

SHORELINE UNIFIED SCHOOL DISTRICT

AUDIT REPORT
JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**SHORELINE UNIFIED SCHOOL DISTRICT
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FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Shoreline Unified School District
Tomales, 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 Shoreline Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Shoreline Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Christy White, CPA

Michael Ash, CPA

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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 Shoreline 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.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016 on our consideration of Shoreline 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 Shoreline Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

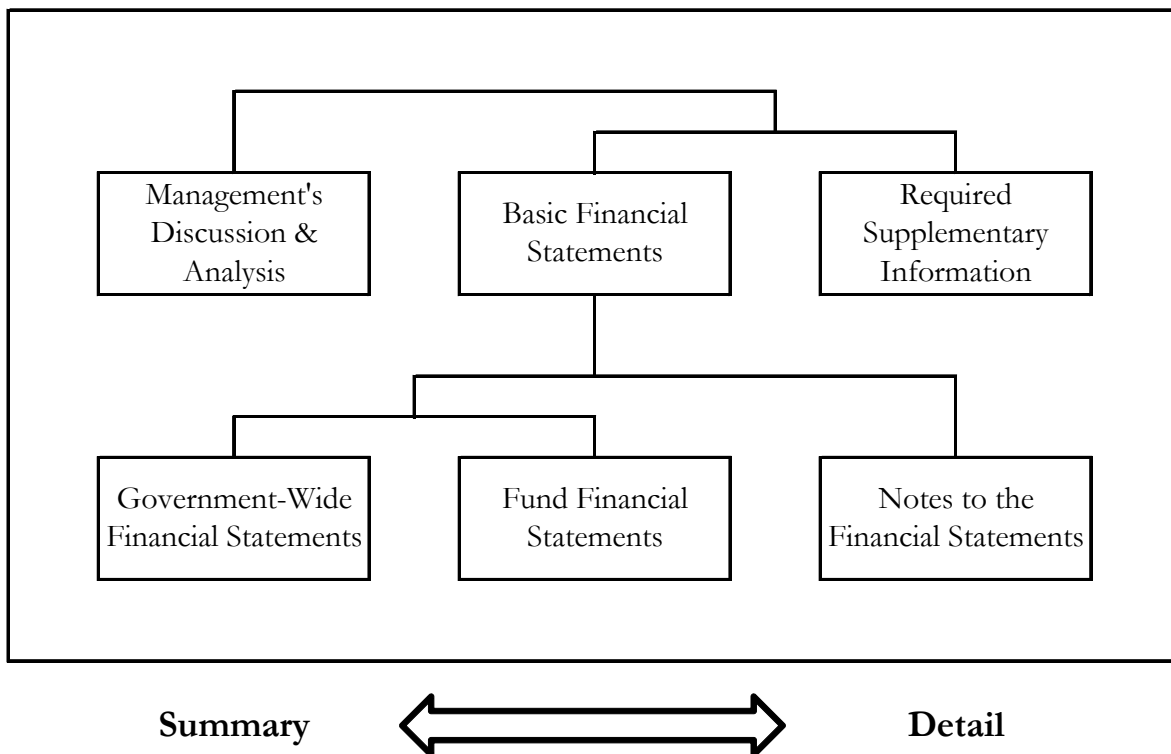
Our discussion and analysis of Shoreline Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ The District's total net position was (\$2,374,726) at June 30, 2016. This was an increase of \$170,270 from the prior year.
- ▶ Overall revenues were \$14,764,974 which exceeded expenses of \$14,594,704.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



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

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

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

- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

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

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

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was (\$2,374,726) at June 30, 2016, as reflected in table below. Of this amount, (\$6,459,617) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2016	2015	Net Change
ASSETS			
Current and other assets	\$ 7,284,825	\$ 7,230,721	\$ 54,104
Capital assets	15,126,503	17,103,355	(1,976,852)
Total Assets	22,411,328	24,334,076	(1,922,748)
DEFERRED OUTFLOWS OF RESOURCES	886,369	684,665	201,704
LIABILITIES			
Current liabilities	1,523,013	1,649,903	(126,890)
Long-term liabilities	22,751,947	22,094,222	657,725
Total Liabilities	24,274,960	23,744,125	530,835
DEFERRED INFLOWS OF RESOURCES	1,397,463	2,401,856	(1,004,393)
NET POSITION			
Net investment in capital assets	2,865,033	3,174,472	(309,439)
Restricted	1,219,858	1,447,273	(227,415)
Unrestricted	(6,459,617)	(7,166,741)	707,124
Total Net Position	\$ (2,374,726)	\$ (2,544,996)	\$ 170,270

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (*continued*)

Changes in Net Position

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

	Governmental Activities		
	2016	2015	Net Change
REVENUES			
General revenues			
Property taxes	\$ 9,581,623	\$ 9,305,238	\$ 276,385
Unrestricted federal and state aid	3,607,731	4,453,866	(846,135)
Other	100,724	212,117	(111,393)
Total Revenues	14,764,974	13,971,221	793,753
EXPENSES			
Instruction	7,685,548	8,171,779	(486,231)
Instruction-related services	1,130,776	1,312,430	(181,654)
Pupil services	1,783,851	2,059,453	(275,602)
General administration	870,943	863,661	7,282
Plant services	1,171,359	1,188,108	(16,749)
Ancillary and community services	337,880	331,812	6,068
Debt service	486,618	482,497	4,121
Other Outgo	111,376	121,905	(10,529)
Depreciation	1,016,353	1,016,283	70
Total Expenses	14,594,704	15,547,928	(953,224)
Change in net position	170,270	(1,576,707)	1,746,977
Net Position - Beginning*	(2,544,996)	(968,289)	(1,576,707)
Net Position - Ending	\$ (2,374,726)	\$ (2,544,996)	\$ 170,270

