

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2016



**WILKINSON HADLEY
KING & CO. LLP**

CPAs AND ADVISORS

218 W. Douglas Ave.

El Cajon, California

Introductory Section

Holtville Unified School District
 Audit Report
 For The Year Ended June 30, 2016

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Financial Section



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Independent Auditor's Report

To the Board of Trustees
Holtville Unified School District
Holtville, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2016, Holtville Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Holtville Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Holtville Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of funding progress for OPEB benefits, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holtville Unified School District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of Holtville Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holtville Unified School District's internal control over financial reporting and compliance.

Wilkinson Hadley King + Co LLP

El Cajon, California
November 29, 2016

**HOLTVILLE UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016
(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, 2016, 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 2015-16 fiscal year. Note that this report should be read with the actual financial statements, which follow this section.

KEY FINANCIAL POINTS

* Total Assets increased in 2015-16 over 2014-15 dramatically by approximately \$4.3 million, due to a combination of: 1) increased cash from the issuance of a construction note (approximately \$3.1 million) and improved cash balances in the General Fund (approximately \$1.6 million) and other operational funds (approximately \$200,000), and 2) depreciation of capital assets (approximately -\$600,000). See Table A-2.

* Total Liabilities increased drastically as well by approximately \$6.6 million, due primarily to the increase in net pension liability (approximately \$3.3 million) and the addition of the construction not obligation (approximately \$3.2 million). See Table A-2.

* District-wide, total revenues increased between and 2014-15 and 2015-16 by approximately \$3 million (see Table A-1). This increase reflects an improvement in the California State Budget, and a large amount of one-time funding provided by the State to school district in the form of prior year mandated cost settle-up funds.

* Enrollment in 2015-16 decreased compared to the 2014-15 school year by 12 students district-wide, bringing the total 2014-15 HUSD October enrollment to 1,585 students. However, ADA remained relatively flat, as P-2 ADA to dipped by less than 1 ADA, totaling 1,551.48.

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 Assets**, 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 2015-16 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 assets, 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 2015-16 compared to the prior year.

| Table A-1 | | |
|--|----------------|----------------|
| STATEMENT OF ACTIVITIES | | |
| YEARS ENDED JUNE 30, 2016 & JUNE 30, 2015 | | |
| REVENUES | 2014-15 | 2015-16 |
| Program Revenues | | |
| Charges for Services | 136,973 | 213,462 |
| Operating Grants and Contributions | 3,360,948 | 3,892,734 |
| Capital Grants and Contributions | 0 | 0 |
| General Revenues | | |
| Taxes and Subventions | 2,527,317 | 2,954,938 |
| Federal and State Aid, Not Restricted | 10,945,640 | 13,056,316 |
| Other General Revenues | 330,840 | 234,671 |
| Total Revenues | 17,301,718 | 20,352,121 |
| EXPENDITURES | | |
| Instruction | 8,806,984 | 11,470,471 |
| Supervision of Instruction | 395,989 | 514,086 |
| Library, Media, and Technology | 174,867 | 224,804 |
| School Site Administration | 1,057,220 | 1,418,971 |
| Pupil Services | 2,358,227 | 2,751,716 |
| General Administration & Data Processing | 1,192,038 | 1,403,363 |
| Maintenance and Operations & Facility Acquisition | 1,804,889 | 2,228,545 |
| Debt Service | 177,520 | 469,985 |
| Other Outgo | 841,429 | 256,221 |
| Total Expenditures | 16,809,163 | 20,738,162 |
| | | |
| Increase/Decrease in Net Asset | 492,555 | -386,041 |
| | | |
| Net Asset Beginning | 2,838,772 | 3,331,327 |
| Prior Year Adjustment (See Note R) | 0 | 800,037 |
| Net Asset Ending | 3,331,327 | 3,745,323 |

The following graph illustrates the changes to net assets from the 2014-15 fiscal year to the 2015-16 fiscal year.

| Table A-2 | | |
|-------------------------------------|----------------------|----------------------|
| STATEMENT OF NET ASSETS | | |
| | June 30, 2015 | June 30, 2016 |
| ASSETS | | |
| Cash & Current Assets (i.e. AR) | 4,473,316 | 9,361,653 |
| Capital Assets | 20,988,566 | 20,398,945 |
| Total Assets | 25,461,882 | 29,760,598 |
| Deferred Outflows of Resources | 2,490,178 | 3,041,245 |
| LIABILITIES | | |
| Long-Term Debt | 20,993,193 | 27,358,938 |
| Other Liabilities | 713,949 | 916,538 |
| Total Liabilities | 21,707,142 | 28,275,476 |
| Deferred Inflows of Resources | 2,919,161 | 781,044 |
| <i>TOTAL NET ASSETS</i> | 3,325,757 | 3,745,323 |
| DISTRIBUTION OF NET ASSETS | | |
| Net Investment in Capital Assets | 11,027,538 | 7,442,513 |
| Restricted for Capital Projects | 197,781 | 3,453,964 |
| Restricted for Debt Service | 115,191 | 94,214 |
| Restricted for Educational Programs | 56,620 | 167,152 |
| Other Purposes (Expendable) | 367,273 | 366,936 |
| Other Purposes (Nonexpendable) | 39,171 | 24,722 |
| Unrestricted | -8,472,247 | -7,804,178 |
| <i>TOTAL NET ASSETS</i> | 3,331,327 | 3,745,323 |

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 eight 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 and the fact that the District showed a substantial decline in net assets, this would only tell part of the story for the 2015-16 school year. However, looking at the following chart (Table A-3), the performance of each of the District’s funds shows that certain areas within the District’s budget performed better than others. Of particular note is to show how well the District’s General Fund performed.

Table A-3
CHANGES IN DISTRICT FUND BALANCES

| FUND # | BEG BAL (7/1/2015) | END BAL (6/30/2016) | CHANGE IN FUND |
|--|-------------------------------|--------------------------------|---------------------------|
| General Fund (#010) | 3,337,554 | 5,102,371 | 1,764,818 |
| Adult Education Fund (#110) | 71 | 52,882 | 82,811 |
| Cafeteria Fund (#130) | 360,416 | 216,751 | -143,664 |
| Building Fund (#210) | 15,993 | 3,104,006 | 3,088,013 |
| Capital Facilities Fund (#250) | 63,045 | 117,863 | 54,817 |
| Special Reserve Fund (#400) | 357 | 357 | 0 |
| Bond Interest and Redemption Fund (#510) | 131,115 | 64,461 | -66,654 |
| Debt Service Fund (#560) | 11,644 | 29,753 | 18,108 |

In looking at the above, it is important to note that the General Fund, the account that houses the bulk of the District’s operations, shows an increase in fund balance of approximately \$1.7 million.

The Adult Education account, after seeing severe cuts due to the flexibility provisions during the State’s fiscal crisis, is now being funded again by the State, along with a small apportionment from Federal Funds to operate adult classes.

The Cafeteria Fund showed a loss to the fund balance again in 2015-16. However, this is in part because of a) new, rigorous nutritional challenges placed on the District by the State, and b) due to regulations that dictate that the Food Services fund cannot carry too large of a balance, as dictated by USDA. The District has taken measures to ensure that the Cafeteria is correcting its balance, and will continue to monitor the fiscal situation of its Food Services Program closely.

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:

- Current indications show that enrollment is stabilizing, but Average Daily Attendance (ADA) needs to be continually monitored.
- The national economy is still fragile. While many profess that a recovery has taken place, all agree that it has not been a robust recovery. The fiscal health of our State, the country, and the globe appears to still in question. With that in mind, government agencies must be vigilant in maintaining sound fiscal policy.

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, 2016

| | Governmental Activities |
|---------------------------------------|----------------------------|
| ASSETS | |
| Cash | \$ 8,484,605 |
| Receivables | 857,375 |
| Stores | 19,673 |
| Capital Assets: | |
| Land | 153,012 |
| Land Improvements | 2,273,863 |
| Buildings | 26,528,302 |
| Equipment | 1,844,970 |
| Work in Progress | 379,497 |
| Less Accumulated Depreciation | (10,780,699) |
| Total Assets | <u>29,760,598</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>3,041,245</u> |
| LIABILITIES | |
| Accounts Payable | 817,182 |
| Unearned Revenue | 99,356 |
| Long-Term Liabilities: | |
| Due Within One Year | 316,181 |
| Due in More Than One Year | 27,042,757 |
| Total Liabilities | <u>28,275,476</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>781,044</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 7,442,513 |
| Restricted for: | |
| Capital Projects | 3,453,964 |
| Debt Service | 94,214 |
| Educational Programs | 167,152 |
| Other Purposes (Expendable) | 366,936 |
| Other Purposes (Nonexpendable) | 24,722 |
| Unrestricted | (7,804,178) |
| Total Net Position | <u>\$ 3,745,323</u> |

