



Certified Public Accountants  
and Financial Advisors

**Vallecitos School District**  
Financial Statements  
June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Vallecitos School District  
Rainbow, California

### **Report on the Financial Statements**

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

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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

### ***Opinions***

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

### ***Emphasis of a Matter***

#### ***Prior Period Restatement***

As discussed in Note 15 to the financial statements, Vallecitos School District's net position at June 30, 2015 was adjusted in the amount of \$803,493 due to a correction of an error in the calculation of the net pension liability. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13, and budgetary comparison information, schedules of the District's proportionate share of the net pension liability, and schedules of District plan contributions on pages 50 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Vallecitos School District's basic financial statements. The other schedules of average daily attendance, instructional time, financial trends and analysis and the reconciliation of annual financial and budget report with the audited financial statements are



presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of average daily attendance, instructional time, financial trends and analysis and the reconciliation of annual financial and budget report with the audited financial statements, are the responsibility of management and were derived from and relate 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 schedules of average daily attendance, instructional time, financial trends and analysis and the reconciliation of annual financial and budget report with the audited financial statements is fairly stated in all material respects in relation to the basic financial statements as a whole.

The budgetary schedules and local education agency organization structure on pages 56 and 57, and the schedule of charter schools on page 62 of the other supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Vallecitos School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vallecitos School District's internal control over financial reporting and compliance.

**SQUAR MILNER LLP**

San Diego, California  
December 7, 2016

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**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

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As management of the Vallecitos School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplementary Information.

These financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis for State and Local Governments*.

### **FINANCIAL HIGHLIGHTS**

- The change in net position for the year was an increase of \$100,084.
- The District had an excess of revenue over expenditures in the General Fund (before transfers) in the amount of \$144,552 in the current year compared to a deficiency of revenue under expenditures (\$25,184) in the previous year.
- This year the District had no additions to capital assets compared to \$7,567 last year.
- The District's General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of \$191,294 compared to the actual amount of an excess of revenues over expenditures (before transfers) of \$144,552.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

#### ***Basic Financial Statements***

The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by reconciliations showing why they differ.

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

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**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

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**OVERVIEW OF FINANCIAL STATEMENTS (continued)**

*Basic Financial Statements* (continued)

More detailed information about the District's most significant funds, not the District as a whole, is provided in the fund financial statements. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Position*, a government-wide statement, presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Required Supplementary Information* provides a budgetary comparison of each major fund and the schedules relating to the net pension liabilities.

The *Supplementary Information* gives an overview of the operations of the District, governing body and budgetary comparisons of the non-major funds.



**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

*Statement of Net Position*

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

Net position may serve over time, as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by (\$1,341,542) as of June 30, 2016. This has decreased over last year's net position primarily due to the correction of an error in the implementation of GASB Statement No. 68 resulting in a restatement of the beginning net position.

A large portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its constituents; consequently, these assets are not available for future spending.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**TABLE 1**  
Condensed Statement of Net Position

	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>	<b>% Change</b>
<b>ASSETS</b>				
Current and other assets	\$ 928,459	\$ 789,023	\$ 139,436	17.7%
Capital assets, net of depreciation	266,294	301,937	(35,643)	-11.8%
<b>TOTAL ASSETS</b>	<b>1,194,753</b>	<b>1,090,960</b>	<b>103,793</b>	<b>9.5%</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>301,381</b>	<b>170,350</b>	<b>131,031</b>	<b>76.9%</b>

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

*Statement of Net Position (continued)*

**TABLE 1**  
Condensed Statement of Net Position (continued)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
<b>LIABILITIES</b>				
Current liabilities	116,920	143,624	(26,704)	-18.6%
General long-term debt	2,618,160	2,250,212	367,948	16.4%
<b>TOTAL LIABILITIES</b>	<u>2,735,080</u>	<u>2,393,836</u>	<u>341,244</u>	<u>14.3%</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>102,596</u>	<u>291,915</u>	<u>(189,319)</u>	<u>-64.9%</u>
<b>NET POSITION</b>				
Net investment in capital assets	266,294	301,937	(35,643)	-11.8%
Restricted	150,473	223,400	(72,927)	-32.6%
Unrestricted	(1,758,309)	(1,966,963)	208,654	-10.6%
<b>TOTAL NET POSITION</b>	<u>\$ (1,341,542)</u>	<u>\$ (1,441,626)</u>	<u>\$ 100,084</u>	<u>-6.9%</u>

*Statement of Activities*

- The District's total revenues for the fiscal year ended June 30, 2016, excluding inter-fund transfers, increased by \$214,673. This was due primarily to increased local services provided.
- The District's total expenses increased by \$366,282.
- The District's net position was (\$1,341,542), which includes a prior period adjustment of \$803,493 resulting from a correction of an error in recording the District's pension liability.

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

*Statement of Activities* (continued)

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2016, and June 30, 2015:

**TABLE 2**  
Condensed Statement of Activities

	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>	<b>% Change</b>
<b>REVENUES</b>				
Program revenues	\$ 705,728	\$ 837,475	\$ (131,747)	-15.7%
General revenues	2,060,201	1,713,781	346,420	20.2%
<b>TOTAL REVENUES</b>	<u>2,765,929</u>	<u>2,551,256</u>	214,673	8.4%
<b>FUNCTIONAL EXPENSES</b>				
Instruction	1,949,528	1,604,055	345,473	21.5%
Instruction-related services	268,209	143,700	124,509	86.6%
Pupil services	45,768	139,996	(94,228)	-67.3%
Ancillary services	2,955	3,491	(536)	-15.4%
Community services	2,000	-	2,000	100.0%
General administration	211,987	171,336	40,651	23.7%
Plant services	149,755	177,313	(27,558)	-15.5%
Other outgo	-	21,539	(21,539)	-100.0%
Depreciation (unallocated)	35,643	38,133	(2,490)	-6.5%
<b>TOTAL EXPENSES</b>	<u>2,665,845</u>	<u>2,299,563</u>	<u>366,282</u>	15.9%
<b>CHANGE IN NET POSITION</b>	100,084	251,693	(151,609)	-60.2%
<b>NET POSITION - BEGINNING</b>	(1,441,626)	(889,826)	(551,800)	62.0%
Prior Period Adjustment	-	(803,493)	803,493	-100.0%
<b>NET POSITION - ENDING</b>	<u><u>\$ (1,341,542)</u></u>	<u><u>\$ (1,441,626)</u></u>	<u><u>\$ 100,084</u></u>	6.9%

