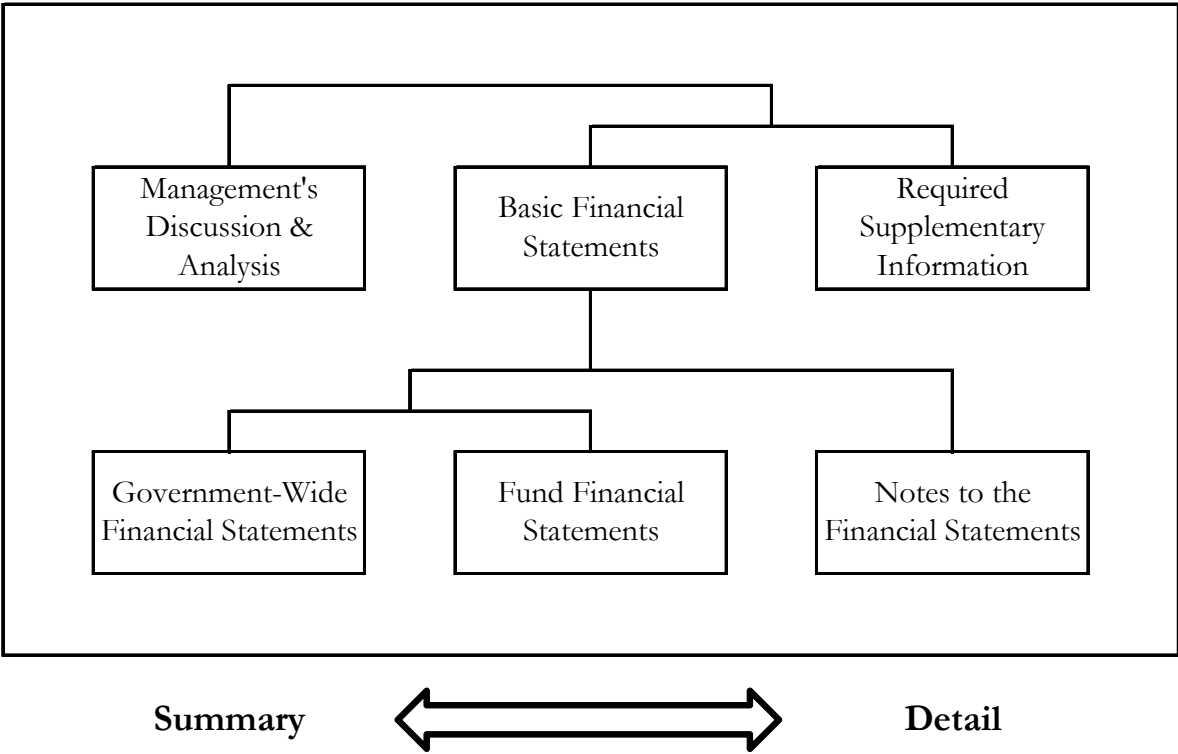
Our discussion and analysis of Solana Beach School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total combined net position was \$121,431,159 at June 30, 2017. This was a decrease of \$6,715,172 from the prior year.
- ▶ Overall revenues were \$52,361,652 which was less than total expenses of \$59,076,824.

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, 2017**

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, 2017**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$121,431,159 at June 30, 2017, as presented below. Of this amount, (\$14,928,858) 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		
	2017	2016	Net Change	2017	2016	Net Change
ASSETS						
Current and other assets	\$ 100,676,162	\$ 49,985,961	\$ 50,690,201	\$ 1,590,840	\$ 1,765,482	\$ (174,642)
Capital assets	118,262,573	117,467,308	795,265	149,000	167,056	(18,056)
Total Assets	218,938,735	167,453,269	51,485,466	1,739,840	1,932,538	(192,698)
DEFERRED OUTFLOWS OF RESOURCES	8,294,728	3,954,964	4,339,764	857,358	461,011	396,347
LIABILITIES						
Current liabilities	3,569,969	1,259,977	2,309,992	120,990	71,619	49,371
Long-term liabilities	99,897,627	38,643,905	61,253,722	2,592,952	2,061,357	531,595
Total Liabilities	103,467,596	39,903,882	63,563,714	2,713,942	2,132,976	580,966
DEFERRED INFLOWS OF RESOURCES	2,038,004	3,410,221	(1,372,217)	179,960	208,372	(28,412)
NET POSITION						
Net investment in capital assets	110,833,100	118,057,295	(7,224,195)	149,000	167,056	(18,056)
Restricted	25,377,917	18,597,658	6,780,259	-	-	-
Unrestricted	(14,483,154)	(8,560,823)	(5,922,331)	(445,704)	(114,855)	(330,849)
Total Net Position	\$ 121,727,863	\$ 128,094,130	\$ (6,366,267)	\$ (296,704)	\$ 52,201	\$ (348,905)

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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		
	2017	2016	Net Change	2017	2016	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 684,712	\$ 163,833	\$ 520,879	\$ -	\$ -	\$ -
Operating grants and contributions	5,732,893	4,290,089	1,442,804	2,767,284	2,737,778	29,506
General revenues						
Property taxes	38,576,821	36,865,038	1,711,783	-	-	-
Unrestricted federal and state aid	3,473,089	4,503,869	(1,030,780)	-	-	-
Other	527,459	(601,328)	1,128,787	599,394	550,268	49,126
Total Revenues	48,994,974	45,221,501	3,773,473	3,366,678	3,288,046	78,632
EXPENSES						
Instruction	34,393,240	29,799,012	4,594,228	-	-	-
Instruction-related services	4,739,568	3,562,900	1,176,668	-	-	-
Pupil services	3,355,274	3,077,068	278,206	-	-	-
General administration	3,795,560	3,980,853	(185,293)	-	-	-
Plant services	6,624,373	5,222,452	1,401,921	-	-	-
Ancillary and community services	486	-	486	-	-	-
Debt service	508,315	-	508,315	-	-	-
Other Outgo	220,000	-	220,000	-	-	-
Depreciation	1,695,197	1,711,152	(15,955)	18,056	18,056	-
Other	29,228	56,932	(27,704)	3,697,527	3,365,548	331,979
Total Expenses	55,361,241	47,410,369	7,950,872	3,715,583	3,383,604	331,979
Change in net position	(6,366,267)	(2,188,868)	(4,177,399)	(348,905)	(95,558)	(253,347)
Net Position - Beginning	128,094,130	130,282,998	(2,188,868)	52,201	147,759	(95,558)
Net Position - Ending	\$ 121,727,863	\$ 128,094,130	\$ (6,366,267)	\$ (296,704)	\$ 52,201	\$ (348,905)

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017 was \$48,943,636.