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| Functions | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|---------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| Instruction | \$ 11,470,471 | \$ 206,956 | \$ 2,000,906 | \$ (9,262,609) |
| Instruction-Related Services: | | | | |
| Instructional Supervision and Administration | 514,086 | - | 252,680 | (261,406) |
| Instructional Library, Media and Technology | 224,804 | - | 16,075 | (208,729) |
| School Site Administration | 1,418,971 | 1,680 | 157,950 | (1,259,341) |
| Pupil Services: | | | | |
| Home-to-School Transportation | 510,981 | - | - | (510,981) |
| Food Services | 1,096,429 | - | 907,477 | (188,952) |
| All Other Pupil Services | 1,144,306 | - | 224,137 | (920,169) |
| General Administration | | | | |
| Centralized Data Processing | 201,221 | - | 3,133 | (198,088) |
| Other General Administration | 1,202,142 | 4,826 | 78,667 | (1,118,649) |
| Plant Services | 1,834,090 | - | 244,800 | (1,589,290) |
| Ancillary Services | 394,455 | - | 6,909 | (387,546) |
| Interest on Long-Term Debt | 469,985 | - | - | (469,985) |
| Other Outgo - Transfers Between Agencies | 256,221 | - | - | (256,221) |
| Total Expenses | \$ 20,738,162 | \$ 213,462 | \$ 3,892,734 | \$ (16,631,966) |

General Revenues:

Taxes and Subventions:

| | |
|--|-------------------|
| Taxes Levied for General Purposes | 2,462,346 |
| Taxes Levied for Debt Service | 368,940 |
| Taxes Levied for Other Specific Purposes | 123,652 |
| Federal and State Aid, Not Restricted | 13,056,316 |
| Interest and Investment Earnings | 26,195 |
| Miscellaneous | 208,476 |
| Total General Revenues | <u>16,245,925</u> |

Change in Net Position (386,041)

Net Position Beginning - As Restated (See Note R) 4,131,364Net Position Ending \$ 3,745,323

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2016

| | General Fund | Building Fund | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 4,972,375 | \$ - | \$ 403,176 | \$ 5,375,551 |
| Cash in Revolving Fund | 2,500 | - | 2,549 | 5,049 |
| Cash with a Fiscal Agent/Trustee | - | 3,104,006 | - | 3,104,006 |
| Accounts Receivable | 781,272 | - | 76,104 | 857,376 |
| Due from Other Funds | 412 | - | - | 412 |
| Stores Inventories | - | - | 19,673 | 19,673 |
| Total Assets | <u>5,756,559</u> | <u>3,104,006</u> | <u>501,502</u> | <u>9,362,067</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 554,830 | \$ - | \$ 19,023 | \$ 573,853 |
| Due to Other Funds | - | - | 412 | 412 |
| Unearned Revenue | 99,357 | - | - | 99,357 |
| Total Liabilities | <u>654,187</u> | <u>-</u> | <u>19,435</u> | <u>673,622</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances | 2,500 | - | 22,222 | 24,722 |
| Restricted Fund Balances | 571,553 | - | 194,529 | 766,082 |
| Committed Fund Balances | - | - | 52,882 | 52,882 |
| Assigned Fund Balances | - | 3,104,006 | 212,434 | 3,316,440 |
| Unassigned Fund Balances | 4,528,319 | - | - | 4,528,319 |
| Total Fund Balance | <u>5,102,372</u> | <u>3,104,006</u> | <u>482,067</u> | <u>8,688,445</u> |
| Total Liabilities and Fund Balances | <u>\$ 5,756,559</u> | <u>\$ 3,104,006</u> | <u>\$ 501,502</u> | <u>\$ 9,362,067</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, 2016

Total fund balances - governmental funds balance sheet \$ 8,688,445

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 | 31,179,644 | |
| Accumulated depreciation | (10,780,699) | |
| Net | | 20,398,945 |

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 unmatrued interest owing at the end of the period was: (243,330)

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: 41,468

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 | | 2,699,500 |
| Deferred inflows of resources relating to pensions | | (781,044) |

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 | 7,842,537 | |
| Net pension liability | 14,305,727 | |
| Net OPEB obligation | 31,245 | |
| Compensated absences payable | 12,976 | |
| Certificates of participation payable | 4,938,228 | |
| Capital leases payable | 228,225 | |
| Total | | (27,358,938) |

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: 300,277

Net position of governmental activities - statement of net position \$ 3,745,323

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT

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

| | General Fund | Building Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| LCFF Sources: | | | | |
| State Apportionment or State Aid | \$ 9,790,262 | \$ - | \$ - | \$ 9,790,262 |
| Education Protection Account Funds | 2,102,173 | - | - | 2,102,173 |
| Local Sources | 2,409,935 | - | 52,500 | 2,462,435 |
| Federal Revenue | 1,301,032 | - | 840,167 | 2,141,199 |
| Other State Revenue | 2,296,922 | - | 200,598 | 2,497,520 |
| Other Local Revenue | 870,190 | - | 488,342 | 1,358,532 |
| Total Revenues | <u>18,770,514</u> | <u>-</u> | <u>1,581,607</u> | <u>20,352,121</u> |
| Expenditures: | | | | |
| Instruction | 9,961,136 | - | 129,362 | 10,090,498 |
| Instruction - Related Services | 1,907,015 | - | 30,335 | 1,937,350 |
| Pupil Services | 1,492,568 | - | 1,051,141 | 2,543,709 |
| Ancillary Services | 288,742 | - | - | 288,742 |
| General Administration | 1,308,675 | - | 7,389 | 1,316,064 |
| Plant Services | 1,754,870 | 15,993 | 3,963 | 1,774,826 |
| Other Outgo - Transfers of Tuition | 83,192 | - | - | 83,192 |
| Other Outgo - Debt Issue Costs | - | 190,500 | - | 190,500 |
| Debt Service: | | | | |
| Principal | 11,048 | - | 299,817 | 310,865 |
| Interest | 1,329 | - | 341,302 | 342,631 |
| Total Expenditures | <u>16,808,575</u> | <u>206,493</u> | <u>1,863,309</u> | <u>18,878,377</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>1,961,939</u> | <u>(206,493)</u> | <u>(281,702)</u> | <u>1,473,744</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | - | - | 197,121 | 197,121 |
| Transfers Out | (197,121) | - | - | (197,121) |
| Proceeds from Certificates of Participation | - | 3,280,000 | - | 3,280,000 |
| Other Financing Sources - Premium | - | 14,506 | - | 14,506 |
| Total Other Financing Sources (Uses) | <u>(197,121)</u> | <u>3,294,506</u> | <u>197,121</u> | <u>3,294,506</u> |
| Net Change in Fund Balance | 1,764,818 | 3,088,013 | (84,581) | 4,768,250 |
| Fund Balance, July 1 | 3,337,554 | 15,993 | 566,648 | 3,920,195 |
| Fund Balance, June 30 | <u>\$ 5,102,372</u> | <u>\$ 3,104,006</u> | <u>\$ 482,067</u> | <u>\$ 8,688,445</u> |

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, 2016

Net change in fund balances - total governmental funds \$ 4,768,250

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: | 59,034 | |
| Depreciation expense: | (648,655) | |
| Net: | | (589,621) |

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: 310,865

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: | 17,700 | |
| Prepaid debt insurance amortized for the period: | (229) | |
| Net: | | 17,471 |

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: (3,294,506)

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: (1,474,246)

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: (133,930)

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: (2,282)

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: 5,381

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:

6,577

Change in net position of governmental activities - statement of activities

\$ (386,041)

The accompanying notes are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

| | Agency Fund |
|---------------------------|-------------------------|
| | Student Body Fund |
| ASSETS: | |
| Cash on Hand and in Banks | \$ 141,408 |
| Total Assets | <u>141,408</u> |
| LIABILITIES: | |
| Due to Student Groups | \$ 141,408 |
| Total Liabilities | <u>141,408</u> |
| NET POSITION: | |
| Total Net Position | <u><u>\$ -</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, 2016

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's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

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

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

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

2. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 accounts for the acquisition of major governmental capital facilities and buildings from the sale of bonds.

In addition, the District reports the following fund types:

Special Revenue Funds: Special revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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

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 considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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.

3. 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.

4. 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.

5. 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, 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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.

6. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

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. 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.

e. 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.

f. 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.

g. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

h. 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.

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.

i. 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. This 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 to which basic aid districts such as this district are vulnerable. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

7. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net assets or net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net assets or 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.

8. 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.

9. 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.

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, 2014 |
| Measurement Date (MD) | June 30, 2015 |
| Measurement Period (MP) | July 1, 2014 to June 30, 2015 |

10. 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.

11. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

12. Change in Accounting Policies

In February 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 72 Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has implemented the guidance under GASB Statement No. 72 into their accounting policies effective for the fiscal year ending June 30, 2016.

In June 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The District has implemented the guidance under GASB Statement No. 76 into their accounting policies effective for the fiscal year ending June 30, 2016.

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

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

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

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This Statement also clarifies the application of certain provisions of Statement 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The District has adopted the provisions of GASB Statement No. 73 effective for the year ending June 30, 2016.

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 |

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 Imperial County Treasury as part of the common investment pool (\$5,375,551 as of June 30, 2016). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$5,375,551. 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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

Cash balances on hand and in banks (\$141,408 as of June 30, 2016) and in the revolving fund (\$5,049) 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, 2016 are shown below.

| Investment or Investment Type | Average Days to Maturity | Amount Reported | Fair Value |
|-------------------------------|--------------------------|-----------------|--------------|
| Dreyfus Treasury Obligations | <30 days | \$ 15,993 | \$ 15,993 |
| Blackrock Institutional Funds | <30 days | 3,088,013 | 3,088,013 |
| Total Investments | | \$ 3,104,006 | \$ 3,104,006 |

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 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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 & Poors.

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.

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, 2016, 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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.