* *Beginning Net Position was restated for the 2015 year only*

The cost of all our governmental activities this year was \$14,594,704 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was \$9,581,623 because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

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

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

In the table below we have presented the net cost of each of the District's functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Net Cost of Services	
	2016	2015
Instruction	\$ 6,645,099	\$ 8,171,779
Instruction-related services	1,108,944	1,312,430
Pupil services	1,453,398	2,059,453
General administration	869,487	863,661
Plant services	1,170,621	1,188,108
Ancillary and community services	276,157	331,812
Debt service	486,618	482,497
Transfers to other agencies	93,131	121,905
Depreciation	1,016,353	1,016,283
Total Expenses	\$ 13,119,808	\$ 15,547,928

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

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$6,619,460, which is greater than last year's ending fund balance of \$6,279,878. The District's General Fund had \$634,057 more in operating revenues than expenditures for the year ended June 30, 2016. The District's Cafeteria Fund had \$234,388 less in operating revenues than expenditures for the year ended June 30, 2016. The District's Bond Interest and Redemption Fund had \$51,867 less in operating revenues than expenditures for the year ended June 30, 2016.

CURRENT YEAR BUDGET 2015-16

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the District had invested \$15,126,503 in capital assets, net of accumulated depreciation.

	<u>Governmental Activities</u>		
	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
CAPITAL ASSETS			
Land	\$ 829,201	\$ 829,201	\$ -
Land improvements	3,372,932	3,372,932	-
Buildings & improvements	31,140,547	31,120,103	20,444
Furniture & equipment	2,123,639	2,123,639	-
Accumulated depreciation	(22,339,816)	(21,323,463)	(1,016,353)
Total Capital Assets	<u>\$ 15,126,503</u>	<u>\$ 16,122,412</u>	<u>\$ (995,909)</u>

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

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end, the District had \$22,751,947 in long-term debt, an increase of 3% from last year – as shown in table below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2016	2015	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 12,245,000	\$ 12,835,000	\$ (590,000)
Capital leases	16,470	32,940	(16,470)
Early retirement incentive	-	334,201	(334,201)
Settlement Payment	56,000	80,000	(24,000)
Net OPEB obligation	1,080,414	922,354	158,060
Net pension liability	10,009,533	8,812,081	1,197,452
Less: current portion of long-term debt	(655,470)	(964,671)	309,201
Total Long-term Liabilities	\$ 22,751,947	\$ 22,051,905	\$ 700,042

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Bruce Abbot, Chief Business Official, Shoreline Unified School District.

SHORELINE UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 7,043,760
Accounts receivable	233,321
Inventory	6,544
Prepaid expenses	1,200
Capital assets, not depreciated	829,201
Capital assets, net of accumulated depreciation	14,297,302
Total Assets	22,411,328
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	886,369
Total Deferred Outflows of Resources	886,369
LIABILITIES	
Accrued liabilities	743,963
Unearned revenue	123,580
Long-term liabilities, current portion	655,470
Long-term liabilities, non-current portion	22,751,947
Total Liabilities	24,274,960
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	1,397,463
Total Deferred Inflows of Resources	1,397,463
NET POSITION	
Net investment in capital assets	2,865,033
Restricted:	
Capital projects	15,780
Debt service	754,825
Educational programs	416,120
All others	33,133
Unrestricted	(6,459,617)
Total Net Position	\$ (2,374,726)

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

**SHORELINE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 7,685,548	\$ 16,624	\$ 1,023,825	\$ (6,645,099)
Instruction-related services				
Instructional supervision and administration	1,050	-	228	(822)
Instructional library, media, and technology	8,701	-	198	(8,503)
School site administration	1,121,025	-	21,406	(1,099,619)
Pupil services				
Home-to-school transportation	879,719	-	6,100	(873,619)
Food services	435,021	32,463	170,926	(231,632)
All other pupil services	469,111	-	120,964	(348,147)
General administration				
All other general administration	870,943	-	1,456	(869,487)
Plant services	1,171,359	118	620	(1,170,621)
Ancillary services	175,967	-	5,711	(170,256)
Community services	161,913	-	56,012	(105,901)
Interest on long-term debt	486,618	-	-	(486,618)
Other Outgo	111,376	-	18,245	(93,131)
Depreciation (unallocated)	1,016,353	-	-	(1,016,353)
Total Governmental Activities	\$ 14,594,704	\$ 49,205	\$ 1,425,691	(13,119,808)
General revenues				
Taxes and subventions				
				7,630,203
				1,033,169
				918,251
				3,607,731
				12,978
				9,915
				77,831
				13,290,078
CHANGE IN NET POSITION				
				170,270
Net Position - Beginning				
				(2,544,996)
Net Position - Ending				
				\$ (2,374,726)