	Net Cost of Services	
	2017	2016
Instruction	\$ 31,155,736	\$ 26,945,726
Instruction-related services	4,608,031	3,464,576
Pupil services	2,222,151	2,410,107
General administration	3,332,259	3,942,466
Plant services	6,619,647	5,207,993
Ancillary and community services	477	-
Debt service	508,315	-
Transfers to other agencies	(1,227,405)	(782,505)
Depreciation	1,695,197	1,711,152
Other	29,228	56,932
Total Expenses	\$ 48,943,636	\$ 42,956,447

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 \$97,270,476, which is a significant increase from last year's ending fund balance of \$48,600,970. The District's General Fund had \$2,061,265 less in operating revenues than expenditures for the year ended June 30, 2017. The Cafeteria Special Revenue Fund had \$315,850 less in operating revenues than expenditures for the year ended June 30, 2017. During the year ended June 30, 2017, the Building Fund received proceeds from general obligation bonds in the amount of \$50,000,000 and had \$4,048,305 less in operating revenues than expenditures. The District's Capital Projects Fund for Blended Component Units had \$1,195,424 more in operating revenues than expenditures for the year ended June 30, 2017.

CURRENT YEAR BUDGET 2016-17

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, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016-17 the District had invested \$118,262,573 in capital assets for Governmental Activities, net of accumulated depreciation. In addition, the District had invested \$149,000 in capital assets for business-type activities relating to the Child Development Fund by the end of 2016-17.

	Governmental Activities			Business-Type Activities		
	2017	2016	Net Change	2017	2016	Net Change
CAPITAL ASSETS						
Land	\$ 58,982,165	\$ 58,982,165	\$ -	\$ -	\$ -	\$ -
Construction in progress	2,300,252	197,755	2,102,497	-	-	-
Land improvements	673,884	673,884	-	-	-	-
Buildings & improvements	77,720,664	77,392,934	327,730	84,268	84,268	-
Furniture & equipment	5,509,337	5,449,102	60,235	276,858	276,858	-
Accumulated depreciation	(26,923,729)	(25,228,532)	(1,695,197)	(212,126)	(194,070)	(18,056)
Total Capital Assets	\$ 118,262,573	\$ 117,467,308	\$ 795,265	\$ 149,000	\$ 167,056	\$ (18,056)

Long-Term Debt

At year-end, the District had \$99,897,627 in long-term debt related to governmental activities, an increase of 159% from last year primarily due to the issuance of the Election of 2016, Series A general obligation bonds. In addition, the District had long-term liabilities in the amount of \$2,592,952 relating to business-type activities at year-end. This was an increase of approximately 26% from the prior year balance. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities			Business-Type Activities		
	2017	2016	Net Change	2017	2016	Net Change
LONG-TERM LIABILITIES						
Total general obligation bonds	\$ 53,971,155	\$ -	\$ 53,971,155	\$ -	\$ -	\$ -
Early retirement incentive	710,677	947,569	(236,892)	-	-	-
Compensated absences	334,990	278,483	56,507	-	-	-
Net OPEB obligation	3,937,559	3,155,666	781,893	-	-	-
Net pension liability	41,312,870	34,499,079	6,813,791	2,592,952	2,061,357	531,595
Less: current portion of long-term debt	(369,624)	(236,892)	(132,732)	-	-	-
Total Long-term Liabilities	\$ 99,897,627	\$ 38,643,905	\$ 61,253,722	\$ 2,592,952	\$ 2,061,357	\$ 531,595

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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.

With regard to budget development, it is important to consider the fact that the District receives only basic aid from the Local Control Funding Formula. This means that local property taxes meet or exceed the minimum amount of state aid determined to be provided to the District. Out of California's nearly 1,000 elementary, high school, and unified school districts, approximately 80 are basic aid districts. However, this number changes from year to year as local property tax revenues and enrollments fluctuate. A district can be a revenue limit district one year and basic aid the next.

As a result of being a basic aid district, the District often carries a higher level of reserves than the state minimum of 3%. Basic aid districts receive property tax funding only twice per year, in December and April when property taxes are paid, unlike revenue limit districts (state funded) which receive their funding from a combination of property taxes and monthly state apportionments. The State recently passed legislation regarding capped levels of reserves, but it is important to note that small schools and basic aids are exempt.

State revenues are estimated to increase modestly in 2017-18 but there is uncertainty about the State's long-term economic growth. According to the Legislative Analyst's Office, there are concerns about a possible mild recession. In addition, purchasing power has not been restored to pre-2007/08 levels for most school districts as added funding is going to pay for increases in CalPERS and CalSTRS rates increases and rising health care costs.

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, 2017. 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 2017-18 fiscal year.

**SOLANA BEACH SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
ASSETS				
Cash and investments	\$ 99,344,935	\$ 1,498,822	\$ 100,843,757	\$ 446,451
Accounts receivable	1,016,738	119,209	1,135,947	-
Internal balances	27,191	(27,191)	-	-
Inventory	24,455	-	24,455	-
Prepaid expenses	262,843	-	262,843	-
Beneficial interest in endowment	-	-	-	111,900
Capital assets, not depreciated	61,282,417	-	61,282,417	-
Capital assets, net of accumulated depreciation	56,980,156	149,000	57,129,156	-
Total Assets	218,938,735	1,739,840	220,678,575	558,351
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	8,294,728	857,358	9,152,086	-
Total Deferred Outflows of Resources	8,294,728	857,358	9,152,086	-
LIABILITIES				
Accrued liabilities	3,145,782	120,990	3,266,772	126,069
Unearned revenue	54,563	-	54,563	-
Long-term liabilities, current portion	369,624	-	369,624	-
Long-term liabilities, non-current portion	99,897,627	2,592,952	102,490,579	-
Total Liabilities	103,467,596	2,713,942	106,181,538	126,069
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	2,038,004	179,960	2,217,964	-
Total Deferred Inflows of Resources	2,038,004	179,960	2,217,964	-
NET POSITION				
Net investment in capital assets	110,833,100	149,000	110,982,100	-
Restricted:				
Capital projects	18,358,180	-	18,358,180	-
Debt service	3,462,840	-	3,462,840	-
Educational programs	3,556,897	-	3,556,897	-
All others	-	-	-	806,948
Permanent endowment	-	-	-	111,900
Unrestricted	(14,483,154)	(445,704)	(14,928,858)	(486,566)
Total Net Position	\$ 121,727,863	\$ (296,704)	\$ 121,431,159	\$ 432,282