D. Accounts Receivable

Accounts receivables as of June 30, 2016, consisted of the following:

| | <u>Major Funds</u> | <u>Nonmajor</u> | |
|----------------------|--------------------|---------------------|-------------------|
| | <u>General</u> | <u>Governmental</u> | |
| | <u>Fund</u> | <u>Funds</u> | <u>Total</u> |
| Federal Government: | | | |
| Federal Programs | \$ 287,479 | \$ 75,660 | \$ 363,139 |
| State Government: | | | |
| Lottery Revenue | 178,610 | - | 178,610 |
| CA Clean Energy | 226,287 | - | 226,287 |
| Other State Programs | 9,640 | - | 9,640 |
| Local Sources: | | | |
| Interest | 8,747 | 444 | 9,191 |
| Other Local Sources | 70,509 | - | 70,509 |
| Totals | <u>\$ 781,272</u> | <u>\$ 76,104</u> | <u>\$ 857,376</u> |

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

HOLTVILLE UNIFIED SCHOOL DISTRICT
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YEAR ENDED JUNE 30, 2016

E. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|---------------------|------------------|----------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 153,012 | \$ - | \$ - | \$ 153,012 |
| Work in progress | 384,541 | 5,943 | 10,987 | 379,497 |
| Total capital assets not being depreciated | <u>537,553</u> | <u>5,943</u> | <u>10,987</u> | <u>532,509</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 26,523,202 | 5,100 | - | 26,528,302 |
| Improvements | 2,258,912 | 14,951 | - | 2,273,863 |
| Equipment | 1,800,943 | 44,027 | - | 1,844,970 |
| Total capital assets being depreciated | <u>30,583,057</u> | <u>64,078</u> | <u>-</u> | <u>30,647,135</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (8,087,168) | (485,627) | - | (8,572,795) |
| Improvements | (495,020) | (105,267) | - | (600,287) |
| Equipment | (1,549,856) | (57,761) | - | (1,607,617) |
| Total accumulated depreciation | <u>(10,132,044)</u> | <u>(648,655)</u> | <u>-</u> | <u>(10,780,699)</u> |
| Total capital assets being depreciated, net | <u>20,451,013</u> | <u>(584,577)</u> | <u>-</u> | <u>19,866,436</u> |
| Governmental activities capital assets, net | <u>\$ 20,988,566</u> | <u>\$ (578,634)</u> | <u>\$ 10,987</u> | <u>\$ 20,398,945</u> |

Depreciation was charged to functions as follows:

| | |
|------------------------------|-------------------|
| Instruction | \$ 490,536 |
| Instruction-Related Services | 30,528 |
| Pupil Services | 21,518 |
| Ancillary Services | 90,312 |
| General Administration | 668 |
| Plant Services | 15,093 |
| | <u>\$ 648,655</u> |

F. Interfund Balances and Activities

1. Due To and From Other Funds

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

| Due To Fund | Due From Fund | Amount | Purpose |
|--------------|--------------------------|---------------|---------------------------|
| General Fund | Other Governmental Funds | \$ 412 | Reimbursement of expenses |
| | Total | <u>\$ 412</u> | |

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, 2016, consisted of the following:

| Transfers From | Transfers To | Amount | Reason |
|----------------|-------------------|-------------------|-----------------------|
| General fund | Debt service fund | \$ 197,121 | Debt service payments |
| | Total | <u>\$ 197,121</u> | |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

G. Accounts Payable

Accounts payable as of June 30, 2016, consisted of the following:

| | <u>Major Funds</u> General Fund | Nonmajor Governmental Funds | <u>Total</u> |
|------------------------------|---------------------------------------|-----------------------------------|-------------------|
| Vendor payables | \$ 403,218 | \$ 3,812 | \$ 407,030 |
| Payroll and related benefits | 140,899 | 13,823 | 154,722 |
| Pension related liabilities | 10,713 | 1,388 | 12,101 |
| Totals | <u>\$ 554,830</u> | <u>\$ 19,023</u> | <u>\$ 573,853</u> |

H. Unearned Revenue

Unearned revenue as of June 30, 2016, consisted of the following:

| | <u>General Fund</u> |
|------------------|-------------------------|
| Federal Programs | \$ 29,225 |
| State Programs | 70,132 |
| Total | <u>\$ 99,357</u> |

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, 2016

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, 2016, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year |
|---------------------------------|----------------------|---------------------|-------------------|----------------------|-----------------------------------|
| <u>Governmental activities:</u> | | | | | |
| General obligation bonds | | | | | |
| Principal balance | \$ 7,366,408 | \$ - | \$ 155,000 | \$ 7,211,408 | 125,000 |
| Bond premium | 416,341 | - | 25,161 | 391,180 | 21,914 |
| Accreted interest | 188,519 | 51,430 | - | 239,949 | - |
| Total Bonds | <u>7,971,268</u> | <u>51,430</u> | <u>180,161</u> | <u>7,842,537</u> | <u>146,914</u> |
| Certificates of participation | | | | | |
| Principal balance | 1,788,539 | 3,280,000 | 144,817 | 4,923,722 | 144,817 |
| COPs premium | - | 14,506 | - | 14,506 | - |
| Total COPs | <u>1,788,539</u> | <u>3,294,506</u> | <u>144,817</u> | <u>4,938,228</u> | <u>144,817</u> |
| Capital leases | 239,273 | - | 11,048 | 228,225 | 11,474 |
| Net Pension Liability | 11,110,079 | 3,195,648 | - | 14,305,727 | - |
| Net OPEB obligation | 36,626 | 78,159 | 83,540 | 31,245 | - |
| Compensated absences * | 10,694 | 2,282 | - | 12,976 | 12,976 |
| Total governmental activities | <u>\$ 21,156,479</u> | <u>\$ 6,622,025</u> | <u>\$ 419,566</u> | <u>\$ 27,358,938</u> | <u>\$ 316,181</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, net pension liability, bond premium and OPEB obligation as of June 30, 2016, are as follows:

| Year Ending June 30, | Governmental Activities | | | |
|----------------------|-------------------------|----------------------|---------------------|----------------------|
| | Principal | Accreted Interest | Interest | Total |
| 2017 | \$ 294,267 | \$ - | \$ 466,883 | \$ 761,150 |
| 2018 | 391,734 | - | 456,573 | 848,307 |
| 2019 | 399,817 | - | 445,271 | 845,088 |
| 2020 | 424,817 | - | 433,181 | 857,998 |
| 2021 | 530,752 | 1,802 | 420,024 | 952,578 |
| 2022-2026 | 2,576,055 | 10,679 | 1,794,023 | 4,380,757 |
| 2027-2031 | 2,850,418 | 164,582 | 1,186,722 | 4,201,722 |
| 2032-2036 | 3,032,515 | 532,485 | 619,794 | 4,184,794 |
| 2037-2041 | 1,685,956 | 2,184,044 | 128,950 | 3,998,950 |
| 2042-2046 | 190,000 | - | 3,325 | 193,325 |
| Totals | <u>\$ 12,376,331</u> | <u>\$ 2,893,592</u> | <u>\$ 5,954,746</u> | <u>\$ 21,224,669</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

3. General Obligation Bonds

General obligation bonds as of June 30, 2016, consisted of the following:

| | Date of Issue | Interest Rate | Maturity Date | Amount of Original Issue |
|------------------------|---------------|---------------|---------------|--------------------------|
| 2002 Election Series B | 05/26/2005 | 3.00-5.00% | 08/01/2034 | \$ 3,000,000 |
| 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 |
| Total GO Bonds | | | | <u>\$ 10,481,409</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--------------------------|---------------------|------------------|-------------------|---------------------|
| 2002 Election Series B | \$ 35,000 | \$ - | \$ 35,000 | \$ - |
| 2002-B Bond Premium | 3,052 | - | 3,052 | - |
| 2002 Election Series C | 920,000 | - | 10,000 | 910,000 |
| 2002-C Bond Premium | 38,959 | - | 1,771 | 37,188 |
| 2002 Election Series D | 536,408 | - | - | 536,408 |
| 2002-D Bond Premium | 66,605 | - | 2,562 | 64,043 |
| 2002-D Accreted Interest | 188,519 | 51,430 | - | 239,949 |
| 2002 Election Series E | 980,000 | - | - | 980,000 |
| 2002-E Premium | 80,450 | - | 3,498 | 76,952 |
| 2012 General Obligation | 1,965,000 | - | 50,000 | 1,915,000 |
| 2012 Premium | 170,482 | - | 13,114 | 157,368 |
| 2014 General Obligation | 2,930,000 | - | 60,000 | 2,870,000 |
| 2014 Premium | 56,793 | - | 1,164 | 55,629 |
| Total GO Bonds | <u>\$ 7,971,268</u> | <u>\$ 51,430</u> | <u>\$ 180,161</u> | <u>\$ 7,842,537</u> |

The annual requirements to amortize the bonds outstanding at June 30, 2016, are as follows:

| Year Ending June 30, | Principal | Accreted Interest | Interest | Total |
|----------------------|---------------------|---------------------|---------------------|----------------------|
| 2017 | \$ 125,000 | \$ - | \$ 277,503 | \$ 402,503 |
| 2018 | 145,000 | - | 273,550 | 418,550 |
| 2019 | 160,000 | - | 269,340 | 429,340 |
| 2020 | 185,000 | - | 264,550 | 449,550 |
| 2021 | 198,198 | 1,802 | 258,893 | 458,893 |
| 2022-2026 | 1,334,321 | 10,679 | 1,162,569 | 2,507,569 |
| 2027-2031 | 1,920,418 | 164,582 | 802,991 | 2,887,991 |
| 2032-2036 | 2,307,515 | 532,485 | 379,147 | 3,219,147 |
| 2037-2041 | 835,956 | 2,184,044 | 19,675 | 3,039,675 |
| Totals | <u>\$ 7,211,408</u> | <u>\$ 2,893,592</u> | <u>\$ 3,708,218</u> | <u>\$ 13,813,218</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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:

| | <u>2002-B</u> | <u>2002-C</u> | <u>2002-D</u> |
|-------------------------|---------------------|---------------------|---------------------|
| Total Interest | \$ 3,201,046 | \$ 1,262,021 | \$ 2,893,592 |
| Less Bond Premium | (88,516) | (51,356) | (78,269) |
| 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% |
| | | | |
| | <u>2002-E</u> | <u>2012 Bonds</u> | <u>2014 Bonds</u> |
| Total Interest | \$ 970,164 | \$ 901,277 | \$ 1,523,950 |
| Less Bond Premium | (93,276) | (209,825) | (56,793) |
| Net Interest | <u>\$ 876,888</u> | <u>\$ 691,452</u> | <u>\$ 1,467,157</u> |
| | | | |
| Par Amount of Bonds | \$ 980,000 | \$ 2,065,000 | \$ 2,930,000 |
| Periods | 25 | 15 | 20 |
| Effective Interest Rate | 3.58% | 2.23% | 2.50% |

5. Accreted Interest

Accreted interest in the Long-Term Obligation Activity chart represents amounts that have compounded as of June 30, 2016 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.

6. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2016, as follows:

| <u>Year Ending June 30:</u> | |
|---|--------------------------|
| 2017 | \$ 22,127 |
| 2018 | 22,127 |
| 2019 | 9,750 |
| 2020 | 9,750 |
| 2021 | 92,487 |
| 2022-2026 | <u>125,003</u> |
| Total Minimum Rentals | 281,244 |
| Less Amount Representing Interest | (53,019) |
| Net Present Value of Minimum Lease Payments | <u><u>\$ 228,225</u></u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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, 2013 the escrow account carried an accrued balance of \$293,394. 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 Deposit</u> | <u>Scheduled Escrow Balance</u> |
|-----------------------------|-----------------------------|---|
| 2017 | \$ 54,817 | \$ 489,417 |
| 2018 | 54,817 | 558,376 |
| 2019 | 54,817 | 629,214 |
| 2020 | 54,817 | 718,233 |
| 2021 | 54,817 | 807,252 |
| 2022-2026 | 109,637 | 1,000,000 |
| Totals | <u>\$ 383,722</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.

Remaining payments on the 2011 COPs as of June 30, 2016 were:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Less Subsidy Payments</u> | <u>Total</u> |
|-----------------------------|---------------------|-------------------|--------------------------------------|---------------------|
| 2017 | \$ 90,000 | \$ 75,657 | \$ (55,283) | \$ 110,374 |
| 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 |
| 2022-2026 | 485,000 | 189,430 | (133,593) | 540,837 |
| 2027-2031 | 320,000 | 32,738 | (16,907) | 335,831 |
| 2032-2036 | - | - | - | - |
| Totals | <u>\$ 1,260,000</u> | <u>\$ 553,105</u> | <u>\$ (386,070)</u> | <u>\$ 1,427,035</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.

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The annual requirements to amortize the COPs outstanding as of June 30, 2016 were:

| <u>Year Ending P.</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|---------------------|---------------------|---------------------|
| 2017 | \$ - | \$ 103,070 | \$ 103,070 |
| 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 |
| 2022-2026 | 525,000 | 439,119 | 964,119 |
| 2027-2031 | 610,000 | 350,994 | 960,994 |
| 2032-2036 | 725,000 | 240,647 | 965,647 |
| 2037-2041 | 850,000 | 109,275 | 959,275 |
| 2042-2046 | 190,000 | 3,325 | 193,325 |
| Totals | <u>\$ 3,280,000</u> | <u>\$ 1,640,406</u> | <u>\$ 4,920,406</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% |

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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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YEAR ENDED JUNE 30, 2016

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 Paid

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, 2016 are summarized as follows:

| | CalSTRS | |
|---|------------------------|-----------------------------|
| | Before Jan. 1, 2013 | On or After Jan. 1, 2013 |
| 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, 2015) | 8.150% | 8.150% |
| Required employer contribution rates (at June 30, 2015) | 8.880% | 8.880% |
| Required state contribution rates (at June 30, 2015) | 5.679% | 5.679% |
| Required employee contribution rates (at June 30, 2016) | 9.200% | 8.56%** |
| Required employer contribution rates (at June 30, 2016) | 10.73% | 10.73% |
| Required state contribution rates (at June 30, 2016) | 7.126% | 7.126% |

*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
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| | CalPERS | |
|---|------------------------|-----------------------------|
| | Before Jan. 1, 2013 | On or After Jan. 1, 2013 |
| 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 | 50-62 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.1 - 2.5% | 1.0 - 2.5% |
| Required employee contribution rates (at June 30, 2015) | 7.00% | 6.00% |
| Required employer contribution rates (at June 30, 2015) | 11.771% | 11.771% |
| Required employee contribution rates (at June 30, 2016) | 7.00% | 6.00% |
| Required employer contribution rates (at June 30, 2016) | 11.847% | 11.847% |

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

c. Contributions - 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, 2015 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 11.771% of annual payroll. For the fiscal year ending June 30, 2016, the average active employee contribution rate is 6.974%, and the employer's contribution rate is 11.847%.

d. Contributions - CalSTRS

For the measurement period ended June 30, 2015 (measurement date), Section 22950 of the California Education code requires members to contribute monthly to the system 8.15% of the creditable compensation upon which members' contributions under this part are based. In addition the employer required rates established by the CalSTRS Board have been established at 8.88% of creditable compensation. 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. For the fiscal year ended June 30, 2016 required employee rate is 9.20% if the employee started before January 1, 2013 and 8.56% if the employee started on or after January 1, 2013. For the fiscal year ended June 30, 2016 the required employer contribution rate is 10.730%.

e. 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, 2015 (measurement date) the State contributed 5.678848% of salaries creditable to CalSTRS. For the fiscal year ended June 30, 2016 the State contribution rate was 7.126% 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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

f. Contributions Recognized

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

| | CalSTRS | CalPERS | Total |
|--|---------------------|-------------------|---------------------|
| Contributions - Employer | \$ 679,159 | \$ 167,459 | \$ 846,618 |
| Contributions - Employee | 645,110 | 278,300 | 923,410 |
| Contributions - State On Behalf Payments | 375,656 | - | 375,656 |
| Total Contributions | <u>\$ 1,699,925</u> | <u>\$ 445,759</u> | <u>\$ 2,145,684</u> |

g. Pension Expense

| | CalSTRS | CalPERS | Total |
|---|---------------------|------------------|---------------------|
| Change in Net Pension Liability | \$ 2,268,498 | \$ 927,150 | \$ 3,195,648 |
| Increases/(Decreases) Resulting from Changes in Deferred Outflows and Deferred Inflows of Resources for: | | | |
| Contributions made subsequent to measurement date | (177,266) | (30,120) | (207,386) |
| Difference between actual and expected experience | (2,171) | (192,688) | (194,859) |
| Changes in assumptions | - | 207,156 | 207,156 |
| Changes in proportionate share | (659,566) | (165,538) | (825,104) |
| Net Difference between projected and actual experience | 3,040 | (704,249) | (701,209) |
| Total Pension Expense | <u>\$ 1,432,535</u> | <u>\$ 41,711</u> | <u>\$ 1,474,246</u> |

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

As of June 30, 2016, 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 | \$ 11,171,937 |
| CalPERS | 3,133,790 |
| Total Net Pension Liability | <u>\$ 14,305,727</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, 2015, 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, 2014 rolled forward to June 30, 2015 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.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

| | CalSTRS | | | CalPERS |
|------------------------------|--------------------------------------|-----------------------------------|------------------------------------|----------------|
| | District's Proportionate Share | State's Proportionate Share | Total for District Employees | |
| Proportion - June 30, 2014 | 0.0151% | 0.0104% | 0.0255% | 0.0194% |
| Proportion - June 30, 2015 | 0.0166% | 0.0092% | 0.0258% | 0.0213% |
| Change - Increase (Decrease) | <u>0.0015%</u> | <u>-0.0012%</u> | <u>0.0003%</u> | <u>0.0019%</u> |

For the year ended June 30, 2016, the District recognized pension expense of \$1,474,246.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Pension contributions subsequent to measurement date | \$ 1,164,845 | \$ - |
| Differences between actual and expected experience | 194,859 | - |
| Changes in assumptions | - | (207,156) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 825,104 | - |
| Net difference between projected and actual earnings on plan investments | <u>514,692</u> | <u>(573,888)</u> |
| Total | <u>\$ 2,699,500</u> | <u>\$ (781,044)</u> |

\$1,164,845 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Deferred Outflows | Deferred Inflows | Net Effect on Expenses |
|-----------------------|----------------------------|----------------------------|---------------------------|
| 2017 | \$ 383,664 | \$ (242,788) | \$ 140,876 |
| 2018 | 383,664 | (242,788) | 140,876 |
| 2019 | 383,664 | (242,785) | 140,879 |
| 2020 | 383,663 | (52,683) | 330,980 |
| Total | <u>\$ 1,534,655</u> | <u>\$ (781,044)</u> | <u>\$ 753,611</u> |

a. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| | CalSTRS | CalPERS |
|---------------------------|---|--------------------|
| Valuation Date | June 30, 2014 | June 30, 2014 |
| Measurement Date | June 30, 2015 | June 30, 2015 |
| Actuarial Cost Method | Entry Age - Normal Cost Method for both CalSTRS & CalPERS | |
| 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) | .00125-.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

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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b. 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.