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

*Significant Changes in Individual Funds*

**TABLE 3**  
Individual Fund Balances

	<b>2016</b>	<b>2015</b>	<b>\$ Change</b>	<b>% Change</b>
General Fund	\$ 762,831	\$ 618,279	\$ 144,552	23.4%
Child Development Fund	5,375	9,743	(4,368)	-44.8%
Capital Facilities Fund	43,333	27,477	15,856	57.7%
Total Fund Balances	<u>\$ 811,539</u>	<u>\$ 655,499</u>	<u>\$ 156,040</u>	23.8%

*General Fund Budgetary Highlights*

	<b>Budgeted</b>	<b>Actual</b>	<b>Variance</b>
Certificated salaries	<u>\$ 998,846</u>	<u>\$ 1,145,525</u>	<u>\$ (146,679)</u>
Classified salaries	<u>\$ 250,214</u>	<u>\$ 262,192</u>	<u>\$ (11,978)</u>
Employee benefits	<u>\$ 332,819</u>	<u>\$ 408,371</u>	<u>\$ (75,552)</u>
Services and other operating expenditures	<u>\$ 535,031</u>	<u>\$ 603,716</u>	<u>\$ (68,685)</u>

Employee salaries and benefits actual expenditures exceeded budgeted amounts due to increases in salaries during the current year.

Services and other operating expenditures exceeded budgeted amount due to increased costs to provide services.

The District's total budget for the General Fund Budget for this year showed an excess of revenues over expenditures (before transfers) of \$191,294 compared to the actual amount of \$144,525. The District's financial results were under the adopted budget by (\$46,769).

**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

There were no significant increases to capital assets during the year.

**TABLE 4**  
Changes in Capital Assets

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 6,161	\$ 6,161	\$ -	0.0%
Buildings	902,421	902,421	-	0.0%
Land improvements	28,067	28,067	-	0.0%
Equipment	253,931	253,931	-	0.0%
Less: accumulated depreciation	<u>(924,286)</u>	<u>(888,643)</u>	<u>(35,643)</u>	4.0%
Total capital assets, net of depreciation	<u>\$ 266,294</u>	<u>\$ 301,937</u>	<u>\$ (35,643)</u>	-11.8%

*Long-Term Liabilities*

**TABLE 5**  
Changes in Long-Term Liabilities

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Net pension liability	\$ 2,618,160	\$ 2,240,112	\$ 378,048	16.9%
Early Retirement Incentives	-	10,100	(10,100)	-100.0%
Total long-term debt	<u>\$ 2,618,160</u>	<u>\$ 2,250,212</u>	<u>\$ 367,948</u>	16.4%

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District's outlook for future years is tied to growth and the Local Control Funding Formula (LCFF) allocation. As with many other Districts, the District is facing the challenge of covering step and column increases in employee salaries and other fixed costs.

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**VALLECITOS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

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**CONTACTING THE DISTRICT**

This financial report is designed to provide our citizens, taxpayers, 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 any questions regarding this report please direct them to Cathy Murphy, Business Manager at 760-451-8230, or by mail at 5253 Fifth Street, Fallbrook CA 92028.

*Vallecitos School District*

**VALLECITOS SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash in County Treasury	\$ 595,552
Cash in revolving fund	1,000
Accounts receivable	331,907
Capital assets:	
Land	6,161
Buildings and improvements	902,421
Improvements of sites	28,067
Equipment and vehicles	253,931
Less: accumulated depreciation	(924,286)
<b>TOTAL ASSETS</b>	<b>1,194,753</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related costs	301,381
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	116,920
Noncurrent liabilities:	
Due in more than one year	2,618,160
<b>TOTAL LIABILITIES</b>	<b>2,735,080</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related costs	102,596
<b>NET POSITION</b>	
Net investment in capital assets	266,294
Restricted for:	
Capital projects	43,333
Legally restricted balances	101,765
Specific programs	5,375
Unrestricted	(1,758,309)
<b>TOTAL NET POSITION</b>	<b>\$ (1,341,542)</b>

**VALLECITOS SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**For The Fiscal Year Ended June 30, 2016**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense)</b>
		<b>Charges for</b>	<b>Operating</b>	<b>Capital</b>	<b>Revenue and</b>
		<b>Services</b>	<b>Grants and</b>	<b>Grants and</b>	<b>Changes in</b>
			<b>Contributions</b>	<b>Contributions</b>	<b>Net Position</b>
					<b>Governmental</b>
					<b>Activities</b>
<b>GOVERNMENT ACTIVITIES</b>					
Instruction	\$ 1,949,528	\$ 150,151	\$ 514,744	\$ -	\$ (1,284,633)
Instruction-related services	268,209	-	18,414	-	(249,795)
Pupil services	45,768	-	13,572	-	(32,196)
Ancillary services	2,955	-	47	-	(2,908)
Community services	2,000	-	-	-	(2,000)
General administration	211,987	6,044	2,756	-	(203,187)
Plant services	149,755	-	-	-	(149,755)
Depreciation (unallocated)	35,643	-	-	-	(35,643)
<b>TOTAL GOVERNMENT ACTIVITIES</b>	<b>\$ 2,665,845</b>	<b>\$ 156,195</b>	<b>\$ 549,533</b>	<b>\$ -</b>	<b>(1,960,117)</b>
<b>GENERAL REVENUES</b>					
					1,787,296
Revenue limit sources					131,397
State revenues					141,508
Local revenues					<u>2,060,201</u>
Total general revenues					100,084
<b>CHANGE IN NET POSITION</b>					
<b>NET POSITION - BEGINNING -</b>					
<b>AS RESTATED</b>					
					(1,441,626)
<b>NET POSITION - ENDING</b>					
					<u>\$ (1,341,542)</u>



**VALLECITOS SCHOOL DISTRICT**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<b>General Fund</b>	<b>Child Development Fund</b>	<b>Capital Facilities Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash in County Treasury	\$ 552,062	\$ 211	\$ 43,279	\$ 595,552
Cash in revolving fund	1,000	-	-	1,000
Accounts receivable	308,569	23,284	54	331,907
Due from other funds	8,000	-	-	8,000
<b>TOTAL ASSETS</b>	<b>\$ 869,631</b>	<b>\$ 23,495</b>	<b>\$ 43,333</b>	<b>\$ 936,459</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 106,800	\$ 10,120	\$ -	\$ 116,920
Due to other funds	-	8,000	-	8,000
Total liabilities	106,800	18,120	-	124,920
Fund balance:				
Nonspendable:				
Revolving fund	1,000	-	-	1,000
Restricted	101,765	5,375	-	107,140
Committed	75,000	-	-	75,000
Assigned	123,827	-	43,333	167,160
Unassigned/unappropriated:				
Reserve for economic uncertainties	134,245	-	-	134,245
Unassigned/unappropriated amount	326,994	-	-	326,994
Total fund balance	762,831	5,375	43,333	811,539
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 869,631</b>	<b>\$ 23,495</b>	<b>\$ 43,333</b>	<b>\$ 936,459</b>

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**VALLECITOS SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE**  
**SHEET TO THE STATEMENT OF NET POSITION**  
**June 30, 2016**

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This schedule provides the information necessary to reconcile the Balance Sheet - Governmental funds to the Statement of Net Position.