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

SHORELINE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Cafeteria Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 5,812,684	\$ 258,293	\$ 957,003	\$ 15,780	\$ 7,043,760
Accounts receivable	233,021	-	-	-	233,021
Due from other funds	215,300	-	-	-	215,300
Stores inventory	-	6,544	-	-	6,544
Prepaid expenditures	1,200	-	-	-	1,200
Total Assets	\$ 6,262,205	\$ 264,837	\$ 957,003	\$ 15,780	\$ 7,499,825
LIABILITIES					
Accrued liabilities	\$ 531,625	\$ 10,160	\$ -	\$ -	\$ 541,785
Due to other funds	-	215,000	-	-	215,000
Unearned revenue	123,580	-	-	-	123,580
Total Liabilities	655,205	225,160	-	-	880,365
FUND BALANCES					
Nonspendable	4,200	6,544	-	-	10,744
Restricted	416,120	33,133	957,003	15,780	1,422,036
Assigned	481,579	-	-	-	481,579
Unassigned	4,705,101	-	-	-	4,705,101
Total Fund Balances	5,607,000	39,677	957,003	15,780	6,619,460
Total Liabilities and Fund Balances	\$ 6,262,205	\$ 264,837	\$ 957,003	\$ 15,780	\$ 7,499,825

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

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

Total Fund Balance - Governmental Funds \$ 6,619,460

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

Capital assets:

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

Capital assets	\$ 37,466,319	
Accumulated depreciation	<u>(22,339,816)</u>	15,126,503

Unmatured interest on long-term debt:

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

(202,178)

Long-term liabilities:

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

Total general obligation bonds	\$ 12,245,000	
Capital leases	16,470	
Settlement Payment	56,000	
Net OPEB obligation	1,080,414	
Net pension liability	<u>10,009,533</u>	(23,407,417)

Deferred outflows and inflows of resources relating to pensions:

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

Deferred outflows of resources related to pensions	\$ 886,369	
Deferred inflows of resources related to pensions	<u>(1,397,463)</u>	(511,094)

Total Net Position - Governmental Activities \$ (2,374,726)

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

	General Fund	Cafeteria Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 9,139,420	\$ -	\$ -	\$ -	\$ 9,139,420
Federal sources	2,000,162	151,188	-	-	2,151,350
Other state sources	865,305	12,869	3,536	-	881,710
Other local sources	1,563,423	40,069	1,031,925	15,780	2,651,197
Total Revenues	13,568,310	204,126	1,035,461	15,780	14,823,677
EXPENDITURES					
Current					
Instruction	8,056,054	-	-	-	8,056,054
Instruction-related services					
Instructional supervision and administration	1,050	-	-	-	1,050
Instructional library, media, and technology	8,701	-	-	-	8,701
School site administration	1,128,832	-	-	-	1,128,832
Pupil services					
Home-to-school transportation	887,417	-	-	-	887,417
Food services	716	436,929	-	-	437,645
All other pupil services	470,531	-	-	-	470,531
General administration					
All other general administration	717,345	-	-	-	717,345
Plant services	1,176,407	1,585	-	-	1,177,992
Facilities acquisition and maintenance	20,443	-	-	-	20,443
Ancillary services	176,367	-	-	-	176,367
Community services	161,913	-	-	-	161,913
Transfers to other agencies	87,376	-	-	-	87,376
Debt service					
Principal	40,470	-	590,000	-	630,470
Interest and other	631	-	497,328	-	497,959
Total Expenditures	12,934,253	438,514	1,087,328	-	14,460,095
Excess (Deficiency) of Revenues					
Over Expenditures	634,057	(234,388)	(51,867)	15,780	363,582
Other Financing Sources (Uses)					
Transfers in	-	215,000	-	-	215,000
Transfers out	(239,000)	-	-	-	(239,000)
Net Financing Sources (Uses)	(239,000)	215,000	-	-	(24,000)
NET CHANGE IN FUND BALANCE	395,057	(19,388)	(51,867)	15,780	339,582
Fund Balance - Beginning	5,211,943	59,065	1,008,870	-	6,279,878
Fund Balance - Ending	\$ 5,607,000	\$ 39,677	\$ 957,003	\$ 15,780	\$ 6,619,460

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

**SHORELINE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Governmental Funds \$ 339,582

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:	\$	20,444	
Depreciation expense:		<u>(1,016,353)</u>	(995,909)

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:

964,671

Unmatured interest on long-term debt:

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

11,341

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:

(158,060)

Pensions:

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

8,645

Change in Net Position of Governmental Activities	\$	<u>170,270</u>
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SHORELINE UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Private-Purpose</u>	<u>Student Body</u>
	<u>Trust Fund</u>	<u>Fund</u>
ASSETS		
Cash and investments	\$ 137,063	\$ 71,880
Total Assets	<u>137,063</u>	<u>\$ 71,880</u>
LIABILITIES		
Due to other funds	300	\$ -
Due to student groups	-	71,880
Total Liabilities	<u>300</u>	<u>\$ 71,880</u>
NET POSITION		
Unrestricted	136,763	
Total Net Position	<u>\$ 136,763</u>	

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

SHORELINE UNIFIED SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Trust Funds</u>
	<u>Private-Purpose</u>
	<u>Trust Fund</u>
ADDITIONS	
Investment earnings	\$ 170
Other	57,803
Interfund transfers in and other sources	24,000
Total Additions	<u>81,973</u>
DEDUCTIONS	
Other trust activities	66,750
Total Deductions	<u>66,750</u>
CHANGE IN NET POSITION	15,223
Net Position - Beginning	121,540
Net Position - Ending	<u>\$ 136,763</u>

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

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

C. Basis of Presentation

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

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

C. Basis of Presentation (*continued*)

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

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

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

Major Governmental Funds

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

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

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

Non-Major Governmental Funds

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

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

C. Basis of Presentation (*continued*)

Fiduciary Funds

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

Foundation Private-Purpose Trust Fund: This fund is used to account separately for gifts or bequests per *Education Code Section 41031* that benefit individuals, private organizations, or other governments and under which neither principal nor income may be used for purposes that support the District's own programs.