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.

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.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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The table below reflects 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 | Allocation 06/30/15 | Long Term Expected Return* |
| Global Equity | 57.40% | 4.50% |
| Private Equity | 10.10% | 6.20% |
| Real Estate | 12.70% | 4.35% |
| Inflation Sensitive | 0.80% | 3.20% |
| Fixed Income | 15.70% | 0.20% |
| Absolute Return | 1.50% | - |
| Liquidity | 1.80% | - |

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

| CalPERS | | | |
|---------------------|------------------------|--------------------------------|-------------------------------|
| Asset Class | Allocation 06/30/15 | Real Return (Years 1-10)(1) | Real Return (Years 11+)(2) |
| Global Equity | 53.80% | 5.25% | 5.71% |
| Global Fixed Income | 17.60% | 0.99% | 2.43% |
| Inflation Sensitive | 5.20% | 0.45% | 3.36% |
| Private Equity | 9.60% | 6.83% | 6.95% |
| Real Estate | 10.50% | 4.50% | 5.13% |
| Absolute Return | 0.40% | - | - |
| Plan Level | 0.40% | - | - |
| Liquidity | 2.50% | -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

c. 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 | \$ 16,823,997 | \$ 5,100,504 |
| Current Discount Rate | 7.60% | 7.65% |
| Net Pension Liability | \$ 11,171,937 | \$ 3,133,790 |
| 1% Increase | 8.60% | 8.65% |
| Net Pension Liability | \$ 6,420,341 | \$ 1,498,336 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

d. 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, 2015 (Previously Reported) | \$ 63,464,185 | \$ 48,564,691 | \$ 14,899,494 | \$ 6,052,494 | \$ 8,847,000 |
| Adjustment for CalSTRS Audit Adjustments | - | (41,617) | 41,617 | (14,821) | 56,438 |
| Balance at June 30, 2015 (As Adjusted) | <u>63,464,185</u> | <u>48,523,074</u> | <u>14,941,111</u> | <u>6,037,673</u> | <u>8,903,438</u> |
| Changes for the year: | | | | | |
| Change in proportionate share | 517,252 | 395,815 | 121,437 | (703,023) | 824,460 |
| Service cost | 1,428,145 | - | 1,428,145 | 508,612 | 919,533 |
| Interest | 4,769,738 | - | 4,769,738 | 1,698,669 | 3,071,069 |
| Differences between expected and actual experience | (337,244) | - | (337,244) | (120,104) | (217,140) |
| Contributions: | | | | | |
| Employer | - | 679,159 | (679,159) | (245,135) | (434,024) |
| Employee | - | 645,110 | (645,110) | (229,746) | (415,364) |
| State On Behalf | - | 375,656 | (375,656) | (130,521) | (245,135) |
| Net investment income | - | 1,956,540 | (1,956,540) | (696,791) | (1,259,749) |
| Other income | - | 1,011 | (1,011) | (360) | (651) |
| Benefit payments, including refunds of employee contributions | (3,229,674) | (3,229,674) | - | - | - |
| Administrative expenses | - | (39,605) | 39,605 | 14,105 | 25,500 |
| Net Changes | <u>3,148,217</u> | <u>784,012</u> | <u>2,364,205</u> | <u>95,706</u> | <u>2,268,499</u> |
| Balance at June 30, 2016 | <u>\$ 66,612,402</u> | <u>\$ 49,307,086</u> | <u>\$ 17,305,316</u> | <u>\$ 6,133,379</u> | <u>\$ 11,171,937</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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CalPERS

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at June 30, 2015 (Previously Reported) | \$ 13,274,474 | \$ 11,067,834 | \$ 2,206,640 |
| Changes for the year: | | | |
| Adjustment for Change in Proportionate Share | 1,244,784 | 1,037,861 | 206,923 |
| Service cost | 345,479 | - | 345,479 |
| Interest | 1,095,441 | - | 1,095,441 |
| Differences between expected and actual experience | 240,860 | - | 240,860 |
| Changes in assumptions | (258,945) | - | (258,945) |
| Contributions - Employer | - | 278,300 | (278,300) |
| Contributions - Employee | - | 167,459 | (167,459) |
| Net plan to plan resource movement | - | (27) | 27 |
| Net investment income | - | 270,509 | (270,509) |
| Benefit payments, including refunds of employee contributions | (708,836) | (708,836) | - |
| Administrative expenses | - | (13,633) | 13,633 |
| Net Changes | <u>1,958,783</u> | <u>1,031,633</u> | <u>927,150</u> |
| Balance at June 30, 2016 | <u>\$ 15,233,257</u> | <u>\$ 12,099,467</u> | <u>\$ 3,133,790</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 2015-16, the District contributed \$83,540 to the Plan, all of which was used for current premiums.

HOLTVILLE UNIFIED SCHOOL DISTRICT
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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 | 1,465 |
| Adjustment to annual required contribution | 2,118 |
| Annual OPEB Cost | <u>78,159</u> |
| Contribution made | <u>(83,540)</u> |
| Change in net OPEB obligation | (5,381) |
| Net OPEB obligation, beginning of year | 36,626 |
| Net OPEB obligation, end of year | <u>\$ 31,245</u> |

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014, 2015 and 2016 were as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|------------------------|---------------------|---------------------------|------------------------|
| 2014 | \$ 73,868 | 103.77% | 32,946 |
| 2015 | 73,989 | 95.03% | 36,626 |
| 2016 | 78,159 | 106.88% | 31,245 |

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
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 a 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.

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
YEAR ENDED JUNE 30, 2016

A summary of the deferred outflows of resources as of June 30, 2016, are as follows:

| Description | Issue Date | Amortization Term | Balance July 1, 2015 | Additions | Current Year Amortization | Balance June 30, 2016 |
|---|------------|-------------------|----------------------|---------------------|---------------------------|-----------------------|
| Bond insurance | 06/21/2007 | 30 Years | \$ 8,536 | \$ - | \$ 93 | \$ 8,443 |
| Bond insurance | 11/08/2012 | 25 Years | 8,766 | - | - | 8,766 |
| Refunding Loss | 11/08/2012 | 15 Years | 98,116 | - | 7,547 | 90,569 |
| Bond insurance | 12/23/2014 | 20 Years | 6,695 | - | 136 | 6,559 |
| Refunding Loss | 12/23/2014 | 20 Years | 220,746 | - | 11,038 | 209,708 |
| COPs insurance | 01/14/2016 | 25 Years | - | 17,700 | - | 17,700 |
| Pension Related | | | 957,459 | 3,083,164 | 1,341,123 | 2,699,500 |
| Total Deferred Outflows of Resources | | | \$ 1,300,318 | \$ 3,100,864 | \$ 1,359,937 | \$ 3,041,245 |

| Year Ended | Debt Insurance | Refunding Loss | Pension Related | Total |
|------------|------------------|-------------------|---------------------|---------------------|
| 2017 | \$ 206 | \$ 18,585 | \$ 1,548,509 | \$ 1,567,300 |
| 2018 | 693 | 18,585 | 383,664 | 402,942 |
| 2019 | 720 | 18,585 | 383,664 | 402,969 |
| 2020 | 732 | 18,585 | 383,663 | 402,980 |
| 2021 | 747 | 18,585 | - | 19,332 |
| 2022-2026 | 4,539 | 92,923 | - | 97,462 |
| 2027-2031 | 8,829 | 70,281 | - | 79,110 |
| 2032-2036 | 14,502 | 44,148 | - | 58,650 |
| 2037-2041 | 9,477 | - | - | 9,477 |
| 2042-2046 | 1,023 | - | - | 1,023 |
| | \$ 41,468 | \$ 300,277 | \$ 2,699,500 | \$ 3,041,245 |

O. Deferred Inflows of Resources

In accordance with GASB No. 68 & 71, payments recieved subsequent to the net pension liability measurement date are recorded as deferred inflows of resources.