Total fund balances - governmental fund balance sheet \$ 811,539

Amounts reported for governmental activities in the Statement of  
Net Position are different because:

Capital assets used in governmental activities are not reported in the funds.	266,294
Payable for net pension liabilities which are not due in the current period are no reported in the funds.	(2,618,160)
Deferred outflows relating to pension costs which are applicable to future periods are not reported in the funds.	301,381
Deferred inflows relating to pension costs which are applicable to future periods are not reported in the funds.	<u>(102,596)</u>

Net position of governmental activities - Statement of Net Position \$ (1,341,542)

**VALLECITOS SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES – GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2016**

	<b>General Fund</b>	<b>Child Development Fund</b>	<b>Capital Facilities Fund</b>	<b>Total</b>
<b>REVENUES</b>				
Revenue limit sources:				
State apportionments	\$ 1,040,921	\$ -	\$ -	\$ 1,040,921
Education protection account	244,619	-	-	244,619
Local sources	501,756	-	-	501,756
Federal revenue	153,525	-	-	153,525
Other state revenue	259,694	75,381	-	335,075
Other local revenue	472,131	46	17,856	490,033
Total revenues	<u>2,672,646</u>	<u>75,427</u>	<u>17,856</u>	<u>2,765,929</u>
<b>EXPENDITURES</b>				
Instruction	1,852,767	79,795	-	1,932,562
Instruction - Related services	264,862	-	-	264,862
Pupil services	45,768	-	-	45,768
Ancillary services	2,955	-	-	2,955
Community services	-	-	2,000	2,000
General administration	211,987	-	-	211,987
Plant services	149,755	-	-	149,755
Total expenditures	<u>2,528,094</u>	<u>79,795</u>	<u>2,000</u>	<u>2,609,889</u>
Excess (deficiency) of revenues over (under) expenditures	<u>144,552</u>	<u>(4,368)</u>	<u>15,856</u>	<u>156,040</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	144,552	(4,368)	15,856	156,040
<b>FUND BALANCE, JULY 1</b>	<u>618,279</u>	<u>9,743</u>	<u>27,477</u>	<u>655,499</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 762,831</u>	<u>\$ 5,375</u>	<u>\$ 43,333</u>	<u>\$ 811,539</u>

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**VALLECITOS SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2016**

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This schedule provides the information necessary to reconcile the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Governmental Fund to the Statement of Activities.

Net change in fund balances - total governmental funds	\$ 156,040
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(35,643)
Pension costs are recognized when contributions are made in the funds but are recognized on the accrual basis for the SOA.	<u>(20,313)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 100,084</u>

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**VALLECITOS SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY  
NET POSITION – FIDUCIARY FUND  
June 30, 2016**

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	<u>Agency Fund</u> <u>Student Body Fund</u>
<b>ASSETS:</b>	
Cash on hand and in banks	\$ 9,516
Total assets	<u>\$ 9,516</u>
<b>LIABILITIES:</b>	
Due to student groups	\$ 9,516
Total liabilities	<u>\$ 9,516</u>
<b>NET POSITION:</b>	
Total net position	<u>\$ -</u>

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

***Accounting Policies***

The Vallecitos 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 accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

***Reporting Entity***

The District's financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criterion for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, subsequently amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61), include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

***Basis of Presentation, Basis of Accounting***

***Basis of Presentation***

Government-Wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-Type activities are financed in whole or in part by fees

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Basis of Presentation, Basis of Accounting*** (continued)

*Basis of Presentation* (continued)

charged to external parties. The District has no business-type activities. The statement of activities presents a comparison between direct expenses and program revenues 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. The District does not allocate indirect expenses in the statement of activities.

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major government funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

*General Fund* is the District's primary operating fund. It accounts for all financial resources of the District not accounted for and reported in another fund.

*The Child Development Fund* is used to account separately for federal, state, and local resources to operate the child development program.

***Non-Major Governmental Funds***

*Capital Projects Funds* are used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. The following capital projects funds are utilized by the District:

*The Capital Facilities Fund* is used to account for resources received from the developer impact fees assessed under the provisions of the California Environmental Quality Act (CEQA).

In addition, the District reports the following fund types:

Fiduciary Funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Non-Major Governmental Funds* (continued)

Agency Funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The District's agency fund accounts for student body activities (ASB).

*Measurement Focus, Basis of Accounting*

*Government-Wide and Fiduciary Fund Financial Statements:* These financial statements are reported using the economic resources measurement focus. They 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. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Government Fund Financial Statements:* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and 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 shortly 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 reimbursement grants and corrections to State aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Most revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are



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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Measurement Focus, Basis of Accounting*** (continued)

*Government Fund Financial Statements*

recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

***Encumbrances***

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

***Budgets and Budgetary Accounting***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

Formal budgetary integration was used as a management control device during the fiscal year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. All appropriations lapse at fiscal year-end.

***Governmental Accounting Standards Implementation in Current Year***

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was effective for the current fiscal year. Implementation of this GASB had no significant effect on the District's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes the hierarchy of

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**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Governmental Accounting Standards Implementation in Current Year* (continued)

generally accepted accounting principles (GAAP) for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. This statement was effective for the current fiscal year. Implementation of this GASB had no significant effect on the District's financial statements.

*Assets, Liabilities, and Equity*

*Deposits and Investments*

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

*Stores Inventories and Prepaid Expenditures*

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District has not recorded any inventories.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

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**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Assets, Liabilities, and Equity* (continued)

*Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50
Improvements of sites	7-25
Equipment	5-20

*Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has certain items that qualifies for reporting in this category.

Pension plan employer contributions paid during the current year ended are deferred under GASB Statement No. 68 and will be recognized in the subsequent year. Other adjustments are due to differences between expected and actual experience; differences between actual and projected contributions, and the net difference between projected and actual earnings on plan investments are amortized over the straight-line basis over the average expected remaining service lives of all members that are provided benefits.

In addition to liabilities, the statement of financial position 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has certain items that qualifies for reporting in this category.

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**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Assets, Liabilities, and Equity* (continued)

*Deferred Outflows/Inflows of Resources* (continued)

Pension plan differences between projected and actual earnings on pension plan investments are amortized on a straight-line basis over five years; and changes in assumptions are amortized over the straight-line basis over the average expected remaining service lives of all members that are provided with benefits.