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

D. Basis of Accounting – Measurement Focus

Government-Wide and Fiduciary Financial Statements

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Governmental Funds

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

Interfund Balances

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

Premiums and Discounts

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

Deferred Outflows/Deferred Inflows of Resources

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

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

Pensions

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

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

Fund Balance

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

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

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

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

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

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

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

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

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

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

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

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

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

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

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

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

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Investment in county treasury	\$ 7,040,760	\$ 137,063
Cash on hand and in banks	-	71,880
Cash in revolving fund	3,000	-
Total cash and investments	<u>\$ 7,043,760</u>	<u>\$ 208,943</u>

B. Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (*continued*)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$7,187,631 and an amortized book value of \$7,177,823. The average weighted maturity for this pool is 204 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were rated AAA/V1 rated.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (*continued*)

F. Custodial Credit Risk – Deposits

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

G. Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Marin County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements at June 30, 2016 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 7,187,631
Total fair market value of investments	<u>\$ 7,187,631</u>

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>
Federal Government	
Categorical aid	\$ 148,731
State Government	
Categorical aid	21,149
Lottery	63,141
Total	<u>\$ 233,021</u>

NOTE 4 – CAPITAL ASSETS

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

	<u>Balance</u>			<u>Balance</u>
	<u>July 01, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 829,201	\$ -	\$ -	\$ 829,201
Construction in progress	-	-	-	-
Total Capital Assets not Being Depreciated	<u>829,201</u>	<u>-</u>	<u>-</u>	<u>829,201</u>
Capital assets being depreciated				
Land improvements	3,372,932	-	-	3,372,932
Buildings & improvements	31,120,103	20,444	-	31,140,547
Furniture & equipment	2,123,639	-	-	2,123,639
Total Capital Assets Being Depreciated	<u>36,616,674</u>	<u>20,444</u>	<u>-</u>	<u>36,637,118</u>
Less Accumulated Depreciation				
Land improvements	3,216,577	18,999	-	3,235,576
Buildings & improvements	16,579,911	889,261	-	17,469,172
Furniture & equipment	1,526,975	108,093	-	1,635,068
Total Accumulated Depreciation	<u>21,323,463</u>	<u>1,016,353</u>	<u>-</u>	<u>22,339,816</u>
Governmental Activities				
Capital Assets, net	<u>\$ 16,122,412</u>	<u>\$ (995,909)</u>	<u>\$ -</u>	<u>\$ 15,126,503</u>

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

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

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

	<u>Due From Other Funds</u>	
	<u>General Fund</u>	<u>Total</u>
<u>Due To Other Funds</u>		
Cafeteria Fund	\$ 215,000	\$ 215,000
Foundation Private-Purpose Trust Fund	300	300
Total Due From Other Funds	\$ 215,300	\$ 215,300
Cafeteria Fund due to the General Fund to cover cash flow needs.		\$ 215,000
Foundation Private-Purpose Trust Fund due to the General Fund for indirect costs.		300
Total		\$ 215,300

B. Operating Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

	<u>Interfund Transfers In</u>		
	<u>Cafeteria Fund</u>	<u>Foundation Private-Purpose Trust Fund</u>	<u>Total</u>
<u>Interfund Transfers Out</u>			
General Fund	\$ 215,000	\$ 24,000	\$ 239,000
Total Interfund Transfers	\$ 215,000	\$ 24,000	\$ 239,000
Transfer from the General Fund to the Cafeteria Fund for cash flow support.			\$ 215,000
Transfer from the General Fund to the Foundation Private-Purpose Trust Fund to cover legal settlement costs.			24,000
Total			\$ 239,000

NOTE 6 – ACCRUED LIABILITIES

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

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>District-Wide</u>	<u>Total Governmental Activities</u>
Payroll	\$ 15,791	\$ -	\$ -	\$ 15,791
Vendors payable	515,834	10,160	-	525,994
Unmatured interest	-	-	202,178	202,178
Total	\$ 531,625	\$ 10,160	\$ 202,178	\$ 743,963

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 7 – UNEARNED REVENUE

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

	<u>General Fund</u>
Federal sources	\$ 72,639
State categorical sources	50,941
Total	<u>\$ 123,580</u>

NOTE 8 – LONG-TERM DEBT

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

	<u>Balance</u>			<u>Balance</u>	<u>Balance Due</u>
	<u>July 01, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>	<u>In One Year</u>
Governmental Activities					
General obligation bonds	\$ 12,835,000	\$ -	\$ 590,000	\$ 12,245,000	\$615,000
Capital leases	32,940	-	16,470	16,470	16,470
Early retirement incentive	334,201	-	334,201	-	-
Settlement Payment	80,000	-	24,000	56,000	24,000
Net OPEB obligation	922,354	158,060	-	1,080,414	-
Net pension liability	8,812,081	1,197,452	-	10,009,533	-
Total	<u>\$ 23,016,576</u>	<u>\$ 1,355,512</u>	<u>\$ 964,671</u>	<u>\$ 23,407,417</u>	<u>\$ 655,470</u>

- Payments for general obligation bonds and settlement payments are made in the Bond Interest and Redemption Fund.
- Payments for capital lease obligations are made in the General Fund.
- Payments for PARS retirement program are made in the General Fund.