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

**SOLANA BEACH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

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	Total	
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 34,393,240	\$ 16,606	\$ 3,220,898	\$ (31,155,736)			
Instruction-related services							
Instructional supervision and administration	1,540,986	-	53,180	(1,487,806)			
Instructional library, media, and technology	734,411	-	-	(734,411)			
School site administration	2,464,171	-	78,357	(2,385,814)			
Pupil services							
Home-to-school transportation	397,191	-	64,353	(332,838)			
Food services	1,069,851	441,599	212,271	(415,981)			
All other pupil services	1,888,232	-	414,900	(1,473,332)			
General administration							
Centralized data processing	729,160	-	76,769	(652,391)			
All other general administration	3,066,400	248	386,284	(2,679,868)			
Plant services	6,624,373	4,683	43	(6,619,647)			
Ancillary services	486	9	-	(477)			
Enterprise activities	29,228	-	-	(29,228)			
Interest on long-term debt	508,315	-	-	(508,315)			
Other Outgo	220,000	221,567	1,225,838	1,227,405			
Depreciation (unallocated)	1,695,197	-	-	(1,695,197)			
Total Governmental Activities	\$ 55,361,241	\$ 684,712	\$ 5,732,893	(48,943,636)			
BUSINESS-TYPE ACTIVITIES							
Enterprise activities	3,697,527	-	2,767,284		(930,243)		
Depreciation (unallocated)	18,056	-	-		(18,056)		
Total Business-Type Activities	3,715,583	-	2,767,284		(948,299)		
Total School District	\$ 59,076,824	\$ 684,712	\$ 8,500,177		\$ (49,891,935)		
DISCRETELY PRESENTED COMPONENT UNIT							
Foundation operations	\$ 1,082,856	\$ -	\$ 1,183,938				\$ 101,082
Total	\$ 1,082,856	\$ -	\$ 1,183,938				\$ 101,082
General revenues							
Taxes and subventions							
Property taxes, levied for general purposes				34,925,590	-	34,925,590	-
Property taxes, levied for other specific purposes				3,651,231	-	3,651,231	-
Federal and state aid not restricted for specific purposes				3,473,089	-	3,473,089	-
Interest and investment earnings				371,852	-	371,852	-
Miscellaneous				155,607	599,394	755,001	-
Subtotal, General Revenue				42,577,369	599,394	43,176,763	-
CHANGE IN NET POSITION				(6,366,267)	(348,905)	(6,715,172)	101,082
Net Position - Beginning				128,094,130	52,201	128,146,331	331,200
Net Position - Ending				\$ 121,727,863	\$ (296,704)	\$ 121,431,159	\$ 432,282

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

**SOLANA BEACH SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Cafeteria Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$ 27,473,410	\$ 95,062	\$ 49,894,012	\$ 14,410,284	\$ 7,011,694	\$ 98,884,462
Accounts receivable	637,845	68,313	64,133	50,513	157,152	977,956
Due from other funds	2,093,095	247,720	-	-	-	2,340,815
Stores inventory	14,617	9,838	-	-	-	24,455
Prepaid expenditures	240,942	-	-	-	-	240,942
Total Assets	\$ 30,459,909	\$ 420,933	\$ 49,958,145	\$ 14,460,797	\$ 7,168,846	\$ 102,468,630
LIABILITIES						
Accrued liabilities	\$ 1,111,173	\$ 3,815	\$ 1,711,272	\$ -	\$ 3,707	\$ 2,829,967
Due to other funds	247,720	356,189	1,705,191	-	4,524	2,313,624
Unearned revenue	3,922	50,641	-	-	-	54,563
Total Liabilities	1,362,815	410,645	3,416,463	-	8,231	5,198,154
FUND BALANCES						
Nonspendable	270,559	10,288	-	-	-	280,847
Restricted	2,372,918	-	46,541,682	14,460,797	7,160,615	70,536,012
Assigned	8,363,724	-	-	-	-	8,363,724
Unassigned	18,089,893	-	-	-	-	18,089,893
Total Fund Balances	29,097,094	10,288	46,541,682	14,460,797	7,160,615	97,270,476
Total Liabilities and Fund Balances	\$ 30,459,909	\$ 420,933	\$ 49,958,145	\$ 14,460,797	\$ 7,168,846	\$ 102,468,630

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, 2017**

Total Fund Balance - Governmental Funds \$ 97,270,476

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	\$ 145,186,302	
Accumulated depreciation	(26,923,729)	118,262,573

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was:

(315,815)

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:

Total general obligation bonds	\$ 53,971,155	
Early retirement incentive	710,677	
Compensated absences	334,990	
Net OPEB obligation	3,937,559	
Net pension liability	41,312,870	(100,267,251)

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	\$ 8,294,728	
Deferred inflows of resources related to pensions	(2,038,004)	6,256,724

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:

521,156

Total Net Position - Governmental Activities \$ 121,727,863

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, 2017**

	General Fund	Cafeteria Fund	Building Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
REVENUES						
LCFF sources	\$ 37,192,724	\$ -	\$ -	\$ -	\$ -	\$ 37,192,724
Federal sources	732,961	201,686	-	-	-	934,647
Other state sources	3,654,831	7,272	-	-	128	3,662,231
Other local sources	2,935,152	514,176	67,999	1,263,597	917,071	5,697,995
Total Revenues	44,515,668	723,134	67,999	1,263,597	917,199	47,487,597
EXPENDITURES						
Current						
Instruction	31,348,415	-	-	-	579,696	31,928,111
Instruction-related services						
Instructional supervision and administration	1,486,187	-	-	-	-	1,486,187
Instructional library, media, and technology	731,378	-	-	-	-	731,378
School site administration	2,271,187	-	-	-	-	2,271,187
Pupil services						
Home-to-school transportation	374,040	-	-	-	-	374,040
Food services	-	1,038,984	-	-	-	1,038,984
All other pupil services	1,775,887	-	-	-	-	1,775,887
General administration						
Centralized data processing	694,235	-	-	-	-	694,235
All other general administration	3,073,121	-	-	-	12,969	3,086,090
Plant services	4,609,213	-	43,195	7,199	203,687	4,863,294
Facilities acquisition and maintenance	212,784	-	3,853,109	60,974	-	4,126,867
Ancillary services	486	-	-	-	-	486
Debt service						
Interest and other	-	-	220,000	-	192,500	412,500
Total Expenditures	46,576,933	1,038,984	4,116,304	68,173	988,852	52,789,246
Excess (Deficiency) of Revenues						
Over Expenditures	(2,061,265)	(315,850)	(4,048,305)	1,195,424	(71,653)	(5,301,649)
Other Financing Sources (Uses)						
Transfers in	-	246,813	-	-	-	246,813
Other sources	-	-	50,000,000	-	3,971,155	53,971,155
Transfers out	(246,813)	-	-	-	-	(246,813)
Net Financing Sources (Uses)	(246,813)	246,813	50,000,000	-	3,971,155	53,971,155
NET CHANGE IN FUND BALANCE	(2,308,078)	(69,037)	45,951,695	1,195,424	3,899,502	48,669,506
Fund Balance - Beginning	31,405,172	79,325	589,987	13,265,373	3,261,113	48,600,970
Fund Balance - Ending	\$ 29,097,094	\$ 10,288	\$ 46,541,682	\$ 14,460,797	\$ 7,160,615	\$ 97,270,476

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, 2017**

Net Change in Fund Balances - Governmental Funds \$ 48,669,506

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:	\$ 2,490,462	
Depreciation expense:	<u>(1,695,197)</u>	795,265

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

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(53,971,155)

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(315,815)

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:

(56,507)

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:

(781,893)

(continued on the following page)

**SOLANA BEACH SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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: (1,101,810)

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: 159,250

Change in Net Position of Governmental Activities \$ (6,366,267)