*Pensions*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California State Teachers' Retirement System and California Public Employees' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

*Interfund Activity*

Interfund activity results from loans, services provided reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

*Property Taxes*

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. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the California Department of Education. This is generally on a cash basis. A receivable has not been recognized in the general fund for property taxes due to the fact that any receivable is offset by a payable to the state for local control funding formula purposes.

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Assets, Liabilities, and Equity* (continued)

*Net Assets and Fund Balance Reserves and Designation*

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets groups all capital assets into one component of net position. Accumulated depreciation on these assets and the outstanding principal of any related reduce this category.
- Restricted Net Position represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position represents the remaining net position of the District that does not meet the definition of the above two categories.

The District has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Statement No. 54). This Statement defines the different types of fund balances that a governmental entity must use for financial purposes.

GASB Statement No. 54 requires the fund balance amounts to be properly reported within one of the fund balances categories listed below:

- *Nonspendable*, such as fund balance associated with revolving funds, inventories, prepaids, long-term loans and notes receivable, and property held for resale.
- *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balance classification includes amounts that can be used for the specific purposes determined by a formal action of the Board of Trustees.
- *Assigned* fund balance classification are intended to be used by the entity for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned* fund balance is the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classification.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. When the District incurs an expenditure or expense for which committed, assigned, or unassigned amounts may be used, it is the District's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Assets, Liabilities, and Equity (continued)*

*Minimum Fund Balance Policy*

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 two months of General Fund operating expenditures, or 17 percent of General Fund expenditures and other financing uses.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. COMPLIANCE AND ACCOUNTABILITY**

*Finance-Related Legal and Contractual Provisions*

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<b>Violation</b>	<b>Action Taken</b>
None reported	Not applicable

*Deficit Fund Balance or Fund Net Position of Individual Funds*

Following are funds having deficit fund balances or fund net position at fiscal year-end, if any, along with remarks which address such deficits:

<b>Fund Name</b>	<b>Deficit Amount</b>	<b>Remarks</b>
Net Position	<u>\$ (1,341,542)</u>	The effect of the implementation of GASB Statement No. 68 resulted in a negative unrestricted net position. CalSTRS and CalPers will require increase in contributions to reduce the net pension liability in future years.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**3. CASH AND INVESTMENTS**

*Cash in County Treasury*

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool totaling \$595,552 as of June 30, 2016.

The County Treasurer's investments consist of 29.64% negotiable CDs, 24.63% commercial paper, 24.07% federal agencies, 10.34% U.S. Treasury notes, 5.50% money market funds, 4.59% supranational, 0.65% FDIC CDs, 0.55% asset backed securities, and 0.03% repurchase agreements. The credit ratings for these investments included A1+/A1 by Moody's Investor Service, and AAA/AA- by Standard and Poor's.

*Cash in Banks and Revolving Fund*

Cash balances in banks (\$9,516 as of June 30, 2016) and in the revolving fund (\$1,000 as of June 30, 2016) are insured up to \$250,000 by the Federal Deposit Insurance Corporation. All cash held by financial institution is fully insured or collateralized.

*Analysis of Specific Deposits and Investments*

Cash as of June 30, 2016, are classified in the accompanying financial statements as follows:

*Statement of Net Position:*

	<b>Credit Quality Rating</b>			
Cash in County Treasury	Not rated	\$	595,552	
Cash in revolving fund	Not Applicable		1,000	
Fiduciary funds:				
Cash in banks	Not applicable		9,516	
Total		\$	606,068	

Cash as of June 30, 2016, consist of the following:

Cash in County Treasury	\$	595,552
Deposits with financial institutions		10,516
Total	\$	606,068

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**3. CASH AND INVESTMENTS** (continued)

*Analysis of Specific Deposits and Investments* (continued)

*Investments Authorized by the District's Investment Policy*

Education Code Section 41001 and the District's investment policy require operating funds to be deposited into the County Treasury and invested in accordance with the current investment policy of the San Diego County Treasurer. Education Code Section 41015 authorizes the investment of surplus moneys, not required for the immediate necessities of the District in any of the investments specified in Section 16430 or 53601 of the Government Code. Additionally, a variety of operational bank accounts are authorized, including but not limited to: Scholarship Accounts, Clearing Accounts and Revolving Cash Accounts.

The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk. The District held no investments at June 30, 2016.

*Disclosures Relating to 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.

*Disclosures Relating to Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District held no investments at June 30, 2016.

*Concentration of Credit Risk*

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, which is investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) that represent 5% or more of total District investments. The District held no investments at June 30, 2016.

*Custodial Credit Risk*

Custodial Credit Risk for *investments* is the risk that, in the event of the failure of a depository financial institute, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.



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**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**3. CASH AND INVESTMENTS** (continued)

*Analysis of Specific Deposits and Investments* (continued)

*Custodial Credit Risk* (continued)

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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Custodial Credit Risk for investment is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

*Investment Accounting Policy*

The District is required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earnings investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one fiscal year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the investment Company Act of 1940.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**4. ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016, consist of the following:

	<u>General Fund</u>	<u>Child Development Fund</u>	<u>Capital Facilities Fund</u>	<u>Total</u>
Federal Government:				
Federal Programs	\$ 47,929	\$ -	\$ -	\$ 47,929
State Government:				
Lottery	11,169	-	-	11,169
Lottery - Instructional Materials	9,049	-	-	9,049
After School and Safety	72,037	-	-	72,037
Special Education	12,338	-	-	12,338
Other State Programs	-	23,269	-	23,269
Total State Government	<u>104,593</u>	<u>23,269</u>	<u>-</u>	<u>127,862</u>
Local sources	156,047	15	54	156,116
Total accounts receivable	<u>\$ 308,569</u>	<u>\$ 23,284</u>	<u>\$ 54</u>	<u>\$ 331,907</u>

**5. INTERFUND BALANCES AND ACTIVITIES**

*Due To and From Other Funds*

Balances due to and due from other funds at June 30, 2016, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Child Development Fund	\$ 8,000	Short-term loans
	Total	<u>\$ 8,000</u>	

All amounts due are scheduled to be repaid within one fiscal year.