A. General Obligation Bonds

In September 2011 refunding bonds in the amount of \$5,270,000 were issued to defease the 2001 and 2002 series bond issues. The bonds bear interest rates of 2.5% to 3.64% with maturity dates of August 1, 2012 through August 1, 2026.

The District has defeased various general obligation bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advance refunding met the requirements of an in-substance debt defeasance and therefore the deferred debt was removed as a liability from the District's government-wide financial statements.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

The outstanding general obligation bonded debt of the Shoreline Unified School District as of June 30, 2016 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2015	Additions	Deductions	Outstanding June 30, 2016
Series 2010	4/13/2010	8/1/2025	3.0% - 5.0%	\$9,290,000	\$ 8,400,000	\$ -	\$ 265,000	\$ 8,135,000
Series 2011	9/7/2011	8/1/2026	2.5% - 3.6%	\$5,270,000	4,435,000	-	325,000	4,110,000
					\$ 12,835,000	\$ -	\$ 590,000	\$ 12,245,000

The annual requirements to amortize these bonds and the remaining outstanding balance are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$615,000	\$485,228	\$ 1,100,228
2018	635,000	468,478	1,103,478
2019	650,000	448,328	1,098,328
2020	665,000	426,828	1,091,828
2021	690,000	403,878	1,093,878
2022 - 2026	3,850,000	1,656,431	5,506,431
2027 - 2031	2,415,000	966,538	3,381,538
2032 - 2036	2,725,000	401,800	3,126,800
Total	\$12,245,000	\$5,257,509	\$ 17,502,509

B. Capital Leases

The District entered into various capital leases with options to purchase, for two buses, with principal maturing through 2017. The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment. Future minimum lease payments are as follows:

Year Ended June 30,	Lease Payment
2017	\$ 17,101
Total minimum lease payments	17,101
Less amount representing interest	(631)
Present value of minimum lease payments	\$ 16,470

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT (continued)

C. Settlement Payments

In addition to the commitments and contingencies described in Note 12, the District settled a lawsuit with a family of a District student for \$440 thousand. The settlement will be paid over ten (10) years beginning in fiscal year 2010-2011 and maturing in the fiscal year 2019-2020. The amount payable is non-interest bearing and the amortization of the remaining liability is as follows:

<u>Year Ended June 30,</u>	<u>Settlement Payment</u>
2017	\$ 24,000
2018	10,667
2019	10,667
2020	10,666
Total	<u>\$ 56,000</u>

D. Early Retirement Incentive

As of June 30, 2016 the District has paid off the remaining balance for the early retirement incentive.

E. Net Pension Liability

The District's beginning net pension liability was \$8,812,081 and increased by \$1,197,452 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$10,009,533. See Note 11 for additional information regarding the net pension liability.

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 9 – FUND BALANCES

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

	General Fund	Cafeteria Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Stores inventory	-	6,544	-	-	6,544
Prepaid expenditures	1,200	-	-	-	1,200
Total non-spendable	4,200	6,544	-	-	10,744
Restricted					
Educational programs	416,120	-	-	-	416,120
Capital projects	-	-	-	15,780	15,780
Debt service	-	-	957,003	-	957,003
Food service	-	33,133	-	-	33,133
Total restricted	416,120	33,133	957,003	15,780	1,422,036
Assigned					
Other assignments	15,672	-	-	-	15,672
Deferred Maintenance Fund	353,851	-	-	-	353,851
Special Reserve for Post-Employment Benefits Fund	112,056	-	-	-	112,056
Total assigned	481,579	-	-	-	481,579
Unassigned					
Reserve for economic uncertainties	522,413	-	-	-	522,413
Remaining unassigned	4,182,688	-	-	-	4,182,688
Total unassigned	4,705,101	-	-	-	4,705,101
Total	\$ 5,607,000	\$ 39,677	\$ 957,003	\$ 15,780	\$ 6,619,460

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 4 percent of General Fund expenditures and other financing uses.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District provides medical, dental and vision benefits to retirees and their covered eligible dependents. The District pays a portion of the medical costs for eligible retirees only. Retirees must pay the entire cost for dental, vision, and dependent medical benefits. All active employees who retire directly from the District and meet the eligibility criteria may participate.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	8
Active plan members	105
Total*	<u>113</u>
Number of participating employers	1

*As of July 1, 2013 actuarial study

B. Funding Policy

The District’s contribution is currently based on a project pay-as-you-go funding method, that is, benefits are payable when due.

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

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	286,133
Interest on net OPEB obligation		36,894
Adjustment to annual required contribution		(53,340)
Annual OPEB cost (expense)		<u>269,687</u>
Contributions made		<u>(111,627)</u>
Increase (decrease) in net OPEB obligation		158,060
Net OPEB obligation, beginning of the year		922,354
Net OPEB obligation, end of the year	\$	<u>1,080,414</u>

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

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2016	\$ 269,687	41%	\$ 1,080,414
2015	\$ 272,592	40%	\$ 922,354
2014	\$ 276,328	24%	\$ 759,443

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	\$ -	\$ 2,013,470	\$ 2,013,470	0%	\$ 6,425,497	31%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2013
Actuarial Cost Method	Project Unit Credit Cost Method
Amortization Method	Level Dollar
Remaining Amortization Period	30
Asset Valuation	\$ -
Actuarial Assumptions:	
Investment rate of return	4.0%
Discount rate	4.0%
Health care trend rate	8.0%