**SOLANA BEACH SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017**

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Child Development</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets		
Cash and investments	\$ 1,498,822	\$ 460,473
Accounts receivable	119,209	38,782
Prepaid expenses	-	21,901
Total current assets	<u>1,618,031</u>	<u>521,156</u>
Non-current assets		
Capital assets, net of accumulated depreciation	149,000	-
Total non-current assets	<u>149,000</u>	<u>-</u>
Total Assets	<u>1,767,031</u>	<u>521,156</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	857,358	
Total Deferred Outflows of Resources	<u>857,358</u>	
LIABILITIES		
Current liabilities		
Accrued liabilities	\$ 120,990	\$ -
Due to other funds	27,191	-
Total current liabilities	<u>148,181</u>	<u>-</u>
Non-current liabilities	2,592,952	-
Total Liabilities	<u>2,741,133</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	179,960	
Total Deferred Inflows of Resources	<u>179,960</u>	
NET POSITION		
Net investment in capital assets	149,000	-
Restricted	-	521,156
Unrestricted	(445,704)	-
Total Net Position	<u>\$ (296,704)</u>	<u>\$ 521,156</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, 2017**

	Business-Type Activities	Governmental Activities
	Child Development	Internal Service Fund
OPERATING REVENUE		
Other local revenues	\$ 3,335,952	\$ 425,574
Total operating revenues	3,335,952	425,574
OPERATING EXPENSE		
Salaries and benefits	2,796,621	269,806
Supplies and materials	234,519	-
Professional services	666,387	-
Depreciation	18,056	-
Total operating expenses	3,715,583	269,806
Operating income/(loss)	(379,631)	155,768
NON-OPERATING REVENUES/(EXPENSES)		
Interest income	15,015	3,482
Grant income	15,711	-
Total non-operating revenues/(expenses)	30,726	3,482
CHANGE IN NET POSITION		
Net Position - Beginning	52,201	361,906
Net Position - Ending	\$ (296,704)	\$ 521,156

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, 2017**

	<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	\$ 3,258,901	\$ 426,860
Cash received (paid) from assessments made to (from) other funds	627	-
Cash payments for payroll, insurance, and operating costs	(3,541,320)	(291,707)
Net cash provided by (used for) operating activities	(281,792)	135,153
Cash flows from non-capital financing activities		
Non-operating grants received	15,711	-
Net cash provided by (used for) non-capital financing activities	15,711	-
Cash flows from investing activities		
Interest received	15,015	3,482
Net cash provided by (used for) investing activities	15,015	3,482
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(251,066)	138,635
CASH AND CASH EQUIVALENTS		
Beginning of year	1,749,888	321,838
End of year	\$ 1,498,822	\$ 460,473
Reconciliation of operating income (loss) to cash provided by (used for) operating activities		
Operating income (loss)	\$ (379,631)	\$ 155,768
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	(77,051)	1,286
(Increase) decrease in prepaid expenses	-	(21,901)
(Increase) decrease in deferred outflows of resources	(396,347)	-
Increase (decrease) in accounts payable	49,371	-
Increase (decrease) in due to other funds	627	-
Increase (decrease) in net pension liability	531,595	-
Increase (decrease) in deferred inflows of resources	(28,412)	-
Net cash provided by (used for) operating activities	\$ (281,792)	\$ 135,153

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

SOLANA BEACH SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and investments	\$ 50,444
Total Assets	<u>\$ 50,444</u>
 LIABILITIES	
Due to student groups	\$ 50,444
Total Liabilities	<u>\$ 50,444</u>

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

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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 Schools Foundation (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, 2017, the Foundation distributed \$932,357 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, 2017

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*).

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 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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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.

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).

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*).

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

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

C. Basis of Presentation (*continued*)

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*).

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*).

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

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.

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.

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.

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.

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, 2017

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

J. New Accounting Pronouncements

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 implemented GASB Statement No. 80 for the year ended June 30, 2017.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This standard’s primary objective is to address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The majority of this Statement is effective for periods beginning after June 15, 2016. The District has implemented GASB Statement No. 82 for the year ended June 30, 2017.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental	Internal Service	Total	Business-Type	Fiduciary
	Funds	Funds	Governmental Activities	Activities	Funds
Investment in county treasury	\$ 96,396,124	\$ 460,473	\$ 96,856,597	\$ 1,498,822	\$ -
Cash on hand and in banks	-	-	-	-	50,444
Cash with fiscal agent	2,472,888	-	2,472,888	-	-
Cash in revolving fund	15,450	-	15,450	-	-
Total cash and investments	\$ 98,884,462	\$ 460,473	\$ 99,344,935	\$ 1,498,822	\$ 50,444

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 \$2,472,888 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, 2017

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 \$98,022,077 and an amortized book value of \$98,355,419. The average weighted maturity for this pool is 417 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, 2017, the pooled investments in the County Treasury were rated at least A.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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, 2017, 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, 2017 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 98,022,077
Total fair market value of investments	<u>\$ 98,022,077</u>

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the following:

	General Fund	Cafeteria Fund	Building 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	\$ 5,034	\$ 61,397	\$ -	\$ -	\$ -	\$ -	\$ 66,431	\$ -
State Government								
Categorical aid	48,748	1,975	-	-	-	-	50,723	-
Lottery	291,759	-	-	-	-	-	291,759	-
Local Government								
Other local sources	292,304	4,941	64,133	50,513	157,152	38,782	607,825	119,209
Total	\$ 637,845	\$ 68,313	\$ 64,133	\$ 50,513	\$ 157,152	\$ 38,782	\$ 1,016,738	\$ 119,209

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 58,982,165	\$ -	\$ -	\$ 58,982,165
Construction in progress	197,755	2,300,252	197,755	2,300,252
Total Capital Assets not Being Depreciated	59,179,920	2,300,252	197,755	61,282,417
Capital assets being depreciated				
Land improvements	673,884	-	-	673,884
Buildings & improvements	77,392,934	327,730	-	77,720,664
Furniture & equipment	5,449,102	60,235	-	5,509,337
Total Capital Assets Being Depreciated	83,515,920	387,965	-	83,903,885
Less Accumulated Depreciation				
Land improvements	654,460	843	-	655,303
Buildings & improvements	19,693,344	1,553,265	-	21,246,609
Furniture & equipment	4,880,728	141,089	-	5,021,817
Total Accumulated Depreciation	25,228,532	1,695,197	-	26,923,729
Governmental Activities				
Capital Assets, net	\$ 117,467,308	\$ 993,020	\$ 197,755	\$ 118,262,573
Business-Type Activities				
Capital assets being depreciated				
Buildings & improvements	\$ 84,268	\$ -	\$ -	\$ 84,268
Furniture & equipment	276,858	-	-	276,858
Total Capital Assets Being Depreciated	361,126	-	-	361,126
Less Accumulated Depreciation				
Buildings & improvements	4,213	4,213	-	8,426
Furniture & equipment	189,857	13,843	-	203,700
Total Accumulated Depreciation	194,070	18,056	-	212,126
Business-Type Activities				
Capital Assets, net	\$ 167,056	\$ (18,056)	\$ -	\$ 149,000

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2017 were as follows:

	<u>Due From Other Funds</u>		
	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Total</u>
<u>Due To Other Funds</u>			
General Fund	\$ -	\$ 247,720	\$ 247,720
Cafeteria Fund	356,189	-	356,189
Building Fund	1,705,191	-	1,705,191
Non-Major Governmental Funds	4,524	-	4,524
Child Development Enterprise Fund	27,191	-	27,191
Total Due From Other Funds	\$ 2,093,095	\$ 247,720	\$ 2,340,815
Due from the General Fund to the Cafeteria Fund for Child Nutrition Initiative and other program costs.		\$ 247,720	
Due from the Cafeteria Fund to the General Fund to repay temporary loan made for food service operations.			356,189
Due from the Building Fund to the General Fund to repay temporary loan made for Measure JJ projects.			1,705,191
Due from the Foundation Special Revenue Fund to the General Fund for OPEB contributions.			822
Due from the Capital Facilities Fund to the General Fund to cover project costs.			3,702
Due from the Child Development Enterprise Fund to the General Fund for program costs and OPEB contributions.			27,191
Total			\$ 2,340,815

B. Operating Transfers

There was an operating transfer from the General Fund to the Cafeteria Fund for the Child Nutrition Initiative and other program costs in the amount of \$246,813 during the year ended June 30, 2017.

NOTE 6 – PREPAID EXPENSES

Prepaid expenses at June 30, 2017 within the General Fund in the amount of \$240,942 primarily relates to prepayment of the 2017-18 PARS early retirement incentive installment. Prepaid expenses within the Self-Insurance Fund totaled \$21,901 as of June 30, 2017.

NOTE 7 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2017 consisted of the following:

			<u>Non-Major</u>		<u>Total</u>		<u>Total Business-</u>
	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Governmental</u>	<u>Governmental</u>	<u>Activities</u>	
Payroll	\$ 309,367	\$ 3,415	\$ -	\$ 2,437	\$ -	\$ 315,219	\$ 33,144
Construction	-	-	1,711,272	-	-	1,711,272	-
Vendors payable	801,806	400	-	1,270	-	803,476	87,846
Unmatured interest	-	-	-	-	315,815	315,815	-
Total	\$ 1,111,173	\$ 3,815	\$ 1,711,272	\$ 3,707	\$ 315,815	\$ 3,145,782	\$ 120,990

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 8 – UNEARNED REVENUE

Unearned revenue as of June 30, 2017 consisted of the following amounts:

	Total Governmental Activities		
	General Fund	Cafeteria Fund	
Federal sources	\$ 3,922	\$ -	\$ 3,922
Local sources	-	50,641	50,641
Total	\$ 3,922	\$ 50,641	\$ 54,563

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2017 consisted of the following:

	Balance			Balance		Balance Due	
	July 01, 2016	Additions	Deductions	June 30, 2017	In One Year		
Governmental Activities							
General obligation bonds	\$ -	\$ 50,000,000	\$ -	\$ 50,000,000	\$ -		
Unamortized premium	-	3,971,155	-	3,971,155	132,732		
Total general obligation bonds	-	53,971,155	-	53,971,155	132,732		
Early retirement incentive	947,569	-	236,892	710,677	236,892		
Compensated absences	278,483	56,507	-	334,990	-		
Net OPEB obligation	3,155,666	781,893	-	3,937,559	-		
Net pension liability	34,499,079	6,813,791	-	41,312,870	-		
Total	\$ 38,880,797	\$ 61,623,346	\$ 236,892	\$ 100,267,251	\$ 369,624		
Business-Type Activities							
Net pension liability	\$ 2,061,357	\$ 531,595	\$ -	\$ 2,592,952	\$ -		
Total	\$ 2,061,357	\$ 531,595	\$ -	\$ 2,592,952	\$ -		

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.

Payments for general obligation bonds are made from the Bond Interest and Redemption Fund.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2017 amounted to \$334,990. This amount is included as part of long-term liabilities in the government-wide financial statements.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – LONG-TERM DEBT (continued)

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, 2017, was \$1,101,855 and contributions made by the District during the year were \$238,917, which resulted in a net OPEB obligation of \$3,937,559. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefit plan.

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, 2017, outstanding special assessment debt of \$3,010,000 from the 2012 Special Tax Refunding Bonds and \$31,700,000 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 beginning net pension liability was \$36,560,436 and increased by \$7,345,386 during the year ended June 30, 2017. The combined ending net pension liability at June 30, 2017 was \$43,905,822. See Note 12 for additional information regarding the net pension liability.

E. Early Retirement Incentive

Total early retirement incentive as of June 30, 2017 is as follows:

<u>Year Ended June 30,</u>	<u>ERI Payment</u>
2018	\$ 236,892
2019	236,892
2020	236,893
	<u>\$ 710,677</u>

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 9 – LONG-TERM DEBT (continued)

F. General Obligation Bonds

On May 3, 2017, the District issued the Election of 2016, Series A bonds of the Measure JJ bond authorization, which consisted of current interest with an initial par amount of \$50,000,00, with stated interest rates of 2.0% to 5.0% and maturing through August 1, 2046. At June 30, 2017, the annual requirements to amortize the general obligation bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 1,397,128	\$ 1,397,128
2019	4,550,000	1,945,300	6,495,300
2020	4,235,000	1,769,600	6,004,600
2021	870,000	1,667,500	2,537,500
2022	905,000	1,641,050	2,546,050
2023 - 2027	4,895,000	7,788,700	12,683,700
2028 - 2032	6,140,000	6,478,250	12,618,250
2033 - 2037	7,685,000	4,936,500	12,621,500
2038 - 2042	9,345,000	3,238,900	12,583,900
2043 - 2047	11,375,000	1,173,100	12,548,100
Total	\$ 50,000,000	\$ 32,036,028	\$ 82,036,028

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2017:

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Building Fund</u>	<u>Capital Projects Fund for Blended Component Units</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Non-spendable						
Revolving cash	\$ 15,000	\$ 450	\$ -	\$ -	\$ -	\$ 15,450
Stores inventory	14,617	9,838	-	-	-	24,455
Prepaid expenditures	240,942	-	-	-	-	240,942
Total non-spendable	270,559	10,288	-	-	-	280,847
Restricted						
Educational programs	2,372,918	-	-	-	1,183,979	3,556,897
Capital projects	-	-	46,541,682	14,460,797	2,197,981	63,200,460
Debt service	-	-	-	-	3,778,655	3,778,655
Total restricted	2,372,918	-	46,541,682	14,460,797	7,160,615	70,536,012
Assigned						
Special reserve	5,368,101	-	-	-	-	5,368,101
Postemployment benefits	2,995,620	-	-	-	-	2,995,620
Deferred maintenance	3	-	-	-	-	3
Total assigned	8,363,724	-	-	-	-	8,363,724
Unassigned						
Remaining unassigned	18,089,893	-	-	-	-	18,089,893
Total unassigned	18,089,893	-	-	-	-	18,089,893
Total	\$ 29,097,094	\$ 10,288	\$ 46,541,682	\$ 14,460,797	\$ 7,160,615	\$ 97,270,476

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, 2017

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 2017, the District contributed \$238,917 to the Plan, all of which was used for current premiums.