**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**6. CAPITAL ASSETS**

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

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
Capital assets, not being depreciated				
Land	\$ 6,161	\$ -	\$ -	\$ 6,161
Work in progress	-	-	-	-
Total capital assets, not being depreciated	<u>6,161</u>	<u>-</u>	<u>-</u>	<u>6,161</u>
Capital assets, being depreciated:				
Buildings	902,421	-	-	902,421
Land improvements	28,067	-	-	28,067
Equipment	253,931	-	-	253,931
Total capital assets, being depreciated	<u>1,184,419</u>	<u>-</u>	<u>-</u>	<u>1,184,419</u>
Less accumulated depreciation for:				
Buildings	(648,662)	(28,334)	-	(676,996)
Land improvements	(20,878)	(378)	-	(21,256)
Equipment	(219,103)	(6,931)	-	(226,034)
Total accumulated depreciation	<u>(888,643)</u>	<u>(35,643)</u>	<u>-</u>	<u>(924,286)</u>
Total capital assets, being depreciated, net	<u>295,776</u>	<u>(35,643)</u>	<u>-</u>	<u>260,133</u>
Capital assets, net of depreciation	<u><u>\$ 301,937</u></u>	<u><u>\$(35,643)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 266,294</u></u>

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**7. LONG-TERM OBLIGATIONS**

*Long-Term Obligation Activity*

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2016, are as follows.

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Net pension liability	\$ 2,240,112	\$ 378,048	\$ -	\$ 2,618,160
Early retirement incentive	10,100	-	(10,100)	-
Total Governmental Activities	<u>\$ 2,250,212</u>	<u>\$ 378,048</u>	<u>\$ (10,100)</u>	<u>\$ 2,618,160</u>

*Early Retirement Incentive*

The District entered into a contract through a supplemental employee retirement plan (SERP) whereby one certificated retiree will receive \$10,000 a year for three years to retire on or before June 30, 2013. The District will continue to pay an annual premium, in the amount of \$10,000, for a total of \$30,000 to fully fund the SERP. The District entered into a contract through a supplemental employee retirement plan (SERP) whereby one classified retiree will receive \$8,000 to retire on or before June 30, 2013. The District will pay the annual premium, in the amount of \$8,000 to fully fund the SERP. The early retirement incentive was paid in full as of June 30, 2016.

**8. RESTRICTED FUND BALANCES**

Restricted fund balances as of June 30, 2016, are as follows:

	<u>General Fund</u>	<u>Child Development Funds</u>
Proposition 39 - California Clean Energy Jobs Act	\$ 52,693	\$ -
Educator Effectiveness	15,075	
Special Education	8,532	-
Other Restricted Local	25,465	-
Restricted for Child Development Fund	-	5,375
Total restricted fund balance	<u>\$ 101,765</u>	<u>\$ 5,375</u>

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**9. COMMITTED FUND BALANCES**

Committed fund balances as of June 30, 2016, are as follows:

Facility Improvement	\$ 75,000
Total committed fund balance	<u>\$ 75,000</u>

**10. ASSIGNED FUND BALANCES**

Assigned fund balances as of June 30, 2016, are as follows:

	<b>General Fund</b>	<b>Other Governmental Funds</b>
Unsettled 2015-16 Negotiations	\$ 123,827	\$ -
Other Assigned Funds	-	43,333
Total assigned fund balance	<u>\$ 123,827</u>	<u>\$ 43,333</u>

**11. OPERATING LEASES**

The District has entered into operating leases for office equipment with lease terms in excess of one year. These agreements contain no purchase options. The agreements are non-cancelable leases. Future minimum lease payments under these agreements are as follows:

<b>Year Ending June 30,</b>	<b>Lease Payments</b>
2017	\$ 10,643
2018	10,643
2019	10,643
Total future minimum payments	<u>\$ 31,929</u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal year ended June 30, 2016, was \$10,643.

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**VALLECITOS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**12. JOINT VENTURES (JOINT POWERS AGREEMENTS)**

The District entered into a joint powers (JPA) agreement with the San Diego County Schools Risk Management Joint Powers Authority, a self-insurance plan for workers' compensation, liability, property, damage, fire damage, or any other risk or plan authorized by law. The San Diego County Superintendent of Schools is the administrator of the JPA. Insurance premiums paid to the JPA were \$17,919 for the year ended June 30, 2016. Condensed financial information available for the JPA as of June 30, 2015 was as follows:

Total revneus	\$ 42,337,638
Total expenses	<u>39,385,035</u>
Change in net position	2,952,603
Net position - beginning	<u>37,469,839</u>
Net position - ending	<u><u>\$ 40,422,442</u></u>

The District entered into a joint powers agreement with the San Diego County Schools Fringe Benefit Consortium to provide health and welfare, dental, and vision services to District's employees. The San Diego County Superintendent of Schools is the administrator of the JPA. Contributions to the JPA were \$36,424 for the year ended June 30, 2016. Condensed financial information available for the JPA as of June 30, 2015 was as follows:

Total revneus	\$ 59,696,244
Total expenses	<u>55,222,556</u>
Change in net position	4,473,688
Net position - beginning	<u>18,839,575</u>
Net position - ending	<u><u>\$ 23,313,263</u></u>

**13. EMPLOYEE RETIREMENT SYSTEMS**

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).

**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

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

***Plan Description*** (continued)

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***

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% 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% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

***CalSTRS 2% at 62***

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirements after age 60 increases with each quarter year of age to 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4% of final compensation.

***Contributions***

Active plan members are required to contribute 9.20% of their salary for fiscal year 2016 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.

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**13. EMPLOYEE RETIREMENT SYSTEMS** (continued)

CalSTRS (continued)

*Contributions* (continued)

The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. The contributions to STRS for the fiscal year ending June 30, 2016 was \$108,638 and equal 100% of the required contributions for each fiscal year.

*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 \$64,866 to CalSTRS for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability 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, was \$2,231,690 at June 30, 2016.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.0033%, which did not change from its proportion measured as of June 30, 2015.



**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

CalSTRS (continued)

*Contributions* (continued)

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflow of Resources</b>
Differences between actual and expected experience	\$ 435	\$ -
Differences between District contributions and the District's proportionate share of contributions	3,020	
Net difference between projected and actual earnings on investments		1,075
District contribution subsequent to the measurement date	173,504	-
	\$ 176,959	\$ 1,075

\$173,504 is 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, 2016. Deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years Ended June 30,</b>	<b>Deferred Outflow of Resources</b>	<b>Deferred Inflow of Resources</b>
2017	\$ 174,368	\$ 299
2018	864	299
2019	864	299
2020	863	178
	\$ 176,959	\$ 1,075

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

CalSTRS (continued)

*Contributions* (continued)

*Actuarial Methods and Assumptions*

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Experience Study	July 1, 1997 to June 30, 2011
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Salary Increases	Varies by Entry Age, Service and Type of Employment
Investment Rate of Return	7.60% Net of Pension Plan Investment Expense includes Inflation
Mortality Rate Table	Industry Standard Published by Society of Actuaries
Post-retirement Benefit Increases	2.00% simple

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (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 normally distributed and independent from year to year to develop expected percentiles

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

**CalSTRS (continued)**

*Actuarial Assumptions (continued)*

for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board.

Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Strategic Allocation</u>	<u>Long-term* Expected Real Rate of Return</u>
Global Equity	47.00%	4.50%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Inflation Sensitive	5.00%	3.20%
Fixed Income	20.00%	0.20%
Cash / Liquidity	1.00%	0.00%
Total	<u>100.00%</u>	

\*10-year geometric average

*Discount Rate*

The discount rate used to measure the total pension liability was 7.60%. 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%) 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.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

**CalSTRS (continued)**

*Sensitivity 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%, 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%) or 1-percentage-point higher (8.60 %) than the current rate:

	<b>Discount Rate -1.00% 6.60%</b>	<b>Current Discount Rate 7.60%</b>	<b>Discount Rate +1.00% 8.60%</b>
Plan's Net Pension Liability	\$ 3,369,679	\$ 2,231,690	\$ 1,285,930

*Pension Plan Fiduciary Net Position*

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

**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.

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

**CalPERS (continued)**

*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 50.0% of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. The District's contributions to CalPERS for the fiscal year ending June 30, 2016 was \$34,231 and equal 100% of the required contributions for each fiscal year.

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

At June 30, 2016, the District reported a liability of \$386,470 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.0026%, which did not change from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the District recognized pension expense of \$34,231.

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

CalPERS (continued)

*Contributions* (continued)

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

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between actual and expected experience	\$ 23,763	\$ -
Differences between District contributions and the District's proportionate share of contributions	2,954	
Change in assumptions		25,547
Net difference between projected and actual earnings on investments	63,474	75,974
District contribution subsequent to the measurement date	34,231	-
	<u>\$ 124,422</u>	<u>\$ 101,521</u>

\$34,231 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, 2016. Other amounts reported as deferred outflow and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
2017	\$ 56,778	\$ 31,712
2018	22,547	31,712
2019	22,547	31,712
2020	22,550	6,385
	<u>\$ 124,422</u>	<u>\$ 101,521</u>

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**13. EMPLOYEE RETIREMENT SYSTEMS** (continued)

**CalPERS** (continued)

*Contributions* (continued)

*Actuarial Methods and Assumptions*

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Experience Study	July 1, 1997 to June 30, 2011
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Salary Increases	Varies by Entry Age, Service and Type of Employment
Investment Rate of Return	7.65% Net of Pension Plan Investment Expense; includes Inflation
Mortality Rate Table	Derived using Calipers' Membership Data for all funds
Post-retirement Benefit Increases	2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1998 to 2012.

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

**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

CalPERS (continued)

*Contributions* (continued)

*Actuarial Methods and Assumptions* (continued)

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.

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>Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Cash / Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) 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%. A projection of the expected benefit payments and contributions was performed to determine if assets would run out.



**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

**13. EMPLOYEE RETIREMENT SYSTEMS (continued)**

**CalPERS (continued)**

*Contributions* (continued)

*Discount Rate* (continued)

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.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

*Sensitivity 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%, 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%) or 1-percentage-point higher (8.65%) than the current rate:

	<b>Discount Rate -1.00% 6.65%</b>	<b>Current Discount Rate 7.65%</b>	<b>Discount Rate +1.00% 8.65%</b>
Plan's Net Pension Liability	\$ 629,013	\$ 386,470	\$ 184,780

*Pension Plan Fiduciary Net Position*

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

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**VALLECITOS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016**

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**14. COMMITMENTS AND CONTINGENCIES**

*State and Federal Allowances, Awards, and Grants*

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grant, management believes that any required reimbursement will not be material.

*Litigation*

The District is a party to legal proceedings. The District's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the District and that the District has adequate liability insurance coverage to protect itself against any material loss.

**15. RESTATEMENT OF NET POSITION**

The beginning net position of Governmental Activities has been restated in order to record a correction of an error in recording the District's pension liability. The effect of the correction of the error was to reduce change in net position for the year ended June 30, 2015 by \$265,932 and to reduce net position as of July 1, 2014 by \$537,561.

The effect on beginning net position is presented as follows:

	<b>Governmental Activities</b>
Net Position, Beginning, as Previously Reported - June 30, 2015	\$ (638,133)
Restatement	(803,493)
Net Position, Beginning, as Restated	<u>\$ (1,441,626)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**VALLECITOS SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Revenue limit sources:				
State apportionments	\$ 1,133,824	\$ 1,133,824	\$ 1,040,921	\$ (92,903)
Education protection account	216,569	216,569	244,619	28,050
Local sources	402,145	402,145	501,756	99,611
Federal revenue	147,529	147,529	153,525	5,996
Other state revenue	117,403	117,403	259,694	142,291
Other local revenue	436,763	436,763	472,131	35,368
Total revenues	<u>2,454,233</u>	<u>2,454,233</u>	<u>2,672,646</u>	<u>218,413</u>
Expenditures				
Certificated salaries	998,846	998,846	1,145,525	(146,679)
Classified salaries	250,214	250,214	262,192	(11,978)
Employee benefits	332,819	332,819	408,371	(75,552)
Books and supplies	146,029	146,029	108,290	37,739
Services and other operating expenditures	535,031	535,031	603,716	(68,685)
Total expenditures	<u>2,262,939</u>	<u>2,262,939</u>	<u>2,528,094</u>	<u>(265,155)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>191,294</u>	<u>191,294</u>	<u>144,552</u>	<u>(46,742)</u>
Net change in fund balance	191,294	191,294	144,552	(46,742)
Fund balance, July 1	643,279	643,279	618,279	(25,000)
Fund balance, June 30	<u>\$ 834,573</u>	<u>\$ 834,573</u>	<u>\$ 762,831</u>	<u>\$ (71,742)</u>

**VALLECITOS SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE – CHILD DEVELOPMENT FUND**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>		<b>Final Budget</b>
				<b>Positive</b>
				<b>(Negative)</b>
Revenues:				
Other state revenue	\$ 75,381	\$ 75,381	\$ 75,381	\$ -
Other local revenue	97	97	46	(51)
Total revenues	<u>75,478</u>	<u>75,478</u>	<u>75,427</u>	<u>(51)</u>
Expenditures				
Classified salaries	42,935	42,935	43,299	(364)
Employee benefits	9,170	9,170	9,139	31
Books and supplies	9,844	9,844	16,382	(6,538)
Services and other operating expenditures	13,529	13,529	10,975	2,554
Total expenditures	<u>75,478</u>	<u>75,478</u>	<u>79,795</u>	<u>(4,317)</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(4,368)	4,266
Net change in fund balance	-	-	(4,368)	(4,368)
Fund balance, July 1	9,743	9,743	9,743	-
Fund balance, June 30	<u>\$ 9,743</u>	<u>\$ 9,743</u>	<u>\$ 5,375</u>	<u>\$ (4,368)</u>

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**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY – CALSTRS  
For the Fiscal Year Ended June 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.00330%	0.00330%
Proportionate share of the net pension liability	\$ 2,231,690	\$ 1,933,820
Covered - employee payroll	\$ 925,856	\$ 910,291
Proportionate Share of the net pension liability as percentage of covered-employee payroll	241.04%	212.44%
Plan fiduciary net position as a percentage of the total pension liability	74.02%	76.52%

**Notes to Schedule:**

**Change in Benefit Terms:** In 2015 and 2016 there were no changes in benefits.

**Change in Assumptions:** In 2015 there were no changes in assumptions. In 2016 the discount rate was changed from 7.50% to 7.60% correct for an adjustment to exclude administrative expense.