A summary of activity of deferred inflows of resources for the year ended June 30, 2016 is as follows:

| Description | Issue Date | Balance July 1, 2015 | Current Additions | Current Year Amortization | Balance June 30, 2016 |
|-----------------|------------|----------------------|-------------------|---------------------------|-----------------------|
| Pension Related | 06/30/2015 | \$ 760,405 | \$ - | \$ 190,102 | \$ 570,303 |
| Pension Related | 06/30/2016 | - | 263,427 | 52,686 | 210,741 |
| Total | | \$ 760,405 | \$ 263,427 | \$ 242,788 | \$ 781,044 |

Future amortization of deferred inflows of resources is as follows:

| Year Ending June 30 | Pension Related |
|---------------------|-------------------|
| 2017 | \$ 242,788 |
| 2018 | 242,788 |
| 2019 | 242,785 |
| 2020 | 52,683 |
| Total | \$ 781,044 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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, 2016 ending fund balance in governmental funds consisted of the following:

| | Major Funds | | Nonmajor Governmental Funds | Total |
|-----------------------------------|---------------------|---------------------|-----------------------------------|---------------------|
| | General Fund | Building Fund | | |
| Nonspendable Fund Balances | | | | |
| Revolving Cash | \$ 2,500 | \$ - | \$ 2,549 | \$ 5,049 |
| Stores Inventory | - | - | 19,673 | 19,673 |
| Total Nonspendable | 2,500 | - | 22,222 | 24,722 |
| Restricted Fund Balances | | | | |
| Educational Programs | 167,152 | - | - | 167,152 |
| Child Nutrition Program | - | - | 194,529 | 194,529 |
| Capital Projects | 345,030 | - | - | 345,030 |
| Medi-Cal Program | 59,371 | - | - | 59,371 |
| Total Restricted | 571,553 | - | 194,529 | 766,082 |
| Committed Fund Balances | | | | |
| Adult Education Program | - | - | 52,882 | 52,882 |
| Total Committed | - | - | 52,882 | 52,882 |
| Assigned Fund Balances | | | | |
| Capital Projects | - | 3,104,006 | 118,220 | 3,222,226 |
| Debt Service | - | - | 94,214 | 94,214 |
| Total Assigned | - | 3,104,006 | 212,434 | 3,316,440 |
| Unassigned Fund Balances | | | | |
| For Economic Uncertainty | 4,528,319 | - | - | 4,528,319 |
| Total Fund Balance | \$ 5,102,372 | \$ 3,104,006 | \$ 482,067 | \$ 8,688,445 |

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

R. Adjustment to Beginning 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) | \$ 3,331,324 |
| Adjustments for: | |
| Net Pension Liability Corrections | (130,804) |
| Deferred Outflows of Resources - Pension Related Corrections | (1,189,860) |
| Deferred Inflows of Resources - Pension Related Corrections | <u>2,158,756</u> |
| Net Position, Beginning (As Restated) | <u>\$ 4,131,364</u> |

S. Subsequent Events

New Accounting Pronouncements

GASB Statement No. 74

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

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

The District has adopted the provisions of GASB Statement No. 74 effective for the 2016-17 fiscal year.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

GASB Statement No. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, Tax Abatement Disclosures. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

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

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.

- The gross dollar amount of taxes abated during the period.

- Commitments made by a government, other than to abate taxes, as a part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements

- The specific taxes being abated

- The gross dollar amount of taxes abated during the period

The District has adopted the provisions of GASB Statement No. 77 effective for the 2016-17 fiscal year.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

GASB Statement No. 78

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

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

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

The District has adopted the provisions of GASB Statement No. 78 effective for the 2016-17 fiscal year.

GASB Statement No. 79

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

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

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

The District has adopted the provisions of GASB Statement No. 79 effective for the 2016-17 fiscal year.

HOLTVILLE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

GASB Statement No. 80

In January 2016 the Governmental Accounting Standards Board (GASB) issued Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

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 has adopted the provisions of GASB Statement No. 80 effective for the 2016-17 fiscal year.

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, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| LCFF Sources: | | | | |
| State Apportionment or State Aid | \$ 10,438,394 | \$ 9,827,730 | \$ 9,790,262 | \$ (37,468) |
| Education Protection Account Funds | 1,876,911 | 2,119,909 | 2,102,173 | (17,736) |
| Local Sources | 1,912,875 | 2,338,741 | 2,409,935 | 71,194 |
| Federal Revenue | 1,253,467 | 1,406,270 | 1,301,032 | (105,238) |
| Other State Revenue | 1,545,733 | 1,535,401 | 2,296,922 | 761,521 |
| Other Local Revenue | 605,151 | 909,019 | 870,190 | (38,829) |
| Total Revenues | <u>17,632,531</u> | <u>18,137,070</u> | <u>18,770,514</u> | <u>633,444</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Certificated Salaries | 8,097,098 | 8,249,112 | 8,255,502 | (6,390) |
| Classified Salaries | 2,525,262 | 2,590,745 | 2,536,625 | 54,120 |
| Employee Benefits | 3,147,533 | 3,207,084 | 3,538,753 | (331,669) |
| Books And Supplies | 753,452 | 1,132,969 | 901,835 | 231,134 |
| Services And Other Operating Expenditures | 1,465,764 | 1,905,078 | 1,454,231 | 450,847 |
| Other Outgo | 169,927 | 73,148 | 83,192 | (10,044) |
| Direct Support/Indirect Costs | - | (7,395) | (7,389) | (6) |
| Capital Outlay | 70,000 | 123,450 | 33,449 | 90,001 |
| Debt Service: | | | | |
| Principal | 39,208 | 11,048 | 11,048 | - |
| Interest | 5,536 | 1,330 | 1,329 | 1 |
| Total Expenditures | <u>16,273,780</u> | <u>17,286,569</u> | <u>16,808,575</u> | <u>477,994</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>1,358,751</u> | <u>850,501</u> | <u>1,961,939</u> | <u>1,111,438</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers Out | (180,000) | (197,121) | (197,121) | - |
| Total Other Financing Sources (Uses) | <u>(180,000)</u> | <u>(197,121)</u> | <u>(197,121)</u> | <u>-</u> |
| Net Change in Fund Balance | <u>1,178,751</u> | <u>653,380</u> | <u>1,764,818</u> | <u>1,111,438</u> |
| Fund Balance, July 1 | 3,337,554 | 3,337,554 | 3,337,554 | - |
| Fund Balance, June 30 | <u>\$ 4,516,305</u> | <u>\$ 3,990,934</u> | <u>\$ 5,102,372</u> | <u>\$ 1,111,438</u> |

The accompanying notes to required supplementary information are an integral part of this statement.

HOLTVILLE UNIFIED SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

RETIREE HEALTHCARE PLAN

YEAR ENDED JUNE 30, 2016

| 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 *

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|------|------|------|------|------|------|------|------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| District's proportion of the net pension liability (asset) | 0.0166% | 0.0151% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 11,171,937 | \$ 8,903,439 | N/A | 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 | \$ 6,133,378 | \$ 6,037,672 | N/A | 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 | \$ 17,305,315 | \$ 14,941,111 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 7,981,594 | 7,648,187 | N/A | 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 | 139.97% | 116.41% | N/A | 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% | 76.52% | N/A | 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.

Notes to Schedule:

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

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

| | Fiscal Year | | | | | | | | | |
|--|--------------|-----------|------|------|------|------|------|------|------|------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Contractually required contribution | \$ 856,425 | 679,159 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions in relation to the contractually required contribution | (856,425) | (679,159) | N/A | 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 | N/A |
| District's covered-employee payroll | \$ 7,981,594 | 7,648,187 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 10.73% | 8.88% | N/A | 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.

Notes to Schedule:

Actuarial methods and assumptions

The total pension liability for the CalSTRS Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013 and June 30, 2014, and rolling forward the total pension liability to June 30, 2014 and June 30, 2015. The financial reporting actuarial valuation as of June 30, 2013 and June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

| | | |
|-----------------------------------|-------------------|-------------------|
| Valuation Date | 06/30/14 | 06/30/15 |
| Experience Study | 07/01/06-06/30/10 | 07/01/07-06/30/11 |
| Actuarial Cost Method | Entry age normal | |
| Investment Rate of Return | 7.60% | 7.60% |
| Consumer Price Inflation | 3.00% | 3.00% |
| Wage Growth (Average) | 3.75% | 3.75% |
| Post-retirement Benefit Increases | 2.00% simple | 2.00% simple |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

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

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 | | | | | | | | | |
|---|--------------|-----------|------|------|------|------|------|------|------|------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| District's proportion of the net pension liability (asset) | 0.0213% | 0.0194% | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's proportionate share of the net pension liability (asset) | \$ 3,133,790 | 2,206,640 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| District's covered-employee payroll | \$ 2,603,360 | 2,364,285 | N/A | 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 | 120.37% | 93.33% | N/A | 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 | 79.43% | 83.38% | N/A | 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.

Notes to Schedule:

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

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

| | Fiscal Year | | | | | | | | | |
|--|--------------|-----------|------|------|------|------|------|------|------|------|
| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Contractually required contribution | \$ 308,420 | 278,300 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions in relation to the contractually required contribution | (308,420) | (278,300) | N/A | 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 | N/A |
| District's covered-employee payroll | \$ 2,603,360 | 2,364,285 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Contributions as a percentage of covered-employee payroll | 11.847% | 11.771% | N/A | 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.

Notes to Schedule

For the measurement period ended June 30, 2014 and June 30, 2015 (the measurement dates), the total pension liability was determined by rolling forward the June 30, 2013 and June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

| | | |
|--------------------------|---|--------------|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 | |
| Actuarial Assumptions | | |
| Valuation Date | 06/30/14 | 06/30/15 |
| Experience Study | 07/01/96- | 07/01/97- |
| | 06/30/10 | 06/30/11 |
| Discount Rate | 7.50% | 7.65% |
| Inflation | 2.75% | 2.75% |
| Wage Growth (Average) | 3.00% | 3.00% |
| Post Retirement Increase | 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 Society of Actuaries Scale BB. For more details on this table, please refer to the 2013 and 2014 experience study reports available on the CalPERS website.

All other actuarial assumptions used in the valuations were based on the results of actuarial experience studies for periods noted above, including updates to salary increase, mortality and retirement rates. Further details of the Experience Studies can be found at CalPERS' website.