As of June 30, 2017, 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, 2017

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	\$ 1,101,855
Interest on net OPEB obligation	142,005
Adjustment to annual required contribution	(223,050)
Annual OPEB cost (expense)	<u>1,020,810</u>
Contributions made	<u>(238,917)</u>
Increase (decrease) in net OPEB obligation	781,893
Net OPEB obligation, beginning of the year	3,155,666
Net OPEB obligation, end of the year	<u>\$ 3,937,559</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, 2017 and the preceding two years were as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 1,020,810	23%	\$ 3,937,559
2016	\$ 1,016,078	22%	\$ 3,155,666
2015	\$ 474,625	18%	\$ 2,362,647

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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, 2017, was 22 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, 2017

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	\$ 32,209,670	\$ 5,671,304	\$ 1,399,911	\$ 3,141,234
PERS Pension	11,696,152	3,480,782	818,053	1,460,459
Total	<u>\$ 43,905,822</u>	<u>\$ 9,152,086</u>	<u>\$ 2,217,964</u>	<u>\$ 4,601,693</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

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.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 12 – PENSION PLANS (continued)

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

Benefits provided (continued)

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 10.25% and 9.205% of their salary for fiscal year 2017, 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 2017 was 12.58% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$2,459,763 for the year ended June 30, 2017.

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 \$1,755,374 to CalSTRS.

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

At June 30, 2017, 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	\$ 32,209,670
State's proportionate share of the net pension liability associated with the District	18,339,090
Total	\$ 50,548,760

The net pension liability was measured as of June 30, 2016, 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, 2015, and rolling forward the total pension liability to June 30, 2016. 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, 2016, the District’s proportion was .040 percent, which was a slight decrease of .00094 from its proportion measured as of June 30, 2015.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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)

For the year ended June 30, 2017, the District recognized pension expense of \$3,141,234. In addition, the District recognized pension expense and revenue of \$3,262,751 for support provided by the State. At June 30, 2017, 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	\$ 2,560,653	\$ -
Differences between expected and actual experience	-	785,718
Changes in proportion and differences between District contributions and proportionate share of contributions	650,888	614,193
District contributions subsequent to the measurement date	<u>2,459,763</u>	<u>-</u>
	<u>\$ 5,671,304</u>	<u>\$ 1,399,911</u>

The \$2,459,763 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, 2018. 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>
2018	\$ 186,043	\$ 245,764
2019	186,043	245,764
2020	1,618,694	245,764
2021	1,090,585	245,764
2022	130,176	245,764
2023	-	171,091
	<u>\$ 3,211,541</u>	<u>\$ 1,399,911</u>

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

NOTE 12 – PENSION PLANS (continued)

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

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2006 through June 30, 2010.

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 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Private Equity	13%	9.30%
Real Estate	13%	5.20%
Inflation Sensitive	4%	3.80%
Fixed Income	12%	0.30%
Absolute Return	9%	2.90%
Cash/Liquidity	2%	-1.00%
	<u>100%</u>	

* 20-year geometric average

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 12 – PENSION PLANS (continued)

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

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.

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	\$ 46,356,979	\$ 32,209,670	\$ 20,459,737

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, 2017

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 2017 was 13.888% of annual payroll. Contributions to the plan from the District were \$933,284 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$11,696,152 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, and rolling forward the total pension liability to June 30, 2016. 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, 2016, the District’s proportion was .059 percent, which was a slight decrease of .00263 percent from its proportion measured as of June 30, 2015.

SOLANA BEACH SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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, 2017, the District recognized pension expense of \$1,460,459. At June 30, 2017, 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	\$ 1,814,867	\$ -
Differences between expected and actual experience	503,047	-
Changes in assumptions	-	351,400
Changes in proportion and differences between District contributions and proportionate share of contributions	229,584	466,653
District contributions subsequent to the measurement date	933,284	-
	<u>\$ 3,480,782</u>	<u>\$ 818,053</u>

The \$933,284 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, 2018. 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>
2018	\$ 608,178	\$ 351,094
2019	578,891	332,598
2020	886,764	134,361
2021	473,665	-
	<u>\$ 2,547,498</u>	<u>\$ 818,053</u>

SOLANA BEACH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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, 2015, and rolling forward the total pension liability to June 30, 2016 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, 2015, 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, 2017

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.

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Debt Securities	20%	0.99%	2.43%
Inflation Assets	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	1%	-0.55%	-1.05%
	<u>100%</u>		

* 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:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
District's proportionate share of the net pension liability	\$ 17,450,724	\$ 11,696,152	\$ 6,904,338

Pension plan fiduciary net position

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

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, 2017.

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, 2017.

C. Construction Commitments

As of June 30, 2017, the District had outstanding commitments with respect to unfinished capital projects in the amount of \$48,371,546. Of this amount, \$47,781,127 related to the Measure JJ bond program.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District is a member of the San Diego County Schools Risk Management JPA (SDCSR) 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.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SOLANA BEACH SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 35,040,829	\$ 35,169,034	\$ 37,192,724	\$ 2,023,690
Federal sources	759,136	740,119	732,961	(7,158)
Other state sources	1,393,197	3,348,446	3,654,831	306,385
Other local sources	1,523,006	1,580,893	2,855,922	1,275,029
Total Revenues	38,716,168	40,838,492	44,436,438	3,597,946
EXPENDITURES				
Certificated salaries	22,300,096	20,750,977	21,457,521	(706,544)
Classified salaries	6,288,830	5,577,220	6,270,552	(693,332)
Employee benefits	9,721,558	10,392,731	10,887,380	(494,649)
Books and supplies	2,209,212	3,869,617	2,303,122	1,566,495
Services and other operating expenditures	3,873,095	7,131,757	5,117,509	2,014,248
Capital outlay	95,000	691,050	282,378	408,672
Total Expenditures	44,487,791	48,413,352	46,318,462	2,094,890
Excess (Deficiency) of Revenues				
Over Expenditures	(5,771,623)	(7,574,860)	(1,882,024)	5,692,836
Other Financing Sources (Uses)				
Transfers out	-	-	(546,813)	(546,813)
Net Financing Sources (Uses)	-	-	(546,813)	(546,813)
NET CHANGE IN FUND BALANCE	(5,771,623)	(7,574,860)	(2,428,837)	5,146,023
Fund Balance - Beginning	23,420,678	23,420,678	23,420,678	-
Fund Balance - Ending	\$ 17,649,055	\$ 15,845,818	\$ 20,991,841	\$ 5,146,023

* 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.

