

**HOLTVILLE UNIFIED SCHOOL DISTRICT
COUNTY OF IMPERIAL
HOLTVILLE, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2017

**Wilkinson Hadley King & Co. LLP
CPAs and Advisors
218 W. Douglas Avenue
El Cajon, California 92020**

Introductory Section

Holtville Unified School District
 Audit Report
 For The Year Ended June 30, 2017

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Financial Section

**HOLTVILLE UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017
(UNAUDITED)**

Each year the Holtville Unified School District (HUSD) strives to provide high quality education in a safe atmosphere that nurtures the learning process for our students. Despite fiscal challenges, the District is committed to accomplishing its goals while maintaining sound financial practice and operational accountability.

The following section of the District's annual financial report represents a discussion and analysis of the District's fiscal performance during the year ending June 30, 2017, as required by the Governmental Accounting Standards Board (GASB), Statement No. 34. The purpose of this report is to present an overview of the District's financial data for the 2016-17 fiscal year. Note that this report should be read with the actual financial statements, which follow this section.

KEY FINANCIAL POINTS

- * District-wide, total revenues increased between and 2015-16 and 2016-17 by approximately \$613,000 (see Table A-1).
- * Total Liabilities increased drastically in 2016-17 by approximately \$3.5 million, due primarily to the increase in net pension liability. See Table A-2.
- * Enrollment in 2016-17 increased compared to the 2016-17 school year by 13 students district-wide, bringing the total 2016-17 HUSD October enrollment to 1,598 students. Similarly, Average Daily Attendance (ADA) increased as well, totaling 1,552.

OVERVIEW OF THE FINANCIAL STATEMENTS

The intent of this report is to serve as an introduction to Holtville Unified School District's basic financial statements as defined by the GASB34. The annual report consists of three parts:

- Management Discussion and Analysis (this section)
- Basic financial statements (District-wide and Fund financial statements)
- Notes to the financial statements

District-Wide Statements

Within the District-Wide Financial Statements, information regarding the District as a whole is presented. Similar to the accounting methods used by private-sector companies, the District-Wide Statements help to illustrate how the District performed as a whole, across all of its funds. Included in this section is **The Statement of Net Position**, which reports all of the District's assets and liabilities. Also included is **The Statement of Activities**, which accounts for all revenues and expenses for the District's 2016-17 fiscal year, regardless of when cash is received or paid.

The purpose of the District-Wide Statements is to measure the overall financial stability (or position) of HUSD. By monitoring changes in net position, HUSD will have a strong indicator that helps measure whether its financial position is improving or deteriorating. In addition, the District will also need to take into account other factors, such as the condition of school buildings and facilities, to accurately assess its financial position.

It is also important to note that in the District-Wide Financial Statements, all of HUSD's financial activities are reported under the *Governmental Activities* designation. Within this category, all of HUSD's basic services are included. The other category, *Business-Type Activities*, does not list any financial information, as school districts are not involved in providing business services that generate fees. Instead, revenue is generated from Federal, State, and Local governmental sources. The table below illustrates the District's Governmental Activities for the fiscal year 2016-17 compared to the prior year.

| Table A-1 STATEMENT OF ACTIVITIES June 30, 2017 | | |
|--------------------------------------------------------------|----------------|----------------|
| REVENUES | 2015-16 | 2016-17 |
| Program Revenues | | |
| Charges for Services | 213,462 | 194,771 |
| Operating Grants and Contributions | 3,892,734 | 4,027,156 |
| Capital Grants and Contributions | 0 | 0 |
| General Revenues | | |
| Taxes and Subventions | 2,954,938 | 3,052,238 |
| Federal and State Aid, Not Restricted | 13,056,316 | 13,471,043 |
| Other General Revenues | 234,671 | 219,773 |
| Total Revenues | 20,352,121 | 20,964,981 |
| EXPENDITURES | | |
| Instruction | 11,470,471 | 13,254,439 |
| Supervision of Instruction | 514,086 | 736,059 |
| Library, Media, and Technology | 224,804 | 253,018 |
| School Site Administration | 1,418,971 | 1,421,056 |
| Pupil Services | 2,751,716 | 2,929,350 |
| General Administration & Data Processing | 1,403,363 | 1,984,403 |
| Maintenance and Operations & Facility Acquisition | 2,228,545 | 2,213,226 |
| Debt Service | 469,985 | 314,012 |
| Other Outgo | 256,221 | 220,841 |
| Total Expenditures | 20,738,162 | 23,326,404 |
| | | |
| Increase/Decrease in Net Position | -386,041 | -2,361,423 |
| | | |
| Net Position Beginning | 3,331,327 | 3,745,323 |
| Prior Year Adjustment (in Notes) | 800,037 | 52,373 |
| Net Position Ending | 3,745,323 | 1,436,273 |

The following graph illustrates the changes to net position from the prior year to the 2016-17 fiscal year.

| Table A-2 | | |
|-------------------------------------|---------------|---------------|
| STATEMENT OF NET POSITION | | |
| | June 30, 2016 | June 30, 2017 |
| ASSETS | | |
| Cash & Current Assets (i.e. AR) | 9,361,653 | 8,746,177 |
| Capital Assets | 20,398,945 | 21,302,185 |
| Total Assets | 29,760,598 | 30,048,362 |
| | | |
| Deferred Outflows of Resources | 3,041,245 | 3,923,203 |
| | | |
| LIABILITIES | | |
| Long-Term Debt | 27,358,938 | 30,363,977 |
| Other Liabilities | 916,538 | 1,448,216 |
| Total Liabilities | 28,275,476 | 31,812,193 |
| | | |
| Deferred Inflows of Resources | 781,044 | 723,099 |
| | | |
| <i>TOTAL NET POSITION</i> | 3,745,323 | 1,436,273 |
| | | |
| DISTRIBUTION OF NET POSITION | | |
| Net Investment in Capital Assets | 7,442,513 | 8,395,624 |
| Restricted for Capital Projects | 3,453,964 | 1,633,450 |
| Restricted for Debt Service | 94,214 | 24,810 |
| Restricted for Educational Programs | 167,152 | 182,436 |
| Other Purposes (Expendable) | 366,936 | 189,341 |
| Other Purposes (Nonexpendable) | 24,722 | 24,492 |
| Unrestricted | -7,804,178 | -9,013,880 |
| <i>TOTAL NET POSITION</i> | 3,745,323 | 1,436,273 |

Fund Financial Statements

While the District-Wide Statements provide an overall picture of the District’s financial performance, the Fund Financial Statements provide specific information for each of the District’s *funds*. Like other state and local entities, HUSD uses fund accounting to maintain control over related resources. These resources have been segregated into funds to track specific activities and objectives. Fund accounting ensures and demonstrates compliance with finance-related legal requirements.

All of the funds used by HUSD are *governmental funds*. Governmental funds account for essentially the same functions as governmental activities in the Government-Wide financial statements. However, the governmental fund financials provide a short-term view of the District's inflows and outflows of resources that can be spent, including the balances at year-end of these resources. Because the information derived from Governmental Fund Financial Statements is short-termed, comparing the data to District-Wide Statements will assist in understanding long-term impact of financial decisions. Note that HUSD uses a number of individual governmental funds, which are presented individually in the Fund Financial Statements.

As mentioned above, the Fund Financial Statements provide insight into the performance of individual areas of the District's operations. If one were to look at the District-Wide statements alone, this would only tell part of the story for the 2016-17 school year. By looking at the following chart (Table A-3), one can view the performance of each of the District's funds.

Table A-3
CHANGES IN DISTRICT FUND BALANCES

| FUND # | BEG BAL (7/1/2016) | END BAL (6/30/2017) | CHANGE IN FUND |
|------------------------------------------|-------------------------------|--------------------------------|---------------------------|
| General Fund (#010) | 5,102,371 | 5,025,205 | -77,167 |
| Adult Education Fund (#110) | 52,882 | 60,990 | 8,109 |
| Cafeteria Fund (#130) | 216,751 | 157,879 | -58,872 |
| Building Fund (#210) | 3,104,006 | 1,658,260 | -1,445,747 |
| Capital Facilities Fund (#250) | 117,863 | 218,785 | 100,922 |
| Bond Interest and Redemption Fund (#510) | 64,461 | 103,942 | 39,481 |
| Debt Service Fund (#560) | 29,753 | 249,687 | 219,934 |

In looking at the above, one can see that the bulk of loss to the end balance was in the building fund, representing the one-time spending on capital facilities for which those funds were intended. In addition, though the General Fund showed an overall deficit, this was entirely on the Restricted side of the General Fund (i.e. specialized programs), whereas the District's General Fund Unrestricted closed well in the black.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time that this analysis was written, the District recognized the following areas of concern that could significantly impact the future of the District's financial health:

- Enrollment and Average Daily Attendance (ADA) need to be continually monitored.
- Continued increases to school district contributions toward employee pensions (STRS and PERS) will continue to consume any funding increases. This must be offset by reductions in other areas in the budget.
- While the economy is showing signs of recovery, any recession would translate to large reductions in District revenues.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is vital to understanding the financial data presented within the District-Wide and Fund Financial Statements. The notes follow the Basic Financial Statements, and should be examined along with this report to form a more complete picture of the District's financial state.

CONTACTING THE DISTRICT'S FINANCIAL MANAGERS

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John-Paul Wells at Holtville Unified School District, 621 E. 6th Street, Holtville, CA 92250.

Basic Financial Statements

HOLTVILLE UNIFIED SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2017

| | Governmental Activities |
|---------------------------------------|----------------------------|
| ASSETS | |
| Cash | \$ 7,934,764 |
| Receivables | 792,242 |
| Stores | 19,171 |
| Capital Assets: | |
| Land | 153,012 |
| Land Improvements | 2,733,699 |
| Buildings | 26,528,302 |
| Equipment | 1,881,357 |
| Work in Progress | 1,394,302 |
| Less Accumulated Depreciation | (11,388,487) |
| Total Assets | <u>30,048,362</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>3,923,203</u> |
| LIABILITIES | |
| Accounts Payable | 1,023,616 |
| Due to other funds | 9 |
| Unearned Revenue | 424,591 |
| Long-Term Liabilities: | |
| Due Within One Year | 429,906 |
| Due in More Than One Year | 29,934,071 |
| Total Liabilities | <u>31,812,193</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>723,099</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 8,395,624 |
| Restricted for: | |
| Capital Projects | 1,633,450 |
| Debt Service | 24,810 |
| Educational Programs | 182,436 |
| Other Purposes (Expendable) | 189,341 |
| Other Purposes (Nonexpendable) | 24,492 |
| Unrestricted | (9,013,880) |
| Total Net Position | <u>\$ 1,436,273</u> |

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| Functions | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---------------------------------------------------|----------------------|-------------------------|------------------------------------------|------------------------------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Instruction | \$ 13,254,439 | \$ 175,853 | \$ 2,105,947 | \$ (10,972,639) |
| Instruction-Related Services: | | | | |
| Instructional Supervision and Administration | 736,059 | 6,347 | 358,071 | (371,641) |
| Instructional Library, Media and Technology | 253,018 | - | - | (253,018) |
| School Site Administration | 1,421,056 | 5,686 | 149,994 | (1,265,376) |
| Pupil Services: | | | | |
| Home-to-School Transportation | 527,994 | - | - | (527,994) |
| Food Services | 1,033,985 | - | 908,943 | (125,042) |
| All Other Pupil Services | 1,367,371 | - | 267,213 | (1,100,158) |
| General Administration | | | | |
| Centralized Data Processing | 305,224 | - | 4,256 | (300,968) |
| Other General Administration | 1,679,179 | 6,885 | 91,165 | (1,581,129) |
| Plant Services | 1,830,538 | - | 135,347 | (1,695,191) |
| Ancillary Services | 382,688 | - | 6,220 | (376,468) |
| Interest on Long-Term Debt | 314,012 | - | - | (314,012) |
| Other Outgo - Transfers Between Agencies | 220,841 | - | - | (220,841) |
| Total Expenses | <u>\$ 23,326,404</u> | <u>\$ 194,771</u> | <u>\$ 4,027,156</u> | <u>\$ (19,104,477)</u> |
| General Revenues: | | | | |
| Taxes and Subventions: | | | | |
| Taxes Levied for General Purposes | | | | 2,498,380 |
| Taxes Levied for Debt Service | | | | 423,081 |
| Taxes Levied for Other Specific Purposes | | | | 130,777 |
| Federal and State Aid, Not Restricted | | | | 13,471,043 |
| Interest and Investment Earnings | | | | 54,807 |
| Miscellaneous | | | | 162,576 |
| Special and Extraordinary Items | | | | 2,390 |
| Total General Revenues | | | | <u>16,743,054</u> |
| Change in Net Position | | | | (2,361,423) |
| Net Position Beginning - As Restated (See Note R) | | | | <u>3,797,696</u> |
| Net Position Ending | | | | <u>\$ 1,436,273</u> |