HOLTVILLE UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2016

Excess of Expenditures Over Appropriations

As of June 30, 2016, 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 \$ | 6,390 | Unanticipated costs for increases in salaries |
| Employee Benefits | 331,669 | The District did not budget for On Behalf Payments |
| Other Outgo | 10,044 | Underestimating costs for transfers of tuition |

Combining Statements and Budget Comparisons 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, 2016

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-3) |
|--------------------------------------|-----------------------------|--------------------------|------------------------------|---|
| ASSETS: | | | | |
| Cash in County Treasury | \$ 191,068 | \$ 94,082 | \$ 118,026 | \$ 403,176 |
| Cash in Revolving Fund | 2,549 | - | - | 2,549 |
| Accounts Receivable | 75,778 | 132 | 194 | 76,104 |
| Stores Inventories | 19,673 | - | - | 19,673 |
| Total Assets | <u>289,068</u> | <u>94,214</u> | <u>118,220</u> | <u>501,502</u> |
| LIABILITIES AND FUND BALANCE: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 19,022 | \$ - | \$ - | \$ 19,022 |
| Due to Other Funds | 413 | - | - | 413 |
| Total Liabilities | <u>19,435</u> | <u>-</u> | <u>-</u> | <u>19,435</u> |
| Fund Balance: | | | | |
| Nonspendable Fund Balances: | | | | |
| Revolving Cash | 2,549 | - | - | 2,549 |
| Stores Inventories | 19,673 | - | - | 19,673 |
| Restricted Fund Balances | 194,529 | - | - | 194,529 |
| Committed Fund Balances | 52,882 | - | - | 52,882 |
| Assigned Fund Balances | - | 94,214 | 118,220 | 212,434 |
| Total Fund Balance | <u>269,633</u> | <u>94,214</u> | <u>118,220</u> | <u>482,067</u> |
| Total Liabilities and Fund Balances | <u>\$ 289,068</u> | <u>\$ 94,214</u> | <u>\$ 118,220</u> | <u>\$ 501,502</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

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

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Nonmajor Governmental Funds (See Exhibit A-5) |
|--|-----------------------------|--------------------------|------------------------------|---|
| Revenues: | | | | |
| LCFF Sources: | | | | |
| Local Sources | \$ 52,500 | \$ - | \$ - | \$ 52,500 |
| Federal Revenue | 840,167 | - | - | 840,167 |
| Other State Revenue | 197,956 | 2,642 | - | 200,598 |
| Other Local Revenue | 36,750 | 392,811 | 58,781 | 488,342 |
| Total Revenues | <u>1,127,373</u> | <u>395,453</u> | <u>58,781</u> | <u>1,581,607</u> |
| Expenditures: | | | | |
| Instruction | 129,362 | - | - | 129,362 |
| Instruction - Related Services | 30,335 | - | - | 30,335 |
| Pupil Services | 1,051,141 | - | - | 1,051,141 |
| General Administration | 7,389 | - | - | 7,389 |
| Plant Services | - | - | 3,963 | 3,963 |
| Debt Service: | | | | |
| Principal | - | 299,817 | - | 299,817 |
| Interest | - | 341,302 | - | 341,302 |
| Total Expenditures | <u>1,218,227</u> | <u>641,119</u> | <u>3,963</u> | <u>1,863,309</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(90,854)</u> | <u>(245,666)</u> | <u>54,818</u> | <u>(281,702)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers In | - | 197,121 | - | 197,121 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>197,121</u> | <u>-</u> | <u>197,121</u> |
| Net Change in Fund Balance | (90,854) | (48,545) | 54,818 | (84,581) |
| Fund Balance, July 1 | 360,487 | 142,759 | 63,402 | 566,648 |
| Fund Balance, June 30 | <u>\$ 269,633</u> | <u>\$ 94,214</u> | <u>\$ 118,220</u> | <u>\$ 482,067</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2016

| | Adult Education Fund | Cafeteria Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-1) |
|--------------------------------------|----------------------------|-------------------|---|
| ASSETS: | | | |
| Cash in County Treasury | \$ 50,461 | \$ 140,607 | \$ 191,068 |
| Cash in Revolving Fund | - | 2,549 | 2,549 |
| Accounts Receivable | 13,057 | 62,721 | 75,778 |
| Stores Inventories | - | 19,673 | 19,673 |
| Total Assets | <u>63,518</u> | <u>225,550</u> | <u>289,068</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Accounts Payable | \$ 10,521 | \$ 8,501 | \$ 19,022 |
| Due to Other Funds | 115 | 298 | 413 |
| Total Liabilities | <u>10,636</u> | <u>8,799</u> | <u>19,435</u> |
| Fund Balance: | | | |
| Nonspendable Fund Balances: | | | |
| Revolving Cash | - | 2,549 | 2,549 |
| Stores Inventories | - | 19,673 | 19,673 |
| Restricted Fund Balances | - | 194,529 | 194,529 |
| Committed Fund Balances | 52,882 | - | 52,882 |
| Total Fund Balance | <u>52,882</u> | <u>216,751</u> | <u>269,633</u> |
| Total Liabilities and Fund Balances | <u>\$ 63,518</u> | <u>\$ 225,550</u> | <u>\$ 289,068</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | Adult Education Fund | Cafeteria Fund | Total Nonmajor Special Revenue Funds (See Exhibit C-2) |
|--|----------------------------|-------------------|---|
| Revenues: | | | |
| LCFF Sources: | | | |
| Local Sources | \$ 52,500 | \$ - | \$ 52,500 |
| Federal Revenue | 25,872 | 814,295 | 840,167 |
| Other State Revenue | 133,632 | 64,324 | 197,956 |
| Other Local Revenue | 7,893 | 28,857 | 36,750 |
| Total Revenues | <u>219,897</u> | <u>907,476</u> | <u>1,127,373</u> |
| Expenditures: | | | |
| Instruction | 129,362 | - | 129,362 |
| Instruction - Related Services | 30,335 | - | 30,335 |
| Pupil Services | - | 1,051,141 | 1,051,141 |
| General Administration | 7,389 | - | 7,389 |
| Total Expenditures | <u>167,086</u> | <u>1,051,141</u> | <u>1,218,227</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>52,811</u> | <u>(143,665)</u> | <u>(90,854)</u> |
| Net Change in Fund Balance | 52,811 | (143,665) | (90,854) |
| Fund Balance, July 1 | 71 | 360,416 | 360,487 |
| Fund Balance, June 30 | <u>\$ 52,882</u> | <u>\$ 216,751</u> | <u>\$ 269,633</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR DEBT SERVICE FUNDS
 JUNE 30, 2016

| | Bond Interest & Redemption Fund | Debt Service Fund | Total Nonmajor Debt Service Funds (See Exhibit C-1) |
|--------------------------------------|---------------------------------------|-------------------------|--|
| ASSETS: | | | |
| Cash in County Treasury | \$ 64,380 | \$ 29,702 | \$ 94,082 |
| Accounts Receivable | 81 | 51 | 132 |
| Total Assets | <u>64,461</u> | <u>29,753</u> | <u>94,214</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance: | | | |
| Assigned Fund Balances | \$ 64,461 | \$ 29,753 | \$ 94,214 |
| Total Fund Balance | <u>64,461</u> | <u>29,753</u> | <u>94,214</u> |
| Total Liabilities and Fund Balances | <u>\$ 64,461</u> | <u>\$ 29,753</u> | <u>\$ 94,214</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, 2016

| | Bond Interest & Redemption Fund | Debt Service Fund | Total Nonmajor Debt Service Funds (See Exhibit C-2) |
|--|---------------------------------------|-------------------------|--|
| Revenues: | | | |
| Other State Revenue | \$ 2,642 | \$ - | \$ 2,642 |
| Other Local Revenue | 365,909 | 26,902 | 392,811 |
| Total Revenues | <u>368,551</u> | <u>26,902</u> | <u>395,453</u> |
| Expenditures: | | | |
| Debt Service: | | | |
| Principal | 155,000 | 144,817 | 299,817 |
| Interest | 280,205 | 61,097 | 341,302 |
| Total Expenditures | <u>435,205</u> | <u>205,914</u> | <u>641,119</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(66,654)</u> | <u>(179,012)</u> | <u>(245,666)</u> |
| Other Financing Sources (Uses): | | | |
| Transfers In | - | 197,121 | 197,121 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>197,121</u> | <u>197,121</u> |
| Net Change in Fund Balance | (66,654) | 18,109 | (48,545) |
| Fund Balance, July 1 | 131,115 | 11,644 | 142,759 |
| Fund Balance, June 30 | <u>\$ 64,461</u> | <u>\$ 29,753</u> | <u>\$ 94,214</u> |

HOLTVILLE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2016

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-1) |
|--------------------------------------|-------------------------------|-------------------------------|--|
| ASSETS: | | | |
| Cash in County Treasury | \$ 117,669 | \$ 357 | \$ 118,026 |
| Accounts Receivable | 194 | - | 194 |
| Total Assets | <u>117,863</u> | <u>357</u> | <u>118,220</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| Liabilities: | | | |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance: | | | |
| Assigned Fund Balances | \$ 117,863 | \$ 357 | \$ 118,220 |
| Total Fund Balance | <u>117,863</u> | <u>357</u> | <u>118,220</u> |
| Total Liabilities and Fund Balances | <u>\$ 117,863</u> | <u>\$ 357</u> | <u>\$ 118,220</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, 2016

| | Capital Facilities Fund | Capital Outlay Projects | Total Nonmajor Capital Projects Funds (See Exhibit C-2) |
|--|-------------------------------|-------------------------------|--|
| Revenues: | | | |
| Other Local Revenue | \$ 58,781 | \$ - | \$ 58,781 |
| Total Revenues | <u>58,781</u> | <u>-</u> | <u>58,781</u> |
| Expenditures: | | | |
| Plant Services | 3,963 | - | 3,963 |
| Total Expenditures | <u>3,963</u> | <u>-</u> | <u>3,963</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>54,818</u> | <u>-</u> | <u>54,818</u> |
| Net Change in Fund Balance | 54,818 | - | 54,818 |
| Fund Balance, July 1 | 63,045 | 357 | 63,402 |
| Fund Balance, June 30 | <u>\$ 117,863</u> | <u>\$ 357</u> | <u>\$ 118,220</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, 2016