**SOLANA BEACH SCHOOL DISTRICT
CAFETERIA FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 143,821	\$ 143,821	\$ 201,686	\$ 57,865
Other state sources	7,495	7,495	7,272	(223)
Other local sources	614,052	629,976	514,176	(115,800)
Total Revenues	765,368	781,292	723,134	(58,158)
EXPENDITURES				
Classified salaries	375,285	375,285	427,494	(52,209)
Employee benefits	76,868	76,868	104,076	(27,208)
Books and supplies	322,000	322,000	454,384	(132,384)
Services and other operating expenditures	30,650	30,650	51,918	(21,268)
Capital outlay	-	-	1,112	(1,112)
Total Expenditures	804,803	804,803	1,038,984	(234,181)
Excess (Deficiency) of Revenues				
Over Expenditures	(39,435)	(23,511)	(315,850)	(292,339)
Other Financing Sources (Uses):				
Transfers in	-	-	246,813	246,813
Net Financing Sources (Uses)	-	-	246,813	246,813
NET CHANGE IN FUND BALANCE	(39,435)	(23,511)	(69,037)	(45,526)
Fund Balance - Beginning	79,325	79,325	79,325	-
Fund Balance - Ending	\$ 39,890	\$ 55,814	\$ 10,288	\$ (45,526)

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.040%	0.041%	0.040%
District's proportionate share of the net pension liability	\$ 32,209,670	\$ 27,443,782	\$ 23,104,397
State's proportionate share of the net pension liability associated with the District	18,339,090	14,514,696	13,951,433
Total	<u>\$ 50,548,760</u>	<u>\$ 41,958,478</u>	<u>\$ 37,055,830</u>
District's covered payroll	\$ 20,463,084	\$ 19,646,013	\$ 19,058,278
District's proportionate share of the net pension liability as a percentage of its covered payroll	157.4%	139.7%	121.2%
Plan fiduciary net position as a percentage of the total pension liability	70.0%	74.0%	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, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.059%	0.062%	0.059%
District's proportionate share of the net pension liability	\$ 11,696,152	\$ 9,116,654	\$ 6,721,598
District's covered payroll	\$ 8,295,023	\$ 7,107,339	\$ 6,886,607
District's proportionate share of the net pension liability as a percentage of its covered payroll	141.0%	128.3%	97.6%
Plan fiduciary net position as a percentage of the total pension liability	73.9%	79.4%	83.4%

See accompanying note to required supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 2,459,763	\$ 2,101,616	\$ 1,690,830
Contributions in relation to the contractually required contribution*	(2,459,763)	(2,101,616)	(1,690,830)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 20,463,084	\$ 19,646,013	\$ 19,058,278
Contributions as a percentage of covered payroll	12.02%	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, 2017**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 933,284	\$ 661,845	\$ 810,611
Contributions in relation to the contractually required contribution	(933,284)	(661,845)	(810,611)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 8,295,023	\$ 7,107,339	\$ 6,886,607
Contributions as a percentage of covered payroll	11.25%	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, 2017**

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 payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered 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 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 payroll.

SOLANA BEACH SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION, continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, 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			
Certificated salaries	\$ 20,750,977	\$ 21,457,521	\$ 706,544
Classified salaries	\$ 5,577,220	\$ 6,270,552	\$ 693,332
Employee benefits	\$ 10,392,731	\$ 10,887,380	\$ 494,649
Cafeteria Special Revenue Fund			
Classified salaries	\$ 375,285	\$ 427,494	\$ 52,209
Employee benefits	\$ 76,868	\$ 104,076	\$ 27,208
Books and supplies	\$ 322,000	\$ 454,384	\$ 132,384
Services and other operating expenditures	\$ 30,650	\$ 51,918	\$ 21,268
Capital outlay	\$ -	\$ 1,112	\$ 1,112

**SUPPLEMENTARY
INFORMATION**

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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 Grants Low-Income and Neglected	84.010	14329	\$ 179,787
Title II, Part A, Teacher Quality	84.367	14341	23,921
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	396,983
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	35,061
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	23,670
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE3-4-5)	84.027A	13682	73,314
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	225
Subtotal Special Education Cluster			<u>529,253</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster [1]			
National School Lunch Program	10.555	13391	149,347
USDA Commodities [2]	10.555	*	52,339
Subtotal Child Nutrition Cluster			<u>201,686</u>
Total U. S. Department of Agriculture			<u>201,686</u>
Total Federal Expenditures			<u>\$ 934,647</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, 2017**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	1,565.85	1,565.35
Special Education - Nonpublic Schools	1.61	1.48
Extended Year Special Education - Nonpublic Schools	0.13	0.13
Total TK/K through Third	1,567.59	1,566.96
Fourth through Sixth		
Regular ADA	1,332.23	1,333.87
Total Fourth through Sixth	1,332.23	1,333.87
TOTAL SCHOOL DISTRICT	2,899.82	2,900.83

**SOLANA BEACH SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2017**

Grade Level	Minutes Requirement	2016-17	Number of Days	Status
		Actual Minutes		
Kindergarten	36,000	60,238	180	Complied
Grade 1	50,400	53,318	180	Complied
Grade 2	50,400	53,318	180	Complied
Grade 3	50,400	53,318	180	Complied
Grade 4	54,000	54,148	180	Complied
Grade 5	54,000	54,148	180	Complied
Grade 6	54,000	54,148	180	Complied

**SOLANA BEACH SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	2018 (Budget)	2017	2016	2015
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 41,616,386	\$ 44,436,438	\$ 42,797,736	\$ 38,647,868
Expenditures And Other Financing Uses	43,734,895	46,865,275	43,969,539	40,308,029
Net change in Fund Balance	\$ (2,118,509)	\$ (2,428,837)	\$ (1,171,803)	\$ (1,660,161)
Ending Fund Balance	\$ 18,873,332	\$ 20,991,841	\$ 23,420,678	\$ 24,592,481
Available Reserves*	\$ 16,505,735	\$ 18,089,893	\$ 5,602,678	\$ 22,523,279
Available Reserves As A Percentage Of Outgo	37.74%	38.60%	12.74%	55.88%
Long-term Debt	\$ 99,897,627	\$ 100,267,251	\$ 38,880,797	\$ 33,630,134
Average Daily Attendance At P-2	2,929	2,900	3,036	3,053

The General Fund balance has decreased by \$3,600,640 over the past two years. The fiscal year 2017-18 budget projects a further decrease of \$2,118,509. 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 each of the past three years and anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by \$66,637,117 over the past two years.

Average daily attendance has decreased by 153 ADA over the past two years. An increase of 29 ADA is anticipated during the 2017-18 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, 2017**

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Building Fund	Child Development Enterprise Fund
June 30, 2017, annual financial and budget report fund balance	\$ 20,991,841	\$ 3	\$ 5,368,101	\$ 2,995,620	\$ 48,241,084	\$ (171,812)
Adjustments and reclassifications:						
Decrease for adjustments to accounts payable balance	(258,471)	-	-	-	(1,699,402)	-
Decrease for recording of depreciation expense	-	-	-	-	-	(18,056)
Decrease for changes in net pension liability	-	-	-	-	-	(106,836)
Increase (decrease) in total fund balances:						
Fund balance transfer (GASB 54)	8,363,724	(3)	(5,368,101)	(2,995,620)	-	-
Net adjustments and reclassifications	8,105,253	(3)	(5,368,101)	(2,995,620)	(1,699,402)	(124,892)
June 30, 2017, audited financial statement fund balance	\$ 29,097,094	\$ -	\$ -	\$ -	\$ 46,541,682	\$ (296,704)