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2017

| | General Fund | Building Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 5,215,198 | \$ 458,938 | \$ 766,235 | \$ 6,440,371 |
| Cash in Revolving Fund | 2,500 | - | 2,821 | 5,321 |
| Cash with a Fiscal Agent/Trustee | - | 1,489,072 | - | 1,489,072 |
| Accounts Receivable | 705,745 | - | 86,498 | 792,243 |
| Due from Other Funds | 61,246 | - | - | 61,246 |
| Stores Inventories | - | - | 19,171 | 19,171 |
| Total Assets | <u>5,984,689</u> | <u>1,948,010</u> | <u>874,725</u> | <u>8,807,424</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 534,893 | \$ 289,750 | \$ 22,196 | \$ 846,839 |
| Due to Other Funds | - | - | 61,246 | 61,246 |
| Unearned Revenue | 424,591 | - | - | 424,591 |
| Total Liabilities | <u>959,484</u> | <u>289,750</u> | <u>83,442</u> | <u>1,332,676</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances: | | | | |
| Revolving Cash | 2,500 | - | 2,821 | 5,321 |
| Stores Inventories | - | - | 19,170 | 19,170 |
| Restricted Fund Balances | 225,395 | 1,658,260 | 149,383 | 2,033,038 |
| Assigned Fund Balances | - | - | 619,909 | 619,909 |
| Unassigned: | | | | |
| Reserve for Economic Uncertainty | 4,797,310 | - | - | 4,797,310 |
| Total Fund Balance | <u>5,025,205</u> | <u>1,658,260</u> | <u>791,283</u> | <u>7,474,748</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,984,689</u> | <u>\$ 1,948,010</u> | <u>\$ 874,725</u> | <u>\$ 8,807,424</u> |

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2017

Total fund balances - governmental funds balance sheet \$ 7,474,748

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

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

| | | | |
|------------------------------------------------------------------------|--------------|--|------------|
| Capital assets relating to governmental activities, at historical cost | 32,690,672 | | |
| Accumulated depreciation | (11,388,487) | | |
| | Net | | 21,302,185 |

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamortized interest owing at the end of the period was: (176,787)

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs for prepaid debt insurance are amortized over the life of the debt. Unamortized debt insurance costs included in Deferred Outflows of Resources on the statement of net position are: 19,382

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

| | | | |
|-----------------------------------------------------|--|--|-----------|
| Deferred outflows of resources relating to pensions | | | 3,477,767 |
| Deferred inflows of resources relating to pensions | | | (723,099) |

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

| | | | |
|---------------------------------------|------------|--|--------------|
| General obligation bonds payable | 7,896,399 | | |
| Net pension liability | 17,429,033 | | |
| Net OPEB obligation | 24,028 | | |
| Compensated absences payable | 4,355 | | |
| Certificates of participation payable | 4,793,411 | | |
| Capital leases payable | 216,751 | | |
| | Total | | (30,363,977) |

Deferred gain or loss on debt refunding: In the government wide financial statements deferred gain or loss on debt refunding is recognized as a deferred outflow of resources (for a loss) or deferred inflow of resources (for a gain) and subsequently amortized over the life of the debt. Deferred gain or loss on debt refunding recognized as a deferred outflow of resources or deferred inflow of resources on the statement of net position was: 426,054

Net position of governmental activities - statement of net position \$ 1,436,273

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT**EXHIBIT A-6**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds \$ (1,221,181)

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

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

| | | |
|----------------------------------|------------------|-----------|
| Expenditures for capital outlay: | 1,891,784 | |
| Depreciation expense: | (607,788) | |
| Net: | <u>1,283,996</u> | 1,283,996 |

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,171,291

Debt issue costs for prepaid debt insurance: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs for prepaid debt insurance are amortized over the life of the debt. The difference between debt issue costs for prepaid insurance incurred in the current period and prepaid insurance costs amortized for the period is:

| | | |
|----------------------------------------------------|-----------------|----------|
| Prepaid debt insurance incurred during the period: | 4,077 | |
| Prepaid debt insurance amortized for the period: | (26,163) | |
| Net: | <u>(22,086)</u> | (22,086) |

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (1,070,492)

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (2,331,984)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 11,372

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 8,621

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year the difference between OPEB costs and actual employer contributions was: 7,217

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were: (380,756)

Amortization of debt issue premium or discount or deferred gain or loss from debt refunding: In governmental funds, if debt is issued at a premium or a discount, the premium or discount is recognized as an Other Financing Source or as an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount, plus any deferred gain or loss from debt refunding, is amortized as interest over the life of the debt. Amortization of premium or discount, or deferred gain or loss from debt refunding for the period is:

182,579

Change in net position of governmental activities - statement of activities

\$ (2,361,423)

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2017

| | Agency Fund |
|---------------------------|-------------------------|
| | Student Body Fund |
| ASSETS: | |
| Cash on Hand and in Banks | \$ 170,043 |
| Total Assets | <u>170,043</u> |
| LIABILITIES: | |
| Due to Student Groups | \$ 170,043 |
| Total Liabilities | <u>170,043</u> |
| NET POSITION: | |
| Total Net Position | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

A. Summary of Significant Accounting Policies

Holtville Unified School District (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).

1. Reporting Entity

The District operates under a locally elected Board form of government and provides educational services as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

2. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by GASB Statement 14, 39, and 61.

3. Basis of Presentation, Basis of Accounting

a. 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

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 governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Building Fund. This fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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In addition, the District reports the following fund types:

Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds. These funds account for the acquisition and/or construction of all major governmental fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Agency Funds: These 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.

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.

b. 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 all eligibility requirements have been satisfied.

Governmental 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. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State 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 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.

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.

4. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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5. 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.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the 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.

6. Revenues and Expenses

a. Revenues - Exchange and Non-Exchange

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as to not distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, property taxes, interest, certain grants, and other local sources.

Non-exchange transactions are transactions in which the District receives value without directly giving equal value in return, including property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

b. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide financial statements.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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7. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository 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 Imperial 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, except for the Tax Override Funds, in which interest earned is credited to the general fund. 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 funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with Imperial County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases 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 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 when incurred.

c. 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 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> |
|-----------------------|-----------------------------------|
| Infrastructure | 30 |
| Buildings | 50 |
| Building Improvements | 20 |
| Vehicles | 2-15 |
| Office Equipment | 3-15 |
| Computer Equipment | 3-15 |

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

f. Unearned Revenue

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

g. 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. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. 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.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Imperial bills and collects the taxes for the District.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

j. Minimum Fund Balance

The District maintains a minimum reserve, within the general fund, an amount not less than three percent or the amount required by state law. The minimum reserve shall apply towards the established three percent minimum Reserve for Economic Uncertainties or an amount that meets or exceeds the requirements by law. The primary purpose of this reserve is to avoid the need for service level reductions in the event of an economic downturn which causes revenues to come in lower than budget. The reserve may be increased from time to time in order to address specific anticipated shortfalls. The District believes a reserve at this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints in use, the Reserve for Economic Uncertainties consists of balances that are otherwise unassigned.

8. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

9. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 17 (Special Reserve Fund for Other Than Capital Outlay) and Fund 20 (Special Reserve Fund for Postemployment Benefits) are merged with the General Fund for purposes of presentation in the audit report.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

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GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

| | |
|-------------------------|-------------------------------|
| Valuation Date (VD) | June 30, 2015 |
| Measurement Date (MD) | June 30, 2016 |
| Measurement Period (MP) | July 1, 2015 to June 30, 2016 |

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

- Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Inputs: Unobservable inputs for an asset or liability.

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

13. Change in Accounting Policies

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2017. Those newly implemented pronouncements are as follows:

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

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

HOLTVILLE UNIFIED SCHOOL DISTRICT
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The scope of this Statement includes OPEB plans—defined benefit and defined contribution - administered through trusts that meet the following criteria:

1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 77 - Tax Abatement Disclosures

The objective of this Statement is to improve usefulness of information about tax abatement agreements entered into by governmental agencies. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

This Statement requires governments that enter into tax abatement agreements to disclose the following:

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

The District has not entered into any tax abatement agreements. As a result, the adoption of GASB Statement No. 77 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 80 - Blending Requirements for Certain Component Units

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

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GASB Statement No. 82 - Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73

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

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the effects of the adoption of GASB Statement No. 82.

B. Compliance and Accountability

1. 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.

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None reported | Not applicable |

2. Deficit Fund Balance or Fund Net Position of Individual Funds

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

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None reported | Not applicable | Not applicable |

HOLTVILLE UNIFIED SCHOOL DISTRICT
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C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool (\$6,440,371 as of June 30, 2017). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was 6,440,371. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investments in the pool is reported in the accounting financial statements as amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

The Imperial County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$170,043 as of June 30, 2017) and in the revolving fund (\$5,321) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments:

The District's investments at June 30, 2017 are shown below.

| Investment or Investment Type | Average Days to Maturity | Amount Reported | Fair Value |
|-------------------------------|--------------------------|-----------------|--------------|
| Dreyfus Treasury Obligations | <30 days | \$ 1,489,072 | \$ 1,489,072 |
| Total Investments | | \$ 1,489,072 | \$ 1,489,072 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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4. General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|-----------------------------------------|----------------------------|---------------------------------|----------------------------------|
| Local Agency Bonds, Notes, Warrants | 5 Years | None | None |
| Registered State Bonds, Notes, Warrants | 5 Years | None | None |
| U.S. Treasury Obligations | 5 Years | None | None |
| U.S. Agency Securities | 5 Years | None | None |
| Banker's Acceptance | 180 Days | 40% | 30% |
| Commercial Paper | 270 Days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 Years | 30% | None |
| Repurchase Agreements | 1 Year | None | None |
| Reverse Repurchase Agreements | 92 Days | 20% of Base | None |
| Medium-Term Corporate Notes | 5 Years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 Years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund | N/A | None | None |
| Joint Powers Authority Pools | N/A | None | None |

5. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only 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 ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The Imperial County Investment Pool is rated AA+ by Standard & Pools.

b. Custodial Credit Risk - Deposits

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

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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 agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having value of 105% of the secured deposits.

As of June 30, 2017, the District's bank balances (including revolving cash) were not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

6. Investment Accounting Policy

The District is required by GASB Statement No. 31 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-earning 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 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

D. Accounts Receivable

Accounts receivables as of June 30, 2017, consisted of the following:

| | General Fund | Nonmajor Governmental Funds | Total |
|----------------------|-------------------|-----------------------------------|----------------|
| Federal Government: | | | |
| Federal Programs | \$ 525,866 | \$ 56,731 | 582,597 |
| State Government: | | | |
| LCFF Sources | 76,301 | - | 76,301 |
| Lottery Revenue | 66,347 | - | 66,347 |
| Other State Programs | 9,640 | 3,717 | 13,357 |
| Local Sources: | | | |
| Interest | 10,829 | 1,233 | 12,062 |
| Other Local Sources | 16,762 | 24,817 | 41,579 |
| Totals | <u>\$ 705,745</u> | <u>\$ 86,498</u> | <u>792,243</u> |

There are no significant receivables which are not scheduled for collection within one year of year end.

E. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---------------------------------------------|-----------------------|---------------------|-------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 153,012 | \$ - | \$ - | \$ 153,012 |
| Work in progress | 379,497 | 1,395,560 | 380,755 | 1,394,302 |
| Total capital assets not being depreciated | <u>532,509</u> | <u>1,395,560</u> | <u>380,755</u> | <u>1,547,314</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 26,528,302 | - | - | 26,528,302 |
| Improvements | 2,273,863 | 459,836 | - | 2,733,699 |
| Equipment | 1,844,970 | 36,387 | - | 1,881,357 |
| Total capital assets being depreciated | <u>30,647,135</u> | <u>496,223</u> | <u>-</u> | <u>31,143,358</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (8,572,795) | (479,007) | - | (9,051,802) |
| Improvements | (600,287) | (107,245) | - | (707,532) |
| Equipment | (1,607,617) | (21,536) | - | (1,629,153) |
| Total accumulated depreciation | <u>(10,780,699)</u> | <u>(607,788)</u> | <u>-</u> | <u>(11,388,487)</u> |
| Total capital assets being depreciated, net | <u>19,866,436</u> | <u>(111,565)</u> | <u>-</u> | <u>19,754,871</u> |
| Governmental activities capital assets, net | <u>\$ 20,398,945</u> | <u>\$ 1,283,995</u> | <u>\$ 380,755</u> | <u>\$ 21,302,185</u> |

Depreciation was charged to functions as follows:

| | |
|------------------------------|-------------------|
| Instruction | \$ 487,870 |
| Instruction-Related Services | 3,730 |
| Pupil Services | 8,152 |
| Ancillary Services | 95,017 |
| Plant Services | 13,019 |
| | <u>\$ 607,788</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2017, consisted of the following:

| Due To Fund | Due From Fund | Amount | Purpose |
|--------------|-----------------------------|-----------|---------------------------|
| General Fund | Nonmajor Governmental Funds | \$ 61,246 | Reimbursement of expenses |
| | Total | \$ 61,246 | |

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

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2017, consisted of the following:

| Transfers From | Transfers To | Amount | Reason |
|-----------------------------|-----------------------------|------------|---------------------------|
| General fund | Nonmajor Governmental Funds | \$ 394,429 | Debt service payments |
| Nonmajor Governmental Funds | General fund | 357 | Reimbursement of expenses |
| | Total | \$ 394,786 | |

G. Accounts Payable

Accounts payable as of June 30, 2017, consisted of the following:

| | Major Funds | | Nonmajor Governmental Funds | Total |
|------------------------------|--------------|---------------|-----------------------------|------------|
| | General Fund | Building Fund | | |
| Vendor payables | \$ 164,398 | \$ 289,750 | \$ 4,272 | \$ 458,420 |
| Payroll and related benefits | 357,646 | - | 15,954 | 373,600 |
| Pension related liabilities | 12,849 | - | 1,970 | 14,819 |
| Totals | \$ 534,893 | \$ 289,750 | \$ 22,196 | \$ 846,839 |

H. Unearned Revenue

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

| | General Fund |
|----------------|--------------|
| State Programs | \$ 424,591 |
| Total | \$ 424,591 |

I. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

J. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2017, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|-----------------------------------|
| <u>Governmental activities:</u> | | | | | |
| General obligation bonds | | | | | |
| Principal balance | \$ 7,211,408 | \$ 1,090,000 | \$ 1,015,000 | \$ 7,286,408 | 165,000 |
| Bond premium | 391,180 | - | 56,802 | 334,378 | 20,672 |
| Accreted interest | 239,949 | 55,172 | - | 295,121 | - |
| Total Bonds | <u>7,842,537</u> | <u>1,125,664</u> | <u>1,071,802</u> | <u>7,896,399</u> | <u>185,314</u> |
| Certificates of participation | | | | | |
| Principal balance | 4,923,722 | - | 144,817 | 4,778,905 | 239,817 |
| COPs premium | 14,506 | - | - | 14,506 | 420 |
| Total COPs | <u>4,938,228</u> | <u>-</u> | <u>144,817</u> | <u>4,793,411</u> | <u>240,237</u> |
| Capital leases | 228,225 | - | 11,474 | 216,751 | 11,917 |
| Net Pension Liability | 14,276,085 | 3,152,948 | - | 17,429,033 | - |
| Net OPEB obligation | 31,245 | 77,633 | 84,850 | 24,028 | - |
| Compensated absences * | 12,976 | - | 8,621 | 4,355 | 4,355 |
| Total governmental activities | <u>\$ 27,329,296</u> | <u>\$ 4,356,245</u> | <u>\$ 1,321,564</u> | <u>\$ 30,363,977</u> | <u>\$ 441,823</u> |

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

| Liability | Activity Type | Fund |
|----------------------|---------------|---------|
| Compensated absences | Governmental | General |

2. Debt Service Requirements

Debt service requirements on long-term debt, excluding net pension liability, bond premium, OPEB obligation, and compensated absences as of June 30, 2017, are as follows:

| Year Ending June 30, | Governmental Activities | | | |
|----------------------|-------------------------|----------------------|---------------------|----------------------|
| | Principal | Accreted Interest | Interest | Total |
| 2018 | \$ 416,734 | \$ - | \$ 437,798 | \$ 854,532 |
| 2019 | 414,817 | - | 422,333 | 837,150 |
| 2020 | 439,817 | - | 410,183 | 850,000 |
| 2021 | 463,015 | 1,802 | 396,846 | 861,663 |
| 2022 | 572,554 | - | 382,184 | 954,738 |
| 2023-2027 | 2,705,251 | 16,666 | 1,604,157 | 4,326,074 |
| 2028-2032 | 2,931,234 | 228,766 | 983,979 | 4,143,979 |
| 2033-2037 | 3,094,542 | 655,458 | 439,075 | 4,189,075 |
| 2038-2042 | 1,249,100 | 1,990,900 | 81,850 | 3,321,850 |
| 2043-2047 | - | - | - | - |
| Totals | <u>\$ 12,287,064</u> | <u>\$ 2,893,592</u> | <u>\$ 5,158,405</u> | <u>\$ 20,339,061</u> |

Note: Amounts represented in the repayment schedule for accreted interest are reflective of 100% of amounts to be paid. Amounts represented as accreted interest in the debt summary are reflective of amounts that have accrued as of June 30, 2017.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Accreted interest is the process of systematically increasing the carrying amount of capital appreciation bonds to their estimated value at maturity date of the bond. The District imputes the effective interest rate, using the present value, the face value, and the period of the bond and multiplies the effective interest rate by the book value of the debt at the end of the period.

3. General Obligation Bonds

General obligation bonds as of June 30, 2017, consisted of the following:

| | Date of Issue | Interest Rate | Maturity Date | Amount of Original Issue |
|------------------------|---------------|---------------|---------------|--------------------------|
| 2002 Election Series C | 06/21/2007 | 4.125-8.0% | 08/01/2036 | \$ 970,000 |
| 2002 Election Series D | 08/19/2010 | 4.0-12.00% | 08/01/2040 | 536,409 |
| 2002 Election Series E | 11/08/2012 | 5% | 08/01/2037 | 980,000 |
| 2012 Refunding Bonds | 11/08/2012 | 2.00-5.00% | 08/01/2027 | 2,065,000 |
| 2014 Refunding Bonds | 12/23/2014 | 3.75%-5.00% | 8/1/2034 | 2,930,000 |
| 2016 Refunding Bonds | 11/10/2016 | 2.00-3.00% | 8/1/2036 | 1,090,000 |
| Total GO Bonds | | | | <u>\$ 8,571,409</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| 2002 Election Series C | \$ 910,000 | \$ - | \$ 900,000 | \$ 10,000 |
| 2002-C Bond Premium | 37,188 | - | 36,659 | 529 |
| 2002 Election Series D | 536,408 | - | - | 536,408 |
| 2002-D Bond Premium | 64,043 | - | 2,562 | 61,481 |
| 2002-D Accreted Interest | 239,949 | 55,172 | - | 295,121 |
| 2002 Election Series E | 980,000 | - | - | 980,000 |
| 2002-E Premium | 76,952 | - | 3,498 | 73,454 |
| 2012 General Obligation | 1,915,000 | - | 65,000 | 1,850,000 |
| 2012 Premium | 157,368 | - | 13,114 | 144,254 |
| 2014 General Obligation | 2,870,000 | - | 50,000 | 2,820,000 |
| 2014 Premium | 55,629 | - | 969 | 54,660 |
| 2016 General Obligation | - | 1,090,000 | - | 1,090,000 |
| 2016 Discount | - | (19,508) | - | (19,508) |
| Total GO Bonds | <u>\$ 7,842,537</u> | <u>\$ 1,125,664</u> | <u>\$ 1,071,802</u> | <u>\$ 7,896,399</u> |

The annual requirements to amortize the bonds outstanding at June 30, 2017, are as follows:

| <u>Year Ending June 30,</u> | Principal | Accreted Interest | Interest | Total |
|-----------------------------|---------------------|---------------------|---------------------|----------------------|
| 2018 | \$ 165,000 | \$ - | \$ 258,493 | \$ 423,493 |
| 2019 | 175,000 | - | 253,838 | 428,838 |
| 2020 | 200,000 | - | 248,988 | 448,988 |
| 2021 | 213,198 | 1,802 | 243,151 | 458,151 |
| 2022 | 240,000 | - | 236,189 | 476,189 |
| 2023-2027 | 1,493,334 | 16,666 | 1,022,400 | 2,532,400 |
| 2028-2032 | 2,086,234 | 228,766 | 639,403 | 2,954,403 |
| 2033-2037 | 2,344,542 | 655,458 | 221,972 | 3,221,972 |
| 2038-2042 | 369,100 | 1,990,900 | 2,750 | 2,362,750 |
| Totals | <u>\$ 7,286,408</u> | <u>\$ 2,893,592</u> | <u>\$ 3,127,184</u> | <u>\$ 13,307,184</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

2016 General Obligation Refunding Bonds

On November 10, 2016 the District issued general obligation refunding bonds for \$1,090,000 as authorized by the board voters of the District held on September 19, 2016. The bonds were issued to refund the District's general obligation bonds, election of 2002, series 2007. The Bonds are general obligation bonds of the District payable solely from ad valorem property taxes levied on taxable property within the District. The Board of Supervisors of Imperial County is empowered and obligated to levy ad valorem taxes, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), for the payment of principal and interest on the Bonds when due. The Bonds of \$1,090,000 plus premium of \$19,508 were deposited into the Building Fund and Bond Interest and Redemption fund after costs of issuance payments of \$119,574 were made. The Bonds bear interest rates ranging from 2.00% to 3.00% with interest payments due semi-annually on February 1 and August 1 annually. Principal payments are made annually on August 1 annually through August 1, 2036.

4. Unamortized Bond Premium

General obligation bonds issued were sold at a premium, meaning that the market rate of interest was lower than the stated rate of interest on the bonds; therefore, they were sold for more than the face value. Generally Accepted Accounting Principles (GAAP) requires that this premium be amortized over the life of the debt. The carrying value reported on the government-wide balance sheet was presented in accordance with GAAP and was the face value of the debt plus the unamortized premium. Amounts are amortized using the straight line method over the life of the debt.