\* This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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**VALLECITOS SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT'S PLAN CONTRIBUTIONS – CALSTRS**  
**For the Fiscal Year Ended June 30, 2016**

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	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Required contribution (actuarially determined) - District	\$ 82,216	\$ 75,099
Required contribution (actuarially determined) - State	53,813	45,875
Total required contributions	136,029	120,974
Contributions in relation to the actuarially determined contributions	(136,029)	(120,974)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 925,586	\$ 910,291
Contributions as a percentage of covered employee payroll	14.69%	13.29%

**Notes to Schedule:**

Valuation date: June 30, 2015      June 30, 2014

\* This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY – CALPERS  
For the Fiscal Year Ended June 30, 2016**

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	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.00260%	0.00260%
Proportionate share of the net pension liability	\$ 386,470	\$ 294,806
Covered - employee payroll	\$ 291,573	\$ 273,047
Proportionate Share of the net pension liability as percentage of covered-employee payroll	132.55%	107.97%
Plan fiduciary net position as a percentage of the total pension liability	79.43%	83.38%

**Notes to Schedule:**

**Change in Benefit Terms:** In 2015 and 2016 there were no changes in benefits.

**Change in Assumptions:** In 2015 there were no changes in assumptions. In 2016 the discount rate was changed from 7.50% to 7.65% to correct for an adjustment to exclude administrative expense.

\* This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.



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**VALLECITOS SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT PLAN CONTRIBUTIONS – CALPERS**  
**For the Fiscal Year Ended June 30, 2016**

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	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Required contribution (actuarially determined)	\$ 34,321	\$ 31,242
Contributions in relation to the actuarially determined contributions	(34,321)	(31,242)
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 291,573	\$ 273,047
Contributions as a percentage of covered employee payroll	11.77%	11.44%

**Notes to Schedule:**

Valuation date: June 30, 2015      June 30, 2014

\* This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**OTHER SUPPLEMENTARY INFORMATION**

**VALLECITOS SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
CAPITAL PROJECTS FUNDS – CAPITAL FACILITIES FUND  
For the Fiscal Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Other local revenue	\$ 9,476	\$ 9,476	\$ 17,856	\$ 8,380
Total revenues	<u>9,476</u>	<u>9,476</u>	<u>17,856</u>	<u>8,380</u>
Expenditures				
Books and supplies	9,476	9,476	-	9,476
Services and other operating expenditures	-	-	2,000	(2,000)
Total expenditures	<u>9,476</u>	<u>9,476</u>	<u>2,000</u>	<u>7,476</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>15,856</u>	<u>904</u>
Net change in fund balance	-	-	15,856	904
Fund balance, July 1	<u>27,477</u>	<u>27,477</u>	<u>27,477</u>	-
Fund balance, June 30	<u>\$ 27,477</u>	<u>\$ 27,477</u>	<u>\$ 43,333</u>	<u>\$ 904</u>

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**VALLECITOS SCHOOL DISTRICT  
LOCAL EDUCATION AGENCY  
ORGANIZATION STRUCTURE  
For the Fiscal Year Ended June 30, 2016**

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The Vallecitos School District was established in 1921 and is comprised of approximately 618.6 square miles, located in San Diego County. There were no changes to the boundaries of the District during the fiscal year. The District is currently operating one elementary school.

**Board of Trustees**

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<b>Name</b>	<b>Office</b>	<b>Term</b>	<b>Term Expiration</b>
Troy Conner	President	4 Years	December 2016
Michael Darnley	Vice President	4 Years	December 2018
Michelle LaLonde	Clerk	4 Years	December 2018
Rae Lynn Heilbronn	Trustee	2 Years	March 2017
Paul Georgantas	Trustee	2 Years	April 2017

**Administration**

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<b>Name</b>	<b>Position</b>
David Jones	Superintendent
Cathy Murphy	Business Manager

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Fiscal Year Ended June 30, 2016**

	<b>Second Period Report</b>		
	<b>Regular ADA</b>	<b>Special Education ADA</b>	<b>Total ADA</b>
ELEMENTARY:			
Transitional Kindergarten/ Kindergarten - Grade 3	83.44	0.99	84.43
Grades 4 - 6	73.14	-	73.14
Grades 7 - 8	30.02	0.91	30.93
<b>TOTAL ELEMENTARY</b>	<b>186.60</b>	<b>1.90</b>	<b>188.50</b>

	<b>Annual Period Report</b>		
	<b>Regular ADA</b>	<b>Special Education ADA</b>	<b>Total ADA</b>
ELEMENTARY:			
Transitional Kindergarten/ Kindergarten - Grade 3	84.13	1.01	85.14
Grades 4 - 6	72.35	-	72.35
Grades 7 - 8	30.10	1.07	31.17
<b>TOTAL ELEMENTARY</b>	<b>186.58</b>	<b>2.08</b>	<b>188.66</b>

The District's operation is classroom based with no full-time independent study program.

Average daily attendance 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.

**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Fiscal Year Ended June 30, 2016**

<b>Grade Level</b>	<b>2015-16 Minute Requirement</b>	<b>2015-16 Actual Minutes</b>	<b>Number of Days Traditional Calendar</b>	<b>Status</b>
Kindergarten	36,000	44,001	180	In Compliance
Grade 1	50,400	57,031	180	In Compliance
Grade 2	50,400	57,031	180	In Compliance
Grade 3	50,400	57,031	180	In Compliance
Grade 4	54,000	58,326	180	In Compliance
Grade 5	54,000	58,326	180	In Compliance
Grade 6	54,000	58,326	180	In Compliance
Grade 7	54,000	58,326	180	In Compliance
Grade 8	54,000	58,326	180	In Compliance

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. As of June 30, 2016, the District had not yet met its target funding.