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 7,163,000	\$ 488,375	\$ 941,049	\$ 515,131
PERS Pension	2,846,533	397,994	456,414	199,910
Total	\$ 10,009,533	\$ 886,369	\$ 1,397,463	\$ 715,041

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

CalSTRS 2% at 60

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Benefits provided (continued)

CalSTRS 2% at 62

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$488,375 for the year ended June 30, 2016.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$352,081 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 7,163,000
State's proportionate share of the net pension liability associated with the District	3,788,427
Total	\$ 10,951,427

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District’s proportion was 0.011 percent, which did not change from its proportion measured as of June 30, 2014.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$515,131. In addition, the District recognized pension expense and revenue of \$293,378 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 583,901
Differences between expected and actual experience	-	119,695
Changes in proportion and differences between District contributions and proportionate share of contributions	-	237,453
District contributions subsequent to the measurement date	488,375	-
	<u>\$ 488,375</u>	<u>\$ 941,049</u>

The \$488,375 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 205,500
2018	205,500
2019	205,500
2020	205,500
2021	59,525
2022	59,524
	<u>\$ 941,049</u>

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

* 10-year geometric average

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	\$ 10,815,573	\$ 7,163,000	\$ 4,127,418

Pension plan fiduciary net position

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits provided

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

Contributions

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

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the District were \$235,311 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$2,846,533 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.019 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2014.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$199,910. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 97,468
Differences between expected and actual experience	162,683	-
Changes in assumptions	-	174,899
Changes in proportion and differences between District contributions and proportionate share of contributions	-	184,047
District contributions subsequent to the measurement date	235,311	-
	<u>\$ 397,994</u>	<u>\$ 456,414</u>

The \$235,311 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 56,098	\$ 148,142
2018	56,098	148,142
2019	50,487	135,764
2020	-	24,366
	<u>\$ 162,683</u>	<u>\$ 456,414</u>

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions

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

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SHORELINE UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

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

Actuarial assumptions (continued)

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

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

* An expected inflation of 2.5% used for this period
 ** An expected inflation of 3.0% used for this period

Discount rate

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 4,632,970	\$ 2,846,533	\$ 1,360,992

Pension plan fiduciary net position

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

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2016

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

B. Litigation

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

C. Construction Commitments

As of June 30, 2016, the District had no commitments with respect to unfinished capital projects.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in one joint venture under joint powers authorities (JPAs), the Redwood Empire School Insurance Group (RESIG). The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPAs and the District are included in these statements. The audited financial statements are generally available from the respective entities.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 8,798,983	\$ 8,963,825	\$ 9,099,420	\$ 135,595
Federal sources	1,964,754	1,967,652	2,000,162	32,510
Other state sources	434,347	742,017	865,305	123,288
Other local sources	1,430,824	1,515,893	1,562,370	46,477
Total Revenues	12,628,908	13,189,387	13,527,257	337,870
EXPENDITURES				
Certificated salaries	4,593,245	4,628,091	4,658,548	(30,457)
Classified salaries	2,079,453	2,066,251	2,104,068	(37,817)
Employee benefits	3,316,798	3,500,284	3,631,089	(130,805)
Books and supplies	675,432	734,016	661,095	72,921
Services and other operating expenditures	1,572,841	1,821,258	1,679,149	142,109
Other outgo				
Excluding transfers of indirect costs	100,488	92,227	87,376	4,851
Total Expenditures	12,338,257	12,842,127	12,821,325	20,802
Excess (Deficiency) of Revenues Over Expenditures	290,651	347,260	705,932	358,672
Other Financing Sources (Uses)				
Transfers out	(245,000)	(345,488)	(239,000)	106,488
Net Financing Sources (Uses)	(245,000)	(345,488)	(239,000)	106,488
NET CHANGE IN FUND BALANCE	45,651	1,772	466,932	465,160
Fund Balance - Beginning	4,832,091	4,674,161	4,674,161	-
Fund Balance - Ending	\$ 4,877,742	\$ 4,675,933	\$ 5,141,093	\$ 465,160

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

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

SHORELINE UNIFIED SCHOOL DISTRICT
CAFETERIA FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 165,000	\$ 165,000	\$ 151,188	\$ (13,812)
Other state sources	14,000	14,000	12,869	(1,131)
Other local sources	32,000	32,000	40,069	8,069
Total Revenues	211,000	211,000	204,126	(6,874)
EXPENDITURES				
Classified salaries	163,100	163,100	162,603	497
Employee benefits	89,846	89,846	98,307	(8,461)
Books and supplies	162,554	162,554	166,306	(3,752)
Services and other operating expenditures	10,500	10,500	11,298	(798)
Total Expenditures	426,000	426,000	438,514	(12,514)
Excess (Deficiency) of Revenues				
Over Expenditures	(215,000)	(215,000)	(234,388)	(19,388)
Other Financing Sources (Uses):				
Transfers in	215,000	215,000	215,000	-
Net Financing Sources (Uses)	215,000	215,000	215,000	-
NET CHANGE IN FUND BALANCE	-	-	(19,388)	(19,388)
Fund Balance - Beginning	59,065	59,065	59,065	-
Fund Balance - Ending	\$ 59,065	\$ 59,065	\$ 39,677	\$ (19,388)

See accompanying note to required supplementary information.