Premiums resulted in effective interest rates as follows:

| | 2002-B | 2002-C | 2002-D | |
|-------------------------|---------------------|---------------------|---------------------|--|
| Total Interest | \$ 3,201,046 | \$ 1,262,021 | \$ 2,893,592 | |
| Less Bond Premium | (88,516) | (51,356) | (78,269) | |
| Plus Bond Discount | - | - | - | |
| Net Interest | <u>\$ 3,112,530</u> | <u>\$ 1,210,665</u> | <u>\$ 2,815,323</u> | |
| Par Amount of Bonds | \$ 3,000,000 | \$ 970,000 | \$ 536,408 | |
| Periods | 30 | 30 | 30 | |
| Effective Interest Rate | 3.46% | 4.16% | 17.49% | |

| | 2002-E | 2012 Bonds | 2014 Bonds | 2016 Bonds |
|-------------------------|-------------------|-------------------|---------------------|----------------|
| Total Interest | \$ 970,164 | \$ 901,277 | \$ 1,523,950 | 483,275 |
| Less Bond Premium | (93,276) | (209,825) | (56,793) | - |
| Plus Bond Discount | - | - | - | 19,508 |
| Net Interest | <u>\$ 876,888</u> | <u>\$ 691,452</u> | <u>\$ 1,467,157</u> | <u>502,783</u> |
| Par Amount of Bonds | \$ 980,000 | \$ 2,065,000 | \$ 2,930,000 | 1,090,000 |
| Periods | 25 | 15 | 20 | 20 |
| Effective Interest Rate | 3.58% | 2.23% | 2.50% | 2.31% |

5. Accreted Interest

Accreted interest in the Long-Term Obligation Activity chart represents amounts that have compounded as of June 30, 2017 for the bonds which were issued as capital appreciation bonds. Accreted interest in the repayment schedule represents the entire amount that will be repaid in the years the accreted interest becomes due.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

6. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2017, as follows:

| <u>Year Ending June 30:</u> | | |
|---------------------------------------------|----|-----------------------|
| 2018 | \$ | 18,409 |
| 2019 | | 2,315 |
| 2020 | | 2,315 |
| 2021 | | 2,315 |
| 2022 | | 85,051 |
| 2023-2027 | | <u>122,787</u> |
| Total Minimum Rentals | | 233,192 |
| Less Amount Representing Interest | | <u>(16,441)</u> |
| Net Present Value of Minimum Lease Payments | \$ | <u><u>216,751</u></u> |

7. Certificates of Participation

On August 1, 2007, the District issued \$1,000,000 in Certificates of Participation as Qualified Zone Academy Bonds (QZABs) to provide funds to finance certain capital improvements, equipment and other educational development programs of the District. The District is required to make a scheduled deposit of \$54,817 each year through the maturity date of August 16, 2022. Accumulated interest earned on the account provides the additional funding required to pay the bonds in full upon maturity. The escrow account accrues interest at a fixed rate of 2.74%. As of June 30, 2017 the escrow account carried an accrued balance of \$503,559. The District does not have a legal right to claim cash in the escrow account and is not obligated to make payments in excess of the scheduled deposit amounts. Scheduled deposit and escrow balances are as follows:

| <u>Year Ending June 30,</u> | <u>Required</u> | <u>Scheduled</u> |
|-----------------------------|-------------------|------------------|
| | <u>Deposit</u> | <u>Escrow</u> |
| | | <u>Balance</u> |
| 2018 | \$ 54,817 | \$ 558,376 |
| 2019 | 54,817 | 629,214 |
| 2020 | 54,817 | 718,233 |
| 2021 | 54,817 | 807,252 |
| 2022 | 54,817 | 903,626 |
| 2023-2027 | 54,820 | 1,000,000 |
| Totals | <u>\$ 328,905</u> | |

On September 20, 2011 the District issued \$1,530,000 of Certificates of Participation (COPs). The COPs are a part of the Qualified School Construction Program as a part of the American Recovery and Reinvestment Act of 2009 (ARRA) which subsidizes interest payments on the COPs. The COPs were issued to finance the costs of capital improvements of the District and to pay the issuance costs associated with the COPs. The COPs were issued pursuant to a trust agreement, dated September 1, 2011, by and among the Bank of New York Mellon Trust Company, as trustee, the California School Boards Association Finance Corporation (the Corporation), and the District. Pursuant to a Site Lease, dated as of September 1, 2011, the District will lease the site and improvements comprising generally the District transportation/maintenance facility to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease/Purchase Agreement, dated as of September 1, 2011. The payments on the COPs made by the District represent lease payments for possession and use of the property. The COPs bear an interest rate of 4.625 - 6.75% which is subsidized at a rate of 4.55%. The COPs mature on September 1, 2028.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Remaining payments on the 2011 COPs as of June 30, 2017 were:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Less Subsidy Payments</u> | <u>Total</u> |
|-----------------------------|---------------------|-------------------|--------------------------------------|---------------------|
| 2018 | \$ 90,000 | \$ 71,494 | \$ (51,187) | \$ 110,307 |
| 2019 | 90,000 | 66,712 | (47,093) | 109,619 |
| 2020 | 90,000 | 61,312 | (43,027) | 108,285 |
| 2021 | 95,000 | 55,762 | (38,980) | 111,782 |
| 2022 | 95,000 | 50,062 | (34,890) | 110,172 |
| 2023-2027 | 495,000 | 157,424 | (113,263) | 539,161 |
| 2028-2032 | 215,000 | 14,682 | (2,347) | 227,335 |
| 2033-2037 | - | - | - | - |
| Totals | \$ <u>1,170,000</u> | \$ <u>477,448</u> | \$ <u>(330,787)</u> | \$ <u>1,316,661</u> |

On January 14, 2016 the District issued \$3,280,000 of Certificates of Participation (COPs) plus a premium of \$14,506. The COPs were issued to (i) finance the acquisition, construction and installation of certain capital improvements in the Holtville Unified School District, and (ii) pay costs of delivery of the COPs, which includes the purchase of insurance and a reserve fund surety policy. The COPs require semi-annual coupon payments at interest rates ranging from 2.00% - 4.00%. The COPs mature annually from August 1, 2017 through August 1, 2041.

The annual requirements to amortize the COPs outstanding as of June 30, 2017 were:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 90,000 | \$ 101,319 | \$ 191,319 |
| 2019 | 95,000 | 99,469 | 194,469 |
| 2020 | 95,000 | 97,569 | 192,569 |
| 2021 | 100,000 | 95,619 | 195,619 |
| 2022 | 100,000 | 93,619 | 193,619 |
| 2023-2027 | 540,000 | 423,644 | 963,644 |
| 2028-2032 | 630,000 | 329,894 | 959,894 |
| 2033-2037 | 750,000 | 217,103 | 967,103 |
| 2038-2042 | 880,000 | 79,100 | 959,100 |
| 2043-2047 | - | - | - |
| Totals | \$ <u>3,280,000</u> | \$ <u>1,537,336</u> | \$ <u>4,817,336</u> |

8. Unamortized COPs Premium

The 2016 Certificates of Participation issued were sold at a premium, meaning that the market rate of interest was lower than the stated rate of interest on the COPs; therefore, they were sold for more than the face value. Generally Accepted Accounting Principles (GAAP) requires that this premium be amortized over the life of the debt. The carrying value reported on the government-wide balance sheet was presented in accordance with GAAP and was the face value of the debt plus the unamortized premium. Amounts are amortized using the straight line method over the life of the debt.

Premiums resulted in effective interest rates as follows:

| | |
|-------------------------|---------------------|
| | <u>2016 COPs</u> |
| Total Interest | \$ 1,640,405 |
| Less Bond Premium | (14,506) |
| Net Interest | \$ <u>1,625,899</u> |
| Par Amount of Bonds | \$ 3,280,000 |
| Periods | 26 |
| Effective Interest Rate | 1.91% |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

K. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the Imperial Valley Property and Liability (IVPL). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Complete financial information for IVPL can be obtained by contacting the JPA at 1225 Main Street, El Centro, California, 92244.

L. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

Qualified employees are covered under multiple-employer defined benefit pension 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). Benefit provisions under the Plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

b. Benefits Provided

CalSTRS and CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

| | CalSTRS | |
|---------------------------------------------------------|-------------------------------|------------------------------------|
| | Before <u>Jan. 1, 2013</u> | On or After <u>Jan. 1, 2013</u> |
| Hire Date | | |
| Benefit Formula | 2% at 60 | 2% at 62 |
| Benefit Vesting Schedule | 5 Years | 5 Years |
| Benefit Payments | Monthly for Life | Monthly for Life |
| Retirement Age | 50-62 | 55-67 |
| Monthly benefits, as a % of eligible compensation | 1.1 - 2.4% | 1.0 - 2.4%* |
| Required Employee Contribution Rates (at June 30, 2017) | 10.250% | 9.205% |
| Required Employer Contribution Rates (at June 30, 2017) | 12.580% | 12.580% |
| Required State Contribution Rates (at June 30, 2017) | 7.050% | 7.050% |

*Amounts are limited to 120% of Social Security Wage Base.

**The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

| | CalPERS | |
|---------------------------------------------------------|-------------------------------|------------------------------------|
| | Before <u>Jan. 1, 2013</u> | On or After <u>Jan. 1, 2013</u> |
| Hire Date | | |
| Benefit Formula | 2% at 55 | 2% at 62 |
| Benefit Vesting Schedule | 5 Years | 5 Years |
| Benefit Payments | Monthly for Life | Monthly For Life |
| Retirement Age | -12 | -15 |
| Monthly Benefits as a % of Eligible Compensation | 1.1- 2.5% | 1.0- 2.5% |
| Required Employee Contribution Rates (at June 30, 2017) | 7.000% | 6.000% |
| Required Employer Contribution Rates (at June 30, 2017) | 13.888% | 13.888% |

*Amounts are limited to 120% of Social Security Wage Base.

c. Contributions

CalSTRS

For the measurement period ended June 30, 2016 (measurement date), Section 22950 of the California Education code requires members to contribute monthly to the system 9.20% (if hired prior to January 1, 2013) or 8.56% (if hired on or after January 1, 2013) of the creditable compensation upon which members' contributions under this part are based (rates increased to 10.25% and 9.205% for fiscal year ended June 30, 2017). In addition the employer required rates established by the CalSTRS Board have been established at 10.73% of creditable compensation for the measurement period ended June 30, 2016 and 12.58% for the fiscal year ended June 30, 2017. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Beginning in the fiscal year 2021-22 and for each fiscal year thereafter, the CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary.

CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 11.847% of annual payroll. For the fiscal year ending June 30, 2017, the average active employee contribution rate is 6.974%, and the employer's contribution rate is 13.888%.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

On Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the measurement period ended June 30, 2016 (measurement date) the State contributed 8.580% of salaries creditable to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the General Fund Budgetary Comparison Schedule. Contribution reported each fiscal year are based on the contribution rate multiplied by salaries creditable to CalSTRS from the fiscal year two periods prior to the measurement period.