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2017**

	Foundation Special Revenue Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS						
Cash and investments	\$ 1,037,838	\$ 732,424	\$ 18	\$ 1,462,759	\$ 3,778,655	\$ 7,011,694
Accounts receivable	149,580	3,213	-	4,359	-	157,152
Total Assets	\$ 1,187,418	\$ 735,637	\$ 18	\$ 1,467,118	\$ 3,778,655	\$ 7,168,846
LIABILITIES						
Accrued liabilities	\$ 2,617	\$ 1,090	\$ -	\$ -	\$ -	\$ 3,707
Due to other funds	822	3,702	-	-	-	4,524
Total Liabilities	3,439	4,792	-	-	-	8,231
FUND BALANCES						
Restricted	1,183,979	730,845	18	1,467,118	3,778,655	7,160,615
Total Fund Balances	1,183,979	730,845	18	1,467,118	3,778,655	7,160,615
Total Liabilities and Fund Balance	\$ 1,187,418	\$ 735,637	\$ 18	\$ 1,467,118	\$ 3,778,655	\$ 7,168,846

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, 2017**

	Foundation Special Revenue Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES						
Other state sources	\$ 128	\$ -	\$ -	\$ -	\$ -	\$ 128
Other local sources	652,424	249,725	-	14,922	-	917,071
Total Revenues	652,552	249,725	-	14,922	-	917,199
EXPENDITURES						
Current						
Instruction	579,696	-	-	-	-	579,696
General administration						
All other general administration	-	12,969	-	-	-	12,969
Plant services	-	203,687	-	-	-	203,687
Debt service						
Interest and other	-	-	-	-	192,500	192,500
Total Expenditures	579,696	216,656	-	-	192,500	988,852
Excess (Deficiency) of Revenues Over Expenditures	72,856	33,069	-	14,922	(192,500)	(71,653)
Other Financing Sources (Uses)						
Other sources	-	-	-	-	3,971,155	3,971,155
Net Financing Sources (Uses)	-	-	-	-	3,971,155	3,971,155
NET CHANGE IN FUND BALANCE	72,856	33,069	-	14,922	3,778,655	3,899,502
Fund Balance - Beginning	1,111,123	697,776	18	1,452,196	-	3,261,113
Fund Balance - Ending	\$ 1,183,979	\$ 730,845	\$ 18	\$ 1,467,118	\$ 3,778,655	\$ 7,160,615

See accompanying note to supplementary information.

**SOLANA BEACH SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2017**

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
Debra H. Schade, Ph.D.	President	2018
Julie Union	Vice President	2020
Holly Lewry	Clerk	2018
Vicki F. King, Esq.	Member	2018
Richard H. Leib, Esq.	Member	2020

DISTRICT ADMINISTRATORS

Terry Decker
Superintendent

Lisa Davis
Assistant Superintendent of Business Services

Sabrina Lee
Assistant Superintendent, Instructional Services

SOLANA BEACH SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2017.

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, 2017, the District participated in the Longer Day incentive funding program. As of June 30, 2017, 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, 2017, 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**

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, 2017, 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 1, 2017.

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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2017-001 and # 2017-002)

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*.

Solana Beach School District's Response to Findings

Solana Beach School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Solana Beach School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 1, 2017

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 D. Ash, CPA

John Whitehouse, CPA

Heather Daud 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, 2017. 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, 2017.

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 1, 2017

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

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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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, 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, 2017, 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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.

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, 2017.

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:

PROGRAM NAME	PROCEDURES PERFORMED
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
Mental Health Expenditures	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

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 Proper Expenditure of Education Protection Account Funds because there were no expenditures of program funds during the year ended June 30, 2017.

Christy White Associates

San Diego, California
December 1, 2017

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SOLANA BEACH SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

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>Yes</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</u>	<u>Name of Federal Program or Cluster</u>	
10.555	Child Nutrition Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>No</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</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, 2017**

FIVE DIGIT CODE

30000

AB 3627 FINDING TYPE

Internal Control

FINDING #2017-001: 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 for unrecorded liabilities, we noted the following three expenditures for good provided and services completed prior to June 30, 2017 that should have been recorded as accrued liabilities in the 2016-17 fiscal year.

- General Fund: Apple Inc. invoice in the amount of \$258,471.
- Measure JJ Building Fund: McCarthy Building Companies, Inc. invoice in the amount of \$498,262.
- Measure JJ Building Fund: Balfour Beatty Construction invoice in the amount of \$1,201,140.

Effect: Transactions recorded in the improper accounting period led to misstatements of accounts payable liabilities in the amount of \$1,957,873. The related adjustments are presented in the Reconciliation of Annual Financial and Budget Report with Audited Financial Statements on page 67.

Context: Three (3) out of 26 subsequent disbursements did not appear to be recorded in the proper accounting period.

Cause: Inadequate controls over recording of accounts payable during the year-end closing process.

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: The three invoices that should have been accrued for the 2016-17 fiscal year, were unfortunately paid in the 2017-18 fiscal year. Two of the three invoices had dates of 6/29 and 6/30, and unfortunately, the dates were not caught to accurately accrue the invoices. These should have been caught and were an oversight by the business department. In the future, the business department will have a second person look over the invoices that are being paid in June and July to check for dates that should be accurately reflected as an accrual.

**SOLANA BEACH SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

FINDING #2017-002: INTERNAL CONTROLS - CASH RECIEPTS (30000)

Criteria: The District should have strong internal control procedures implemented for cash receipting and collections at the District Office to ensure proper receipting and safeguarding of District funds. These internal control procedures should include timely deposits following the collection of proceeds received.

Condition: During our evaluation and testing internal control procedures related to cash receipting at the District level, we noted deficiencies in internal controls related to untimely deposits.

Effect: Deficiencies in internal controls related to cash receipting procedures could lead to inaccuracies or increase the risk of misappropriation of funds.

Context: We noted that ten (10) out of 25 cash receipts tested appear to be deposited in an untimely manner. These ten deposits were deposited over one to two months after the proceeds were first collected.

Cause: Clerical oversight as well as improper design of internal controls.

Recommendation: We recommend that all deposits are made in a timely manner following the collection of funds, no more than two weeks after the date of collection in order to properly safeguard District funds.

District Response: The Business Department is in the midst of re-writing Accounts Receivable Procedures/Controls. Accounts Receivable procedures should be complete by spring of 2018. At the beginning of the school year 2017-18 a memo went out to staff who collect funds indicating the procedure regarding acceptable time allowed from receipt of funds to transmitting those funds to the business office. A two-week time period is maximum time allowed. Business Office staff are to submit deposits to the bank on a weekly basis and minimally a treasury deposit will be done once a month, preferably twice a month. Business Office staff are to watch the dates of receipt of deposits and if those receipts exceed the two-week time period, then a memo will be sent out to site administrator indicating the staff who are in violation of procedures. If the same staff/site continues, then the Superintendent will be notified.

SOLANA BEACH SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017.

**SOLANA BEACH SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

FIVE DIGIT CODE

10000
40000
42000
60000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings or questioned costs related to state awards for the year ended June 30, 2017.

**SOLANA BEACH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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.

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)	

**SOLANA BEACH SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

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

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.

Current Status: Implemented.