**SHORELINE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	\$ -	\$ 2,013,470	\$ 2,013,470	0%	\$ 6,425,497	31%

See accompanying note to required supplementary information.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.011%	0.011%
District's proportionate share of the net pension liability	\$ 7,163,000	\$ 6,440,131
States's proportionate share of the net pension liability associated with the District	3,788,427	3,794,803
Total	<u>\$ 10,951,427</u>	<u>\$ 10,234,934</u>
District's covered-employee payroll	\$ 4,714,033	\$ 4,876,812
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	152.0%	132.1%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.019%	0.018%
District's proportionate share of the net pension liability	\$ 2,846,533	\$ 2,371,950
District's covered-employee payroll	\$ 1,987,013	\$ 2,260,080
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	143.3%	104.9%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 488,375	\$ 433,896
Contributions in relation to the contractually required contribution*	(488,375)	(433,896)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 4,714,033	\$ 4,876,812
Contributions as a percentage of covered-employee payroll	10.36%	8.90%

*Amounts do not include on behalf contributions

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 235,311	\$ 250,769
Contributions in relation to the contractually required contribution	(235,311)	(250,769)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,987,013	\$ 2,260,080
Contributions as a percentage of covered-employee payroll	11.84%	11.10%

See accompanying note to required supplementary information.

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

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Funding Progress

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

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

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

Schedule of District Contributions

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

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 4,628,091	\$ 4,658,548	\$ 30,457
Classified salaries	\$ 2,066,251	\$ 2,104,068	\$ 37,817
Employee benefits	\$ 3,500,284	\$ 3,631,089	\$ 130,805
Cafeteria Special Revenue Fund			
Employee benefits	\$ 89,846	\$ 98,307	\$ 8,461
Books and supplies	\$ 162,554	\$ 166,306	\$ 3,752
Services and other operating expenditures	\$ 10,500	\$ 11,298	\$ 798

**SUPPLEMENTARY
INFORMATION**

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

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 42,181
Title II, Part A, Teacher Quality	84.367	14341	8,113
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	7,000
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	17,636
Title VI, Part B, Rural & Low Income School Program	84.358	14356	39,711
Title VIII, Impact Aid	84.041	10015	1,738,761
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	144,535
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	2,225
Total U. S. Department of Education			2,000,162
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	13390	45,789
National School Lunch Program	10.555	13391	105,399
Subtotal Child Nutrition Cluster			151,188
Total U. S. Department of Agriculture			151,188
Total Federal Expenditures			\$ 2,151,350

See accompanying note to supplementary information.

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

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	126.31	128.33
Total TK/K through Third	126.31	128.33
Fourth through Sixth		
Regular ADA	103.40	102.87
Total Fourth through Sixth	103.40	102.87
Seventh through Eighth		
Regular ADA	65.89	66.28
Total Seventh through Eighth	65.89	66.28
Ninth through Twelfth		
Regular ADA	118.55	117.00
Total Ninth through Twelfth	118.55	117.00
TOTAL SCHOOL DISTRICT	414.15	414.48

**SHORELINE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	Minutes Requirement	2015-16 Actual Minutes	Number of Days	Status
Kindergarten	36,000	52,605	180	Complied
Grade 1	50,400	52,830	180	Complied
Grade 2	50,400	52,830	180	Complied
Grade 3	50,400	52,830	180	Complied
Grade 4	54,000	55,660	180	Complied
Grade 5	54,000	55,660	180	Complied
Grade 6	54,000	57,070	180	Complied
Grade 7	54,000	57,070	180	Complied
Grade 8	54,000	57,070	180	Complied
Grade 9	64,800	65,250	180	Complied
Grade 10	64,800	65,250	180	Complied
Grade 11	64,800	65,250	180	Complied
Grade 12	64,800	65,250	180	Complied

See accompanying note to supplementary information.

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

	2017 (Budget)	2016	2015	2014
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 13,668,006	\$ 13,527,257	\$ 12,301,303	\$ 12,138,820
Expenditures And Other Financing Uses	13,294,715	13,060,325	13,093,684	13,053,768
Net change in Fund Balance	\$ 373,291	\$ 466,932	\$ (792,381)	\$ (914,948)
Ending Fund Balance	\$ 5,514,384	\$ 5,141,093	\$ 5,211,943	\$ 6,004,324
Available Reserves*	\$ 5,117,663	\$ 4,705,101	\$ 4,129,042	\$ 4,848,340
Available Reserves As A Percentage Of Outgo	38.49%	36.03%	31.53%	37.14%
Long-term Debt	\$ 22,751,947	\$ 23,407,417	\$ 13,282,141	\$ 13,599,121
Average Daily Attendance At P-2	414	414	487	481

The General Fund balance has increased by \$863,231 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$93,641. For a District this size, the State recommends available reserves of at least 4% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating surplus during the 2016-17 fiscal year. Total long term obligations have increased by \$9,808,296 over the past two years.

Average daily attendance has decreased by 67 ADA over the past two years. No change in ADA is anticipated during the 2016-17 fiscal year.