On Behalf Payments reported by the District for the past three fiscal years are as follows:

| Year Ended June 30, | Contribution Rate | Contribution Amount |
|------------------------|----------------------|------------------------|
| 2015 | 5.679% | \$ 375,656 |
| 2016 | 7.126% | 478,032 |
| 2017 | 8.580% | 676,203 |

d. Contributions Recognized

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), the contributions recognized for each plan were:

| | CalSTRS | CalPERS | Total |
|--------------------------------------------------------|---------------------|-------------------|---------------------|
| Contributions - Employer (Measurement Period) | \$ 863,879 | \$ 313,983 | \$ 1,177,862 |
| Contributions - State On Behalf Payments (Fiscal Year) | 676,203 | - | 676,203 |
| Total Contributions | <u>\$ 1,540,082</u> | <u>\$ 313,983</u> | <u>\$ 1,854,065</u> |

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

| | Proportionate Share of Net Pension Liability |
|-----------------------------|----------------------------------------------------|
| CalSTRS | \$ 13,106,543 |
| CalPERS | 4,322,490 |
| Total Net Pension Liability | <u>\$ 17,429,033</u> |

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

The District's proportionate share of the net pension liability for each Plan as of June 30, 2016 and June 30, 2017 were as follows:

| | CalSTRS | | | CalPERS |
|--------------------------|--------------------------------|-----------------------------|------------------------------|---------|
| | District's Proportionate Share | State's Proportionate Share | Total For District Employees | |
| Proportion June 30, 2016 | 0.0166% | 0.0092% | 0.0258% | 0.0213% |
| Proportion June 30, 2017 | 0.0162% | 0.0090% | 0.0252% | 0.0219% |
| Change in Proportion | -0.0003% | -0.0002% | -0.0005% | 0.0006% |

a. Pension Expense

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), pension expense was recognized as follows:

| | CalSTRS | CalPERS | Total |
|--------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Change in Net Pension Liability (Asset) | \$ 1,964,248 | \$ 1,188,700 | \$ 3,152,948 |
| Contributions - State On Behalf Payments | 676,203 | | 676,203 |
| Increase/(Decrease) resulting from changes in Deferred Outflows and Deferred Inflows of Resources for: | | | |
| Contributions - Employer made subsequent to measurement date | (215,949) | (86,842) | (302,791) |
| Difference Between Actual & Expected Experience | (503) | (21,881) | (22,384) |
| Change in Assumptions | - | (51,789) | (51,789) |
| Change in Proportionate Shares | 351,026 | (32,393) | 318,633 |
| Net Difference Between Projected & Actual Earnings | (1,550) | (761,083) | (762,633) |
| Total Pension Expense | \$ 2,773,475 | \$ 234,712 | \$ 3,008,187 |

b. Deferred Outflows and Inflows of Resources

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | |
|------------------------------------------------------|--------------------------------|--------------|--------------|
| | CalSTRS | CalPERS | Total |
| Pension contributions subsequent to measurement date | \$ 1,079,828 | \$ 400,825 | \$ 1,480,653 |
| Differences between actual and expected experience | - | 214,569 | 214,569 |
| Changes in assumptions | - | - | - |
| Change in employer's proportion share | 494,675 | 197,931 | 692,606 |
| Net difference between projected and actual earnings | 3,721 | 1,086,218 | 1,089,939 |
| Total Deferred Outflows of Resources | \$ 1,578,224 | \$ 1,899,543 | \$ 3,477,767 |

| | Deferred Inflows of Resources | | |
|------------------------------------------------------|-------------------------------|--------------|--------------|
| | CalSTRS | CalPERS | Total |
| Pension contributions subsequent to measurement date | \$ - | \$ - | \$ - |
| Differences between actual and expected experience | (2,484) | - | (2,484) |
| Changes in assumptions | - | (155,367) | (155,367) |
| Change in employer's proportionate share | (186,135) | - | (186,135) |
| Net difference between projected and actual earnings | - | (379,113) | (379,113) |
| Total Deferred Inflows of Resources | \$ (188,619) | \$ (534,480) | \$ (723,099) |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Pension contributions made subsequent to measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2018. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

| Year Ended June 30 | Deferred Outflows of Resources | | Deferred Inflows of Resources | | Net Effect on Expenses |
|-----------------------|--------------------------------|---------------------|-------------------------------|---------------------|---------------------------|
| | CalSTRS | CalPERS | CalSTRS | CalPERS | |
| 2018 | \$ 1,245,786 | \$ 830,061 | \$ (47,478) | \$ (241,346) | \$ 1,787,023 |
| 2019 | 165,958 | 429,236 | (47,477) | (241,345) | 306,372 |
| 2020 | 165,956 | 429,237 | (47,042) | (51,789) | 496,362 |
| 2021 | 524 | 211,009 | (46,622) | - | 164,911 |
| Total | \$ 1,578,224 | \$ 1,899,543 | \$ (188,619) | \$ (534,480) | \$ 2,754,668 |

c. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

| | CalSTRS | CalPERS |
|---------------------------|--------------------|----------------------|
| Valuation Date | June 30, 2015 | June 30, 2015 |
| Measurement Date | June 30, 2016 | June 30, 2016 |
| Actuarial Cost Method | Entry Age - Normal | Entry Age - Normal |
| Actuarial Assumptions: | | |
| Discount Rate | 7.60% | 7.65% |
| Inflation | 3.0% | 2.75% |
| Payroll Growth | 3.75% | 3.00% |
| Projected Salary Increase | 0.05%-5.6% (1) | 3.20%-10.80% (1) |
| Investment Rate of Return | 7.60% (2) | 7.65% (2) |
| Mortality | .013%-0.435% (3) | 0.00125-0.45905% (3) |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Industry standard published by the Society of Actuaries

d. Discount Rate

The discount rate used to measure the total pension liability was 7.6000% for CalSTRS and 7.6500% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

The CalPERS discount rate was increased from 7.50% in 2015 to correct for an adjustment to exclude administrative expenses. There have been no other changes to discount rate for either CalPERS or CalSTRS.

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 investment return assumption used in the accounting valuations is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalSTRS and CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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CalSTRS and CalPERS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalSTRS and CalPERS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalSTRS and CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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, CalSTRS and CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and 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 quarter of one percent.

The tables below reflect the 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 rates of return are net of administrative expenses.

| CalSTRS | | |
|---------------------|----------------------------------|----------------------------|
| Asset Class | Assumed Allocation 06/30/2016 | Long Term Expected Return* |
| Global Equity | 47.00% | 6.30% |
| Fixed Income | 12.00% | 0.30% |
| Real Estate | 13.00% | 5.20% |
| Private Equity | 13.00% | 9.30% |
| Absolute Return | 9.00% | 2.90% |
| Inflation Sensitive | 4.00% | 3.80% |
| Cash/Liquidity | 2.00% | -1.00% |

*20 year geometric average used for long term expected real rate of return

| CalPERS | | | |
|------------------------|----------------------------------|------------------------------|-----------------------------|
| Asset Class | Assumed Allocation 06/30/2016 | Real Return Years 1-10(1) | Real Return Years 11+(2) |
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Debt Securities | 20.00% | 0.99% | 2.43% |
| Inflation Assets | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure | 2.00% | 4.50% | 5.09% |
| Liquidity | 1.00% | -0.55% | -1.05% |

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

(2) An expected inflation of 3.0% used for this period

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

e. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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 or 1 percentage point higher than the current rate:

| | CalSTRS | CalPERS |
|-----------------------|---------------|--------------|
| 1% Decrease | 6.60% | 6.65% |
| Net Pension Liability | \$ 18,863,268 | \$ 6,449,180 |
| Current Discount Rate | 7.60% | 7.65% |
| Net Pension Liability | \$ 13,106,543 | \$ 4,322,490 |
| 1% Increase | 8.60% | 8.65% |
| Net Pension Liability | \$ 8,325,338 | \$ 2,551,603 |

f. Total Pension Liability, Pension Plan Fiduciary Net Position and Net Pension Liability

CalSTRS

| | Increase (Decrease) | | | | |
|---------------------------------------------------------------------|--------------------------------------|------------------------------------------|------------------------------------------|-----------------------------------------------------|--------------------------------------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | State's Share of Net Pension Liability (c) | District's Share of Net Pension Liability (a) - (b) - (c) |
| Balance at June 30, 2016 (Previously Reported) | \$ 66,730,878 | \$ 49,394,783 | \$ 17,336,095 | \$ 6,193,800 | \$ 11,142,295 |
| Changes for the year: | | | | | |
| Change in Proportionate share | (1,413,892) | (1,046,576) | (367,316) | (134,648) | (232,668) |
| Service Cost | 1,480,523 | - | 1,480,523 | 528,660 | 951,863 |
| Interest | 4,872,569 | - | 4,872,569 | 1,739,880 | 3,132,689 |
| Differences between expected and actual experience | (304,725) | - | (304,725) | (108,810) | (195,915) |
| Contributions: | | | | | |
| Employer | - | 854,727 | (854,727) | (305,203) | (549,524) |
| Employee | - | 745,422 | (745,422) | (266,173) | (479,249) |
| State On Behalf Payments | - | 488,946 | (488,946) | (174,591) | (314,355) |
| Net Investment Income | - | 580,957 | (580,957) | (207,446) | (373,511) |
| Other Income | - | 10,465 | (10,465) | (3,737) | (6,728) |
| Benefit Payments, including refunds of employee contributions | (3,314,052) | (3,314,052) | - | - | - |
| Administrative expenses | - | (45,383) | 45,383 | 16,205 | 29,178 |
| Other Expenses | - | (3,839) | 3,839 | 1,371 | 2,468 |
| Net Changes | 1,320,423 | (1,729,333) | 3,049,756 | 1,085,508 | 1,964,247 |
| Balance at June 30, 2017 | \$ 68,051,301 | \$ 47,665,450 | \$ 20,385,851 | \$ 7,279,308 | \$ 13,106,543 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

CalPERS

| | Increase (Decrease) | | |
|------------------------------------------------------------------|--------------------------------------|------------------------------------------|------------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at June 30, 2016 (Previously Reported) | \$ 15,233,256 | \$ 12,099,466 | \$ 3,133,790 |
| Changes for the year: | | | |
| Adjustment for Change in Proportionate Share | 448,288 | 356,066 | 92,222 |
| Service Cost | 375,711 | - | 375,711 |
| Interest | 1,191,016 | - | 1,191,016 |
| Differences between expected and actual experience | 87,566 | - | 87,566 |
| Changes in Assumptions | - | - | - |
| Contributions - Employer | - | 313,983 | (313,983) |
| Contributions - Employee | - | 186,279 | (186,279) |
| Net Plan to Plan Resource Movement | - | 2 | (2) |
| Net Investment Income | - | 65,114 | (65,114) |
| Benefit Payments, including refunds of employee contributions | (776,259) | (776,259) | - |
| Administrative expenses | - | (7,563) | 7,563 |
| Net Changes | <u>1,326,322</u> | <u>137,622</u> | <u>1,188,700</u> |
| Balance at June 30, 2017 | <u>\$ 16,559,578</u> | <u>\$ 12,237,088</u> | <u>\$ 4,322,490</u> |

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

M. Postemployment Benefits Other Than Pension Benefits

The Holtville Unified School District (District) administers a single-employer healthcare plan (Plan). The plan provides medical benefits to eligible retirees and their eligible dependents to age 65. Eligibility for retiree health benefits requires retirement from the District after attaining age 60 with at least 5 years of eligible service. The District's contribution for medical coverage is \$300 per month towards healthcare premiums for an eligible retiree, spouse, and dependents. District-paid benefits continue for the earlier of 2 years or until age 65. Confidential employees who retire after age 55 with at least 20 years of District service receive benefits equal to those provided to active Confidential employees until age 65. Membership of the plan consists of approximately 93 eligible active employees and 7 eligible retirees.

Contribution Information

The contribution requirements of Plan members and the District are established and amended by the District and the Teachers Association (CTA) and the local California School Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-17, the District contributed \$84,850 to the Plan, all of which was used for current premiums.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--------------------------------------------|------------------|
| Annual required contribution | \$ 74,576 |
| Interest on net OPEB obligation | 1,250 |
| Adjustment to annual required contribution | 1,807 |
| Annual OPEB Cost | <u>77,633</u> |
| Contribution made | <u>(84,850)</u> |
| Change in net OPEB obligation | (7,217) |
| Net OPEB obligation, beginning of year | 31,245 |
| Net OPEB obligation, end of year | <u>\$ 24,028</u> |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015, 2016 and 2017 were as follows:

| <u>Year Ended</u> <u>June 30,</u> | <u>Annual OPEB</u> <u>Cost</u> | <u>Percentage</u> <u>Contributed</u> | <u>Net OPEB</u> <u>Obligation</u> |
|--------------------------------------|-----------------------------------|-----------------------------------------|--------------------------------------|
| 2015 | \$ 73,989 | 95.03% | \$ 36,626 |
| 2016 | 78,159 | 106.88% | 31,245 |
| 2017 | 77,633 | 109.30% | 24,028 |

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year. All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the Employer were included in the valuation.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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Medical cost trend rates ranged from an initial rate of 8.0% reduced to a rate of 5.0% after five years. The UAAL is being amortized at a level dollar method with the remaining amortization period at July 1, 2014 of 24 years. The actuarial value of assets was not determined in this actuarial valuation; however, any assets of the plan to be determined will be on a market basis.