**VALLECITOS SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2016**

<b>General Fund</b>	<b>(Budget)</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Revenues and other financial sources	\$ 2,554,097	\$ 2,747,646	\$ 2,480,766	\$ 2,285,796
Expenditures	2,431,969	2,528,094	2,383,355	2,087,365
Other uses and transfers out	-	(75,000)	(8,008)	(6,332)
Total outgo	2,431,969	2,603,094	2,391,363	2,093,697
Change in fund balance	122,128	144,552	89,403	192,099
Ending fund balance	\$ 884,959	\$ 762,831	\$ 618,279	\$ 528,876
Available Reserves	\$ 459,567	\$ 461,239	\$ 461,239	\$ 380,883
Designated for economic uncertainties	\$ 121,447	\$ 134,245	\$ -	\$ -
Unrestricted fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	18.9%	17.7%	19.3%	18.2%
Total long-term debt	\$ 2,618,160	\$ 2,618,160	\$ 2,250,212	\$ 169,817
Average daily attendance at P-2	189	189	187	192

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.

The General Fund balance has increased by \$158,929 (30.1%) over the past two years. The fiscal year 2016-2017 budget projects an increase of \$122,128 (17.8%). For a District this size, the state recommends available reserves of at least five percent of total general fund expenditures, transfers out, and other uses (total outgo).

The District has had an operating surplus over the past three years, and anticipates an operating surplus during the 2016-2017 fiscal year. Total long-term debt has increased by \$2,448,343 over the past two years.

Average daily attendance (ADA) has decreased by three (3) over the past two years. No increase in the ADA is anticipated during the 2016-2017 fiscal year.

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**VALLECITOS SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT WITH AUDITED FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented. For the fiscal year ended June 30, 2016, the District had one fund that needed an adjustment.

	<u>General Fund</u>
June 30, 2016, annual financial and budget report fund balances	<u>\$ 712,804</u>
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Accounts receivable overstatement	<u>(25,000)</u>
Net adjustments and reclassifications	<u>(25,000)</u>
June 30, 2016, audited financial statement fund balances	<u><u>\$ 687,804</u></u>



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**VALLECITOS SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
For the Fiscal Year Ended June 30, 2016**

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The following Charter Schools are chartered by Vallecitos School District:

<b>Charter Schools</b>	<b>Included In Audit?</b>
Taylion San Diego Academy [#1559]	No

**OTHER INDEPENDENT AUDITOR'S REPORTS**

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

Board of Trustees  
Vallecitos School District  
Rainbow, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vallecitos School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Vallecitos School District's basic financial statements, and have issued our report thereon dated December 7, 2016.

**Internal Control Over Financial Reporting**

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



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

### **Compliance and Other Matters**

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

### **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.

**SQUAR MILNER LLP**

San Diego, California  
December 7, 2016

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Vallecitos School District  
Rainbow, California

### **Report on Compliance for Each State Program**

We have audited Vallecitos School District's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of Vallecitos School District's state programs for the fiscal year ended June 30, 2016. Vallecitos School District's state programs are 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 Vallecitos 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 State's Audit Guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. 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 a state program occurred. An audit includes examining, on a test basis, evidence about Vallecitos 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 state program. However, our audit does not provide a legal determination of Vallecitos School District's compliance. In connection with the audit referred to above, we selected transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:



<b>Description</b>	<b>Procedures Performed</b>
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	Yes
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	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes

The term “Not Applicable” is used above to mean either that the District did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

### ***Opinion on State Programs (Qualified Opinion)***

#### ***Basis for Qualified Opinion on Teacher Certification and Misassignments***

As described in the accompanying schedule of findings and questioned costs, finding number 2016-01, Vallecitos School District did not comply with requirements regarding Teacher Certification and Misassignments. Compliance with such requirements is necessary, in our opinion, for the Vallecitos School District to comply with the requirements applicable to that program.



### ***Qualified Opinion on Teacher Certification and Misassignments***

In our opinion, except for the non-compliance described in the “Basis for Qualified Opinion” paragraph, Vallecitos School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Teacher Certification and Misassignments for the fiscal year ended June 30, 2016.

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

In our opinion, except for the non-compliance described in the “Basis for Qualified Opinion” paragraph, Vallecitos 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 state programs for the fiscal year ended June 30, 2016.

### ***Other Matters***

Vallecitos School District’s response to the non-compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Vallecitos School District’s response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

**SQUAR MILNER LLP**

San Diego, California  
December 7, 2016

## **FINDINGS AND RECOMMENDATIONS SECTION**



**VALLECITOS SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**For The Fiscal Year Ended June 30, 2016**

**A. Summary of Auditor's Results**

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?      Yes   N/A   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   N/A   None Reported

Type of auditor's report issued on compliance for major programs:     N/A    

Any audit findings disclosed that are required to be reported under section 200.516 Audit Findings paragraph (a) of OMB Uniform Guidance?      Yes   N/A   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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*The District did not have more than \$750,000 in Federal Expenditures.*

Dollar threshold used to distinguish between type A and type B programs:     Unmodified    

Auditee qualified as low-risk auditee?      Yes   N/A   No



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**VALLECITOS SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**For The Fiscal Year Ended June 30, 2016**

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**D. State Award Findings and Questioned Costs (continued)**

(3) Effect

The teacher was missassigned as the teacher did not have the appropriate credential to teach the class with more than 20% English learners. No penalties will be assessed.

(4) Cause

The District did not properly document the certification of the teacher when hired in the second half of the 2015-2016 school year.

(5) Effect on ADA

There is no effect on ADA.

There was no inappropriately reported claims.

(6) Recommendation

We recommend that as part of the hiring process, the District ensure that a complete background check should be performed, which includes evaluation of the prospective teacher's certification to meet the position's requirements.

(7) District's Corrective Action Plan

Background: At the beginning of the 2015-16 school year, it was necessary to place a teacher on administrative leave. In this situation, a long-term substitute was hired, which took place in January 2016. The auditors helped the district understand that it was necessary for the long-term substitute to possess a CLAD certification, just as the District requires for all certificated classroom teachers.

Due to the long-term substitute not having a CLAD certification, she was directed to enroll in coursework to obtain the certification. The teacher enrolled at Bradman University on October 20, 2016 and began taking classes for the CTEL/CLAD program. All courses (a total of 4 classes) to obtain the CTEL/CLAD certification will be completed by August 2017.

The District obtained an Emergency Cross-cultural Language and Academic Development Permit effective August 1, 2016 and expires September 1, 2017.

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**VALLECITOS SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For The Fiscal Year Ended June 30, 2016**

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<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A