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, 2016

TABLE D-1

| | Second Period Report | | Annual Report | |
|--------------------------------|----------------------|---------|---------------|---------|
| | Original | Revised | Original | Revised |
| TK/K-3: Regular ADA | 422.96 | N/A | 425.50 | N/A |
| Grades 4-6: Regular ADA | 342.67 | N/A | 343.22 | N/A |
| Grades 7 and 8: Regular ADA | 230.15 | N/A | 230.82 | N/A |
| Grades 9-12: Regular ADA | 546.14 | N/A | 547.40 | N/A |
| ADA Totals | 1,541.92 | N/A | 1,546.94 | 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, 2016

TABLE D-2

| Grade Level | Ed. Code 46207 Minutes Requirement | 2015-16 Actual Minutes | Number of Days Traditional Calendar | Status |
|---------------------------|---|------------------------------|--|----------|
| Transitional Kindergarten | 36,000 | 57,260 | 180 | Complied |
| Kindergarten | 36,000 | 57,260 | 180 | Complied |
| Grade 1 | 50,400 | 52,840 | 180 | Complied |
| Grade 2 | 50,400 | 53,700 | 180 | Complied |
| Grade 3 | 50,400 | 52,375 | 180 | Complied |
| Grade 4 | 54,000 | 54,245 | 180 | Complied |
| Grade 5 | 54,000 | 55,105 | 180 | Complied |
| Grade 6 | 54,000 | 64,119 | 180 | Complied |
| Grade 7 | 54,000 | 64,119 | 180 | Complied |
| Grade 8 | 54,000 | 64,119 | 180 | Complied |
| Grade 9 | 64,800 | 69,495 | 180 | Complied |
| Grade 10 | 64,800 | 69,495 | 180 | Complied |
| Grade 11 | 64,800 | 69,495 | 180 | Complied |
| Grade 12 | 64,800 | 69,495 | 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 FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2016

TABLE D-3

| General Fund | Budget 2017 (see note 1) | 2016 | 2015 | 2014 |
|--|--------------------------------|---------------|---------------|---------------|
| Revenues and other financial sources | \$ 18,313,426 | \$ 18,770,514 | \$ 15,786,561 | \$ 14,603,386 |
| Expenditures, other uses and transfers out | 18,800,287 | 17,005,696 | 15,620,777 | 14,910,664 |
| Change in fund balance (deficit) | (486,861) | 1,764,818 | 165,784 | (307,278) |
| Ending fund balance | \$ 4,615,511 | \$ 5,102,372 | \$ 3,337,554 | \$ 3,171,770 |
| Available reserves (see note 2) | \$ 4,499,975 | \$ 4,528,319 | \$ 2,952,276 | \$ 2,952,276 |
| Available reserves as a percentage of total outgo (see note 3) | 23.9% | 27.4% | 19.4% | 20.3% |
| Total long-term debt | \$ 27,042,757 | \$ 27,358,938 | \$ 21,156,479 | \$ 10,032,327 |
| Average daily attendance at P-2 | 1,542 | 1,542 | 1,545 | 1,493 |

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The fund balance of the general fund has increased by \$1,930,602 (60.8%) over the past two years. The fiscal year 2016-17 budget projects a decrease of \$486,861 (9.5%). For a district of this size, the State recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$17,326,611 over the past two years (see note 4).

Average daily attendance has increased by 49 (3.3%) over the past two years.

Notes:

- 1 Budget 2017 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.
- 3 On behalf payments of \$477,221, \$368,624, and \$376,315, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, 2015, and 2014.
- 4 As a result of implementation of GASB Statement No. 68, long term liabilities for the year ended June 30, 2015 and June 30, 2016 include net pension liabilities which were not previously accounted for. As such, total long term debt beginning with the year ended June 30, 2015 are not comparable to previous years represented in this table.

HOLTVILLE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

TABLE D-4

The ending fund balances as reported in these audited financial statements are in agreement with the ending fund balances reported in the District's Annual Financial and Budget Report.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2016

TABLE D-5

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
YEAR ENDED JUNE 30, 2016

TABLE D-6

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| <u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Direct Programs: | | | |
| Medi-Cal Billing Option | 93.778 | - | \$ 6,193 |
| Total Direct Programs | | | <u>6,193</u> |
| Total U. S. Department of Health and Human Services | | | <u>6,193</u> |
| <u>U. S. DEPARTMENT OF EDUCATION</u> | | | |
| Passed Through State Department of Education: | | | |
| Adult Education Cluster | | | |
| Adult Secondary Education | 84.002 | 13978 | 14,678 |
| Adult Basic Education | 84.002A | 14508 | 11,194 |
| Total Adult Education Cluster | | | <u>25,872</u> |
| Title I | 84.010 | 14329 | 445,771 |
| Migrant Education Cluster | | | |
| Migrant Education Summer | 84.011 | 10005 | 122,912 |
| Migrant Education | 84.011 | 14326 | 297,872 |
| Total Migrant Education Cluster | | | <u>420,784</u> |
| Special Education | 84.027 | 13379 | 224,810 |
| Carl D Perkins Grant | 84.048 | 14894 | 19,581 |
| Advanced Placement Reimbursement Fee | 84.330B | 14831 | 2,214 |
| Title III | 84.365 | 14346 | 42,025 |
| Title II Teacher Quality | 84.367 | 14341 | 100,045 |
| Total Passed Through State Department of Education | | | <u>1,281,102</u> |
| Total U. S. Department of Education | | | <u>1,281,102</u> |
| <u>U. S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed Through State Department of Education: | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | 13526 | 274,574 |
| Commodities * | 10.555 | - | 50,611 |
| National School Lunch: Section 4 | 10.555 | 13391 | 82,161 |
| National School Lunch: Section 11 | 10.555 | 13396 | 425,389 |
| National School Lunch- Meal Supplements | 10.555 | 13396 | 32,172 |
| Total Child Nutrition Cluster | | | <u>864,907</u> |
| Total Passed Through State Department of Education | | | <u>864,907</u> |
| Total U. S. Department of Agriculture | | | <u>864,907</u> |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | |
| Direct Program: | | | |
| FEMA Public Assistance Funds | 97.036 | - | 23,695 |
| Total U. S. Department of Homeland Security | | | <u>23,695</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 2,175,897</u> |

* Indicates noncash expenditures

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, 2016

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 5.81% 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:

| Program | CFDA # | Indirect Cost Rate |
|------------------------------------|--------|--------------------------|
| Title I | 84.010 | 5.55% |
| Migrant Education - Summer Program | 84.011 | 4.10% |
| School Breakfast Program | 10.553 | 0.00% |
| National School Lunch Program | 10.555 | 0.00% |

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:

| Program | CFDA # | Amount Expended |
|----------------|--------|--------------------|
| Title I Part A | 84.010 | \$445,771 |

Other Independent Auditor's Reports

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees
Holtville Unified School District
Holtville, California

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holtville Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Holtville Unified School District's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wilkinson Hadley King + Co LLP

El Cajon, California
November 29, 2016

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Holtville Unified School District
Holtville, California

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Wilkinson Hadley King + Co LLP

El Cajon, California
November 29, 2016

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 *2015-16 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, 2016.

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, *2015-16 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, *2015-16 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 | Yes |
| Continuation Education | No |
| Instructional Time | Yes |
| Instructional Materials..... | Yes |
| Ratio of Administrative Employees to Teachers | Yes |
| Classroom Teacher Salaries | Yes |
| Early Retirement Incentive | Yes |
| GANN Limit Calculation | Yes |
| School Accountability Report Card | Yes |
| Juvenile Court Schools | N/A |
| Middle or Early College High Schools | N/A |
| K-3 Grade Span Adjustment | Yes |
| Transportation Maintenance of Effort | 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 | N/A |
| 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.

We did not perform testing for Continuation Education because the ADA reported was below the level that required testing.

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, 2016.

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 *2015-16 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
November 29, 2016

Findings and Recommendations Section

HOLTVILLE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X 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 section 510(a) of Circular A-133? Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 10.553, 10.555 | Child Nutrition Cluster |

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

Auditee qualified as low-risk auditee? X Yes No

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with 2015-16 Guide for Annual Audits of K-12 Local Education Agencies? Yes X 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, 2016

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, 2016

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|--|-----------------------|--|
| <p>Finding 2015-001 (10000) Attendance Reporting</p> <p>Teachers were not verifying attendance entered into the online system within one week of attendance being taken.</p> <p>Provide training to attendance clerks to ensure understanding of documentation requirements. Implement procedures to ensure attendance is verified timely by the teachers.</p> | Implemented | |
| <p>Finding 2015-002 (72000) School Accountability Report Card</p> <p>Facilities data reported in Holtville Middle School's School Accountability Report Card was not consistent with the information on the Facilities Inspection Tool prepared by the District during a walk-thru of the campus.</p> <p>Establish procedures to ensure a current Facilities Inspection Tool is used when preparing the School Accountability Report Card for all school sites. In addition, establish monitoring procedures to verify information in the School Accountability Report Card is reported correctly.</p> | | |