N. Deferred Outflows of Resources

On June 21, 2007 the District issued general obligation bonds in the amount of \$970,000. When the bonds were issued, the District prepaid bond insurance in the amount of \$9,000. In accordance with GASB Statement No. 65 this prepaid insurance is recorded as a deferred outflow of resources to be amortized over the life of the bond using the equity method.

On November 8, 2012 the District issued general obligation bonds in the amount of \$980,000. When the bonds were issued, the District prepaid bond insurance in the amount of \$8,776. In accordance with GASB Statement No. 65 this prepaid insurance is recorded as a deferred outflow of resources to be amortized over the life of the bond using the equity method.

On November 8, 2012 the District issued refunding bonds in the amount of \$2,065,000 plus a premium of \$209,825. The refunding bonds were issued to repay bonds issued in 2003. The issuance of the refunding bonds resulted in an refunding loss of \$113,210. In accordance with GASB Statement No. 65 the loss is recorded as a deferred outflow of resources and is amortized against interest expense over the life of the bond using the straight line method.

In 2014 the District issued refunding bonds as a partial refunding of 2002 Series B General Obligation Bonds. The refunding resulted in a loss on refunding of \$220,746 which is recorded as a deferred outflow of resources and amortized over 20 years (the life of the bonds).

In January 2016 the District issued Certificates of Participation (COPs) in the amount of \$3,280,000. When the COPs were issued, the District prepaid debt insurance in the amount of \$17,700. In accordance with GASB Statement No. 65 this prepaid insurance is recorded as a deferred outflow of resources to be amortized over the life of the COPs using the equity method.

In 2016 the District issued refunding bonds as a partial refunding of 2002 Series C General Obligation Bonds. The refunding resulted in a loss on refunding of \$144,362 which is recorded as a deferred outflow of resources and amortized over 20 years (the life of the bonds).

GASB Statement No. 71 requires that contributions of pension plans subsequent to the measurement date be recorded as deferred outflows of resources. In addition, GASB 68 prescribes other items that are recorded as Deferred Outflows of Resources. Pension related deferred outflows of resources as of year end are representative of contributions made after the measurement date.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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A summary of the deferred outflows of resources as of June 30, 2017, are as follows:

| Description | Issue Date | Amortization Term | Beginning Balance | Additions | Current Year Amortization | Ending Balance |
|---------------------------------------------|------------|-------------------|---------------------|---------------------|---------------------------|---------------------|
| Bond insurance | 06/21/2007 | 30 Years | \$ 8,443 | \$ - | \$ 8,350 | \$ 93 |
| Bond insurance | 11/08/2012 | 25 Years | 8,766 | - | - | 8,766 |
| Refunding Loss | 11/08/2012 | 15 Years | 90,569 | - | 7,547 | 83,022 |
| Bond insurance | 12/23/2014 | 20 Years | 6,559 | - | 113 | 6,446 |
| Refunding Loss | 12/23/2014 | 20 Years | 209,708 | - | 11,038 | 198,670 |
| COPs insurance | 01/14/2016 | 25 Years | 17,700 | - | 17,700 | - |
| Bond Insurance | 11/10/2016 | 20 Years | - | 4,077 | - | 4,077 |
| Refunding Loss | 11/10/2016 | 20 Years | - | 144,362 | - | 144,362 |
| Pension Related | | Varies | 2,712,517 | 2,538,306 | 1,773,056 | 3,477,767 |
| Total Deferred Outflows of Resources | | | \$ 3,054,262 | \$ 2,686,745 | \$ 1,817,804 | \$ 3,923,203 |

| Year Ended | Debt Insurance | Refunding Loss | Pension Related | Total |
|------------|------------------|-------------------|---------------------|---------------------|
| 2018 | \$ 282 | \$ 25,804 | \$ 2,075,848 | \$ 2,101,934 |
| 2019 | 208 | 25,804 | 595,195 | 621,207 |
| 2020 | 220 | 25,803 | 595,194 | 621,217 |
| 2021 | 208 | 25,803 | 211,530 | 237,541 |
| 2022 | 220 | 25,802 | - | 26,022 |
| 2023-2027 | 1,726 | 129,014 | - | 130,740 |
| 2028-2032 | 6,467 | 98,823 | - | 105,290 |
| 2033-2037 | 9,067 | 69,201 | - | 78,268 |
| 2038-2042 | 984 | - | - | 984 |
| | \$ 19,382 | \$ 426,054 | \$ 3,477,767 | \$ 3,923,203 |

O. Deferred Inflows of Resources

Consistent with the requirements of GASB Statement No. 68, the pension related deferred inflows of resources have been recorded for changes in assumptions, change in employer's proportionate share, and the net difference between projected and actual earnings on investments.

A summary of activity of deferred inflows of resources for the year ended June 30, 2017 is as follows:

| Description | Amortization Term | Beginning Balance | Additions | Current Year Amortization | Ending Balance |
|--------------------------------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|
| Pension Related | Varies | \$ 778,813 | \$ 233,110 | \$ 288,824 | \$ 723,099 |
| Total Deferred Inflows of Resources | | \$ 778,813 | \$ 233,110 | \$ 288,824 | \$ 723,099 |

Future amortization of deferred inflows of resources is as follows:

| Year Ending June 30 | Pension Related |
|---------------------|-------------------|
| 2018 | \$ 288,824 |
| 2019 | 288,822 |
| 2020 | 98,831 |
| 2021 | 46,622 |
| Total | \$ 723,099 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

P. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

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

Q. Components of Ending Fund Balance

As of June 30, 2017 ending fund balance in governmental funds consisted of the following:

| | Major Funds | | Nonmajor | Total |
|-----------------------------------|---------------------|---------------------|--------------------|---------------------|
| | General Fund | Building Fund | Governmental Funds | |
| Nonspendable Fund Balances | | | | |
| Revolving Cash | \$ 2,500 | \$ - | \$ 2,821 | \$ 5,321 |
| Stores Inventory | - | - | 19,171 | 19,171 |
| Total Nonspendable | 2,500 | - | 21,992 | 24,492 |
| Restricted Fund Balances | | | | |
| Educational Programs | 168,941 | - | 13,495 | 182,436 |
| Child Nutrition Program | - | - | 135,888 | 135,888 |
| Medi-Cal Program | 50,002 | - | - | 50,002 |
| Capital Projects | - | 1,633,451 | - | 1,633,451 |
| Debt Service | - | 24,809 | - | 24,809 |
| Other Restricted | 6,451 | - | - | 6,451 |
| Total Restricted | 225,394 | 1,658,260 | 149,383 | 2,033,037 |
| Assigned Fund Balances | | | | |
| Capital Projects | - | - | 218,785 | 218,785 |
| Debt Service | - | - | 353,629 | 353,629 |
| Educational Programs | - | - | 47,495 | 47,495 |
| Total Assigned | - | - | 619,909 | 619,909 |
| Unassigned Fund Balances | | | | |
| For Economic Uncertainty | 4,797,310 | - | - | 4,797,310 |
| Total Fund Balance | \$ 5,025,204 | \$ 1,658,260 | \$ 791,284 | \$ 7,474,748 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

R. Adjustments to Beginning Fund Balance

With the implementation of GASB Statement No 68 & 71 the District relied upon information provided by CalSTRS and CalPERS in order to calculate their proportion of the net pension liability, deferred outflows of resources - pension related, and deferred inflows of resources - pension related. Proportionate share was determined based on the calculated proportionate share provided by CalSTRS and CalPERS. During the current year the district calculated proportionate share by taking contributions to the CalSTRS and CalPERS plans and dividing by plan total contributions. The result was a small change to proportionate share based on rounding variances in the proportionate share. Additionally, CalSTRS auditors made audit adjustments to CalSTRS records which affected beginning net position for the District and is also being adjusted.

In addition, the District made corrections to clerical errors in recording of general obligation bonds payable.

Beginning net position was adjusted as follows:

| | |
|--------------------------------------------------------------|---------------------|
| Net Position, Beginning (As Originally Stated) | \$ 3,745,323 |
| Adjustments for: | |
| Net Pension Liability Corrections | 29,642 |
| Deferred Outflows of Resources - Pension Related Corrections | 13,017 |
| Deferred Inflows of Resources - Pension Related Corrections | <u>2,231</u> |
| Net Position, Beginning (As Restated) | <u>\$ 3,797,696</u> |

S. Subsequent Events

Implementation of New Accounting Guidance

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

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

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

Financial impact of implementing GASB Statement No. 75 has not yet been determined; however, it is expected that the Net OPEB Obligation will significantly increase. The District is currently in contact with an actuary to determine the complete fiscal impact.

GASB Statement No. 81 - Irrevocable Split-Interest Agreements

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts --- or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements --- in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

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

As of the date this audit report is issued, the District does not have any split interest agreements. Consequently, implementation of GASB No 81 is not expected to have a financial or reporting impact on the District.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

GASB Statement No. 85 - Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics:

1. Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
2. Reporting amounts previously reported as goodwill and "negative" goodwill.
3. Classifying real estate held by insurance entities.
4. Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
5. Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
7. Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
8. Classifying employer-paid member contributions for OPEB.
9. Simplifying certain aspects of the alternative measurement method for OPEB.
10. Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Financial impact of implementing GASB Statement No. 85 has not yet been determined.

GASB Statement No. 86 - Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt-- are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes financial statements for debt that is defeased in substance.

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt.

However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified in the period of the defeasance.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

As of the date this audit report was issued, the District did not have any defeasance of debt. Consequently, the implementation of GASB Statement No. 86 is not expected to have a fiscal impact on the District.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

HOLTVILLE UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------------------------------|------------------------|---------------------|---------------------|---------------------------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| LCFF Sources: | | | | |
| State Apportionment or State Aid | \$ 10,753,335 | \$ 10,587,452 | \$ 10,733,572 | \$ 146,120 |
| Education Protection Account Funds | 2,038,249 | 2,084,125 | 2,031,370 | (52,755) |
| Local Sources | 2,346,374 | 2,574,686 | 2,498,344 | (76,342) |
| Federal Revenue | 1,264,995 | 1,459,833 | 1,393,615 | (66,218) |
| Other State Revenue | 565,140 | 2,294,655 | 1,804,657 | (489,998) |
| Other Local Revenue | 618,052 | 825,966 | 726,823 | (99,143) |
| Total Revenues | <u>17,586,145</u> | <u>19,826,717</u> | <u>19,188,381</u> | <u>(638,336)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 8,755,006 | 9,053,221 | 9,105,790 | (52,569) |
| Classified Salaries | 2,679,068 | 2,800,630 | 2,712,028 | 88,602 |
| Employee Benefits | 34,918,244 | 4,266,936 | 4,119,984 | 146,952 |
| Books And Supplies | 910,811 | 1,202,257 | 892,827 | 309,430 |
| Services And Other Operating Expenditures | 1,584,633 | 1,749,322 | 1,459,510 | 289,812 |
| Other Outgo | 80,457 | 80,524 | 79,928 | 596 |
| Direct Support/Indirect Costs | (7,933) | (7,933) | (9,969) | 2,036 |
| Capital Outlay | 30,000 | 964,923 | 499,000 | 465,923 |
| Debt Service: | | | | |
| Principal | 11,474 | 11,474 | 11,474 | - |
| Interest | 903 | 903 | 903 | - |
| Total Expenditures | <u>48,962,663</u> | <u>20,122,257</u> | <u>18,871,475</u> | <u>1,250,782</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(31,376,518)</u> | <u>(295,540)</u> | <u>316,906</u> | <u>612,446</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | - | 357 | 357 | - |
| Transfers Out | <u>(370,000)</u> | <u>(394,429)</u> | <u>(394,429)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(370,000)</u> | <u>(394,072)</u> | <u>(394,072)</u> | <u>-</u> |
| Net Change in Fund Balance | (31,746,518) | (689,612) | (77,166) | 612,446 |
| Fund Balance, July 1 | - | - | 5,102,371 | 5,102,371 |
| Fund Balance, June 30 | <u>\$ (31,746,518)</u> | <u>\$ (689,612)</u> | <u>\$ 5,025,205</u> | <u>\$ 5,714,817</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

Exhibit B-2

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
RETIREE HEALTHCARE PLAN
YEAR ENDED JUNE 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|----------------------------------------|------------------------------------------------------------|------------------------------------|--------------------------|---------------------------|------------------------------------------------------------|
| 07/01/08 | \$ - | \$ 578,928 | \$ 578,928 | - | \$ 10,419,463 | 5.6% |
| 07/01/11 | - | 775,617 | 775,617 | - | 9,129,937 | 8.5% |
| 07/01/14 | - | 890,427 | 890,427 | - | 10,416,487 | 8.5% |

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------------------------------------------------------------------------------------------------------|---------------|---------------|------------|------|------|------|------|------|------|------|
| | | | | | | | | | | |
| District's proportion of the net pension liability (asset) | 0.0162% | 0.0166% | 0.0151% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| State's proportionate share of the net pension liability (asset) associated with the District | 0.0090% | 0.0092% | 0.0104% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 13,106,543 | \$ 11,142,294 | 8,847,000 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| State's proportionate share of the net pension liability (asset) associated with the District | \$ 7,279,308 | \$ 6,193,800 | 6,077,430 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total share of net pension liability (asset) associated with the District | \$ 20,385,851 | \$ 17,336,094 | 14,924,430 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 8,583,688 | 8,051,062 | 7,648,187 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 152.69% | 138.40% | 115.67% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 74.02% | 74.02% | 76.52% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first implementation year and as such, no information is being presented for years prior to implementation.

See accompanying Notes to Required Supplementary Information

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|----------------------------------------------------------------------------|--------------|-----------|-----------|------|------|------|------|------|------|------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Contractually required contribution | \$ 1,079,828 | 863,879 | 679,159 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total Contractually Required Contributions | 1,079,828 | 863,879 | 679,159 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total Contributions in relation to the contractually required contribution | (1,079,828) | (863,879) | (679,159) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contribution deficiency (excess) | \$ - | - | - | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 8,583,688 | 8,051,062 | 7,648,187 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 12.58% | 10.73% | 8.88% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

N/A - 2014-15 was the first year of implementation and as such, information is not being presented for years prior to implementation.

See accompanying Notes to Required Supplementary Information

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------|--------------|--------------|-----------|------|------|------|------|------|------|------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| District's proportion of the net pension liability (asset) | 0.0219% | 0.0213% | 0.0194% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 4,322,490 | \$ 3,133,790 | 2,206,640 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 2,886,125 | 2,650,317 | 2,364,285 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 149.77% | 118.24% | 93.33% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 73.90% | 79.43% | 83.38% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first year of implementation and as such, years previous to implementation are not presented in this schedule.

See accompanying Notes to Required Supplementary Information

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

| | Fiscal Year | | | | | | | | | |
|----------------------------------------------------------------------|--------------|-----------|-----------|------|------|------|------|------|------|------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Contractually required contribution | \$ 400,825 | 313,983 | 278,300 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions in relation to the contractually required contribution | (400,825) | (313,983) | (278,300) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contribution deficiency (excess) | \$ - | - | - | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 2,886,125 | 2,650,317 | 2,364,285 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 13.888% | 11.847% | 11.771% | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

N/A - 2014-15 fiscal year was the first year of implementation and as such, years previous to implementation are not presented in this schedule.

See accompanying Notes to Required Supplementary Information

HOLTVILLE UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2017

Excess of Expenditures Over Appropriations

As of June 30, 2017, expenditures exceeded appropriations in individual budgeted funds as follows:

| <u>Appropriations Category</u> | <u>Excess Expenditures</u> | <u>Reason for Excess Expenditures</u> |
|--------------------------------|----------------------------|-----------------------------------------------|
| General Fund: | | |
| Certificated Salaries \$ | 52,569 | Unanticipated costs for increases in salaries |

Schedule of District's Proportionate Share - California State Teachers Retirement System

- 1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2015, 2016 & 2017 there were no changes in assumptions

Schedule of District's Contributions - California State Teachers Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| <u>Valuation Date</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2016</u> |
|-----------------------------------|----------------------|----------------------|----------------------|
| Experience Study | 07/01/06 - 06/30/10 | 07/01/07 - 06/30/11 | 07/01/08 - 06/30/12 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 7.60% | 7.60% | 7.60% |
| Consumer Price Inflation | 3.00% | 3.00% | 3.00% |
| Wage Growth (Average) | 3.75% | 3.75% | 3.75% |
| Post-retirement Benefit Increase: | 2.00% Simple | 2.00% Simple | 2.00% Simple |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its RP2000 series tables adjusted to fit CalSTRS experience. RP 2000 series tables are an industry standard of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010, July 1, 2007 - June 30, 2011 and July 1, 2008 - June 30, 2012 Experience Analysis for more information.

Schedule of District's Proportionate Share - California Public Employees Retirement System

- 1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2015 and 2017 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense.

Schedule of District's Contributions - California Public Employees' Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| <u>Valuation Date</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2016</u> |
|-----------------------------------|----------------------|----------------------|----------------------|
| Experience Study | 07/01/96 - 06/30/10 | 07/01/97 - 06/30/11 | 07/01/98 - 06/30/12 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Investment Rate of Return | 7.50% | 7.50% | 7.50% |
| Consumer Price Inflation | 2.75% | 2.75% | 2.75% |
| Wage Growth (Average) | 3.00% | 3.00% | 3.00% |
| Post-retirement Benefit Increase: | 2.00% Simple | 2.00% Simple | 2.00% Simple |

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the April 2013 experience study (based on demographic data from 1996 through 2010), the April 2014 experience study (based on demographic data from 1997 to 2011) and the April 2015 experience study (based on demographic data from 1998 to 2012) available on the CalPERS website.

Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-3) |
|--------------------------------------|-----------------------------|--------------------------|------------------------------|-----------------------------------------------------------------|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 219,375 | \$ 328,502 | \$ 218,358 | \$ 766,235 |
| Cash in Revolving Fund | 2,821 | - | - | 2,821 |
| Accounts Receivable | 60,935 | 25,136 | 427 | 86,498 |
| Stores Inventories | 19,171 | - | - | 19,171 |
| Total Assets | <u>302,302</u> | <u>353,638</u> | <u>218,785</u> | <u>874,725</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 22,187 | \$ 9 | \$ - | \$ 22,196 |
| Due to Other Funds | 61,246 | - | - | 61,246 |
| Total Liabilities | <u>83,433</u> | <u>9</u> | <u>-</u> | <u>83,442</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances: | | | | |
| Revolving Cash | 2,821 | - | - | 2,821 |
| Stores Inventories | 19,170 | - | - | 19,170 |
| Restricted Fund Balances | 149,383 | - | - | 149,383 |
| Assigned Fund Balances | 47,495 | 353,629 | 218,785 | 619,909 |
| Total Fund Balance | <u>218,869</u> | <u>353,629</u> | <u>218,785</u> | <u>791,283</u> |
| Total Liabilities and Fund Balances | <u>\$ 302,302</u> | <u>\$ 353,638</u> | <u>\$ 218,785</u> | <u>\$ 874,725</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-5) |
|--------------------------------------------------------------|-----------------------------|--------------------------|------------------------------|-----------------------------------------------------------------|
| Revenues: | | | | |
| Federal Revenue | \$ 928,026 | \$ 51,533 | \$ - | \$ 979,559 |
| Other State Revenue | 240,511 | 2,805 | - | 243,316 |
| Other Local Revenue | 65,838 | 420,399 | 100,922 | 587,159 |
| Total Revenues | <u>1,234,375</u> | <u>474,737</u> | <u>100,922</u> | <u>1,810,034</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 153,173 | - | - | 153,173 |
| Instruction - Related Services | 75,734 | - | - | 75,734 |
| Pupil Services | 1,046,263 | - | - | 1,046,263 |
| General Administration | 9,969 | - | - | 9,969 |
| Debt Service: | | | | |
| Principal | - | 269,817 | - | 269,817 |
| Interest | - | 342,324 | - | 342,324 |
| Total Expenditures | <u>1,285,139</u> | <u>612,141</u> | <u>-</u> | <u>1,897,280</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(50,764)</u> | <u>(137,404)</u> | <u>100,922</u> | <u>(87,246)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | - | 394,429 | - | 394,429 |
| Transfers Out | - | - | (357) | (357) |
| Other Sources | - | 2,390 | - | 2,390 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>396,819</u> | <u>(357)</u> | <u>396,462</u> |
| Net Change in Fund Balance | (50,764) | 259,415 | 100,565 | 309,216 |
| Fund Balance, July 1 | 269,633 | 94,214 | 118,220 | 482,067 |
| Fund Balance, June 30 | <u>\$ 218,869</u> | <u>\$ 353,629</u> | <u>\$ 218,785</u> | <u>\$ 791,283</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2017

| | Adult Education Fund | Cafeteria Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-1) |
|--------------------------------------|----------------------------|-------------------|-----------------------------------------------------------------------|
| ASSETS: | | | |
| Cash in County Treasury | \$ 78,270 | \$ 141,105 | \$ 219,375 |
| Cash in Revolving Fund | - | 2,821 | 2,821 |
| Accounts Receivable | 4,793 | 56,142 | 60,935 |
| Stores Inventories | - | 19,171 | 19,171 |
| Total Assets | <u>83,063</u> | <u>219,239</u> | <u>302,302</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 11,962 | \$ 10,225 | \$ 22,187 |
| Due to Other Funds | 10,111 | 51,135 | 61,246 |
| Total Liabilities | <u>22,073</u> | <u>61,360</u> | <u>83,433</u> |
| Fund Balance: | | | |
| Nonspendable Fund Balances: | | | |
| Revolving Cash | - | 2,821 | 2,821 |
| Stores Inventories | - | 19,170 | 19,170 |
| Restricted Fund Balances | 13,495 | 135,888 | 149,383 |
| Assigned Fund Balances | 47,495 | - | 47,495 |
| Total Fund Balance | <u>60,990</u> | <u>157,879</u> | <u>218,869</u> |
| Total Liabilities and Fund Balances | <u>\$ 83,063</u> | <u>\$ 219,239</u> | <u>\$ 302,302</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2017

| | Bond Interest & Redemption Fund | Debt Service Fund | Total Nonmajor Debt Service Funds (See Exhibit C-1) |
|------------------------------------------|---------------------------------------|-----------------------------|--------------------------------------------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS: | | | |
| Cash in County Treasury | \$ 103,784 | \$ 224,718 | \$ 328,502 |
| Accounts Receivable | 167 | 24,969 | 25,136 |
| Total Assets | <u>103,951</u> | <u>249,687</u> | <u>353,638</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 9 | \$ - | \$ 9 |
| Total Liabilities | <u>9</u> | <u>-</u> | <u>9</u> |
| Fund Balance: | | | |
| Assigned Fund Balances | <u>103,942</u> | <u>249,687</u> | <u>353,629</u> |
| Total Fund Balance | <u>103,942</u> | <u>249,687</u> | <u>353,629</u> |
| Total Liabilities and Fund Balances | <u>\$ 103,951</u> | <u>\$ 249,687</u> | <u>\$ 353,638</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Bond Interest & Redemption Fund | Debt Service Fund | Total Nonmajor Debt Service Funds (See Exhibit C-2) |
|--------------------------------------------------------------|---------------------------------------|-------------------------|--------------------------------------------------------------------|
| Revenues: | | | |
| Federal Revenue | \$ - | \$ 51,533 | \$ 51,533 |
| Other State Revenue | 2,805 | - | 2,805 |
| Other Local Revenue | 419,921 | 478 | 420,399 |
| Total Revenues | <u>422,726</u> | <u>52,011</u> | <u>474,737</u> |
| Expenditures: | | | |
| Current: | | | |
| Debt Service: | | | |
| Principal | 125,000 | 144,817 | 269,817 |
| Interest | 260,635 | 81,689 | 342,324 |
| Total Expenditures | <u>385,635</u> | <u>226,506</u> | <u>612,141</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>37,091</u> | <u>(174,495)</u> | <u>(137,404)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | - | 394,429 | 394,429 |
| Other Sources | 2,390 | - | 2,390 |
| Total Other Financing Sources (Uses) | <u>2,390</u> | <u>394,429</u> | <u>396,819</u> |
| Net Change in Fund Balance | 39,481 | 219,934 | 259,415 |
| Fund Balance, July 1 | 64,461 | 29,753 | 94,214 |
| Fund Balance, June 30 | <u>\$ 103,942</u> | <u>\$ 249,687</u> | <u>\$ 353,629</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2017

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-1) |
|--------------------------------------|-------------------------------|-------------------------------|------------------------------------------------------------------------|
| ASSETS: | | | |
| Cash in County Treasury | \$ 218,358 | \$ - | \$ 218,358 |
| Accounts Receivable | 427 | - | 427 |
| Total Assets | <u>218,785</u> | <u>-</u> | <u>218,785</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance: | | | |
| Assigned Fund Balances | \$ 218,785 | \$ - | \$ 218,785 |
| Total Fund Balance | <u>218,785</u> | <u>-</u> | <u>218,785</u> |
| Total Liabilities and Fund Balances | <u>\$ 218,785</u> | <u>\$ -</u> | <u>\$ 218,785</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-2) |
|--------------------------------------------------------------|-------------------------------|-------------------------------|------------------------------------------------------------------------|
| Revenues: | | | |
| Other Local Revenue | \$ 100,922 | \$ - | \$ 100,922 |
| Total Revenues | <u>100,922</u> | <u>-</u> | <u>100,922</u> |
| Expenditures: | | | |
| Current: | | | |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>100,922</u> | <u>-</u> | <u>100,922</u> |
| Other Financing Sources (Uses): | | | |
| Transfers Out | <u>-</u> | <u>(357)</u> | <u>(357)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(357)</u> | <u>(357)</u> |
| Net Change in Fund Balance | 100,922 | (357) | 100,565 |
| Fund Balance, July 1 | 117,863 | 357 | 118,220 |
| Fund Balance, June 30 | <u>\$ 218,785</u> | <u>\$ -</u> | <u>\$ 218,785</u> |

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

HOLTVILLE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2017

The Holtville Unified School District was established in 1906 and is located in the southeastern most portion of Imperial County. The District encompasses within its boundaries the City of Holtville, with jurisdiction of approximately 562 square miles. No changes were made to these boundaries during the current year. The District operates two elementary schools, one middle school, and two high schools.

Governing Board

| Name | Office | Term and Term Expiration |
|-----------------|-----------|-----------------------------------------|
| Ben Abatti, Jr. | President | Four year term Expires December 2017 |
| Matt Hester | Clerk | Four year term Expires December 2019 |
| John Hawk | Member | Four year term Expires December 2017 |
| Kevin Grizzle | Member | Four year term Expires December 2017 |
| Jared Garewal | Member | Four year term Expires December 2019 |

Administration

Celso Ruiz
Superintendent

John Paul Wells
Assistant Superintendent

Samantha Williams
Director of Special
Projects/Special Education

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 YEAR ENDED JUNE 30, 2017

TABLE D-1

| | Second Period Report | | Annual Report | |
|--------------------------------|----------------------|---------|---------------|---------|
| | Original | Revised | Original | Revised |
| TK/K-3: Regular ADA | 428.14 | N/A | 426.79 | N/A |
| Grades 4-6: Regular ADA | 333.08 | N/A | 330.99 | N/A |
| Grades 7 and 8: Regular ADA | 234.59 | N/A | 234.88 | N/A |
| Grades 9-12: Regular ADA | 556.15 | N/A | 553.93 | N/A |
| ADA Totals | 1,551.96 | N/A | 1,546.59 | N/A |

N/A - There were no audit findings which resulted in necessary revisions to attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the district or charter school. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2017

TABLE D-2

| Grade Level | Ed. Code 46207 Minutes Requirement | 2016-17 Actual Minutes | Number of Days Traditional Calendar | Status |
|---------------------------|---------------------------------------------|------------------------------|----------------------------------------------|----------|
| Transitional Kindergarten | 36,000 | 57,330 | 180 | Complied |
| Kindergarten | 36,000 | 52,890 | 180 | Complied |
| Grade 1 | 50,400 | 53,760 | 180 | Complied |
| Grade 2 | 50,400 | 53,480 | 180 | Complied |
| Grade 3 | 50,400 | 54,350 | 180 | Complied |
| Grade 4 | 54,000 | 55,220 | 180 | Complied |
| Grade 5 | 54,000 | 59,960 | 180 | Complied |
| Grade 6 | 54,000 | 59,960 | 180 | Complied |
| Grade 7 | 54,000 | 59,960 | 180 | Complied |
| Grade 8 | 54,000 | 68,596 | 180 | Complied |
| Grade 9 | 64,800 | 68,596 | 180 | Complied |
| Grade 10 | 64,800 | 68,596 | 180 | Complied |
| Grade 11 | 64,800 | 68,596 | 180 | Complied |
| Grade 12 | 64,800 | 68,596 | 180 | Complied |

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts, including basic aid districts.

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 46207.

The District has neither met nor exceeded its target funding.

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2017

TABLE D-4

No charter schools are chartered by Holtville Unified School District.

| <u>Charter Schools</u> | <u>Included In Audit?</u> |
|------------------------|-------------------------------|
| None | N/A |

HOLTVILLE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2017

TABLE D-5
 Page 1 of 2

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass- Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|-----------------------------------------------------------------------|---------------------------|-----------------------------------------------------|---------------------------------------|-------------------------|
| CHILD NUTRITION CLUSTER: | | | | |
| <u>U. S. Department of Agriculture</u> | | | | |
| Passed Through State Department of Education: | | | | |
| School Breakfast Program | 10.553 | 13525 | \$ - | \$ 285,598 |
| National School Lunch Program Meal Supplements | 10.555 | 13396 | - | 34,951 |
| National School Lunch Program Section 11 | 10.555 | 13396 | - | 425,431 |
| Noncash Commodities | 10.555 | 13396 | - | 78,448 |
| National School Lunch Program | 10.555 | 13523 | - | 85,080 |
| Total Passed Through State Department of Education | | | - | 909,508 |
| Total U. S. Department of Agriculture | | | - | 909,508 |
| Total Child Nutrition Cluster | | | - | 909,508 |
| MEDICAID CLUSTER: | | | | |
| <u>U. S. Department of Health and Human Services</u> | | | | |
| Passed Through State Department of Education: | | | | |
| Medi-Cal | 93.778 | 10013 | - | 22,719 |
| Total U. S. Department of Health and Human Services | | | - | 22,719 |
| Total Medicaid Cluster | | | - | 22,719 |
| SPECIAL EDUCATION (IDEA) CLUSTER: | | | | |
| <u>U. S. Department of Education</u> | | | | |
| Passed Through State Department of Education: | | | | |
| IDEA Basic Local Assistance | 84.027 | 13379 | - | 213,955 |
| Total U. S. Department of Education | | | - | 213,955 |
| Total Special Education (IDEA) Cluster | | | - | 213,955 |
| OTHER PROGRAMS: | | | | |
| <u>U. S. Department of Education</u> | | | | |
| Passed Through State Department of Education: | | | | |
| Adult Education Secondary | 84.002 | 13978 | - | 11,464 |
| Adult Education Basic | 84.002 | 14508 | - | 7,054 |
| Title I | 84.010 | 14329 | - | 491,023 |
| Migrant Education Summer | 84.011 | 10005 | - | 121,825 |
| Migrant Education | 84.011 | 14838 | - | 305,501 |
| Carl D. Perkins Career & Technical Education | 84.048 | 14894 | - | 19,863 |
| Title III Limited English Proficiency (LEP) | 84.365 | 14346 | - | 65,510 |
| Title III Immigrant Education | 84.365 | 15146 | - | 6,066 |
| Title II Supporting Effective Instruction | 84.367 | 14341 | - | 113,915 |
| Total Passed Through State Department of Education | | | - | 1,142,221 |
| Total U. S. Department of Education | | | - | 1,142,221 |
| <u>U. S. Department of Agriculture</u> | | | | |
| Direct Program: | | | | |
| Distance Learning & Telemedicine | 10.855 | - | - | 42,607 |
| Total U. S. Department of Agriculture | | | - | 42,607 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ - | \$ 2,331,010 |

The accompanying notes are an integral part of this schedule.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Bay Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR Section 200.502, Basis for Determining, Federal Awards Expended, and 2 CFR Section 200.510(b) Schedule of Expenditures of Federal Awards Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Indirect Cost Rate

Indirect costs were calculated in accordance with 2 CFR §200.412 Direct and Indirect Costs. The District used an indirect cost rate of 6.49% based on the rate approved by the California Department of Education for each program which did not have a pre-defined allowable indirect cost rate. The School did not elect to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect Costs. The following programs utilized a lower indirect cost rate based on program restrictions or other factors determined by the District:

| <u>Program</u> | <u>CFDA #</u> | <u>Indirect Cost Rate</u> |
|---------------------------------------|---------------|-----------------------------------|
| Migrant Education - Summer Program | 84.011 | 6.28% |
| School Breakfast Program | 10.553 | 0.00% |
| National School Lunch Program | 10.555 | 0.00% |
| Title III Limited English Proficiency | 84.365 | 2.00% |
| Title III Immigrant Education | 84.365 | 1.73% |

Schoolwide Program

The District operates "schoolwide programs" at all school sites. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limiting services to certain targeted students. The following federal program amounts were expended by the School in it's schoolwide program:

| <u>Program</u> | <u>CFDA #</u> | <u>Amount Expended</u> |
|----------------|---------------|----------------------------|
| Title I Part A | 84.010 | \$491,023 |

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Other Independent Auditor's Reports

Independent Auditor's Report on State Compliance

Board of Trustees
Holtville Unified School District
Holtville, California

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2017.

Management's Responsibility for State Compliance

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 applicable program as identified in the State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810. 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, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

| <u>Compliance Requirements</u> | <u>Procedures in Audit Guide Performed?</u> |
|--------------------------------------------------------------------------------|-----------------------------------------------------|
| LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS: | |
| Attendance Accounting: | |
| Attendance Reporting | Yes |
| Teacher Certification and Misassignments | Yes |
| Kindergarten Continuance | Yes |
| Independent Study | N/A |
| Continuation Education | Yes |
| Instructional Time | Yes |
| Instructional Materials..... | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | N/A |
| GANN Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | N/A |
| Middle or Early College High Schools | N/A |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | Yes |
| Mental Health Expenditures | Yes |
| SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS: | |
| Educator Effectiveness | Yes |
| California Clean Energy Jobs Act | Yes |
| After School Education and Safety Program: | |
| After School | Yes |
| Before School | Yes |
| General Requirements | 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 | N/A |
| Immunizations | Yes |
| CHARTER SCHOOLS: | |
| Attendance | N/A |
| Mode of Instruction | N/A |
| Nonclassroom-Based Instruction/Independent Study | N/A |
| Determination of Funding for Nonclassroom-Based Instruction | N/A |
| Annual Instructional Minutes - Classroom Based | N/A |
| Charter School Facility Grant Program | N/A |

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Opinion on State Compliance

In our opinion, Holtville Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2017.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King + Co LLP

El Cajon, California
December 14, 2017

Findings and Recommendations Section

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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 No

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

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

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

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|-------------------------------------------|
| 84.011 | Migrant Education |
| 10.553 | Child Nutrition Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting? Yes No

Type of auditor's report issued on compliance for state programs: Unmodified

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

NONE

HOLTVILLE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|-------------------------------------------------|-----------------------|--------------------------------------------------------|
| There were no findings in the prior audit year. | N/A | N/A |