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

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

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

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Postemployment Benefits
June 30, 2016, annual financial and budget report fund balance	\$ 5,141,093	\$ 353,852	\$ 112,055
Adjustments and reclassifications:			
Increase (decrease) in total fund balances:			
Fund balance transfer (GASB 54)	465,907	(353,852)	(112,055)
Net adjustments and reclassifications	465,907	(353,852)	(112,055)
June 30, 2016, audited financial statement fund balance	<u>\$ 5,607,000</u>	<u>\$ -</u>	<u>\$ -</u>

SHORELINE UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 JUNE 30, 2016

	Non-Major Governmental Funds
	Capital Facilities Fund
ASSETS	
Cash and investments	\$ 15,780
Total Assets	\$ 15,780
LIABILITIES	
Total Liabilities	\$ -
FUND BALANCES	
Restricted	15,780
Total Fund Balances	15,780
Total Liabilities and Fund Balance	\$ 15,780

See accompanying note to supplementary information.

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

	Non-Major Governmental Funds
	Capital Facilities Fund
REVENUES	
Other local sources	\$ 15,780
Total Revenues	<u>15,780</u>
EXPENDITURES	
Total Expenditures	<u>-</u>
NET CHANGE IN FUND BALANCE	15,780
Fund Balance - Beginning	-
Fund Balance - Ending	<u>\$ 15,780</u>

**SHORELINE UNIFIED SCHOOL DISTRICT
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2016**

The Shoreline Unified School District was established in 1968. The District office is in Tomales, California. There was no change in District boundaries during the year. The District operates four elementary schools and one high school.

GOVERNING BOARD

Member	Office	Term Expires
Jill Manning-Sartori	President	December 2019
Clarette McDonald	Vice President	December 2019
Jim Lino	Board Representative	December 2017
Avito Miranda	Clerk	December 2019
Tim Kehoe	Trustee	December 2017
Jane Healy	Trustee	December 2017
Vonda Jensen	Trustee	December 2019

DISTRICT ADMINISTRATORS

Bob Raines
Superintendent

Bruce Abbot
Chief Business Official

SHORELINE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The District has not elected to use the 10 percent de minimis indirect cost rate.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections* 46200 through 46208. During the year ended June 30, 2016, the District participated in the Longer Day incentive funding program. As of June 30, 2016, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Funds

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

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Shoreline Unified School District
Tomales, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shoreline Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Shoreline Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2016-1 and # 2016-2).

Compliance and Other Matters

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

Shoreline Unified School District's Response to Findings

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

Purpose of this Report

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

Christy White Associates

San Diego, California
December 2, 2016

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

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Shoreline Unified School District
Tomales, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shoreline 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 Shoreline 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 Shoreline Unified School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Shoreline 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 each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Shoreline 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 Shoreline 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 Shoreline 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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Christy White Associates

San Diego, California
December 2, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Shoreline Unified School District
Tomales, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shoreline Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Shoreline 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 with the requirements referred to above. However, our audit does not provide a legal determination of Shoreline Unified School District's compliance with those requirements.

Opinion on State Compliance

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2016-3. Our opinion on state compliance is not modified with respect to these matters.

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

Procedures Performed

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

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

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study because it was not material.

We did not perform testing for the California Clean Energy Jobs Act because the District did not expend any funds in the current fiscal year.

Christy White Associates

San Diego, California
December 2, 2016

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

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

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
<u>84.041</u>	<u>Title VIII, Impact Aid</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	\$	<u>750,000</u>
Auditee qualified as low-risk auditee?		<u>Yes</u>

STATE AWARDS

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

SHORELINE UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

FINDING #2016-01: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000)

Criteria: Proper internal controls should be in place to ensure Associated Student Body (ASB) funds are properly collected, deposited and expended as part of the District's fiduciary duty. In addition, adequate internal controls will ensure that fiduciary fund assets are safeguarded.

Condition: Sites listed and detailed below were determined to be lacking proper internal controls and audit documentation relating to budgeting, cash disbursements, and/or cash receipts. The deficiencies in internal controls noted include the following:

Tomales School

- Nine (9) out of 10 disbursements selected for testing did not contain adequate documentation of expenditure approval. Authorizations should include the approval signatures of an administrative employee (principal or vice principal), ASB advisor, and a representative of the student body.
- One (1) of 10 disbursements appear to be inappropriate use of student funds on curricular or classroom supplies.
- Six (6) of 10 cash receipts did not have supporting documentation such as ticket control sheet, inventory control sheet, or tally sheet to substantiate cash received.

Tomales High School

- Auditor noted through inquiry that no annual budget is prepared or adopted by the student governing body, Charters are not kept on file, meeting minutes are not recorded and revenue potentials are not prepared.
- Tomales High School currently conducts raffles at academics awards assembly.
- Ten (10) out of 10 disbursements selected for testing did not contain adequate documentation of expenditure approval. Authorizations should include the approval signatures of an administrative employee (principal or vice principal), ASB advisor, and a representative of the student body.
- One (1) of 10 disbursements appear to be inappropriate use of student funds on curricular or classroom supplies.
- Two (2) of 10 cash receipts did not have supporting documentation such as ticket control sheet, inventory control sheet, or tally sheet to substantiate cash received.

Cause: Lack of adequate oversight and/or noncompliance with District accounting policies.

Effect: A lack of proper internal controls can lead to accounting irregularities to go undetected and increase the potential for the misappropriation of fiduciary fund assets.

SHORELINE UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-01: ASSOCIATED STUDENT BODY INTERNAL CONTROLS (30000), *continued*

Perspective: We audited two (2) ASB funds at the schools for testing in the fiscal year 2015-16. Our audit included an evaluation of internal control procedures over cash disbursements, cash receipts, inventory, budgeting, and ASB organization.

Recommendation: Training and instruction on the use of standardized formats should continue to be provided annually with compliance follow-up by the district office. The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual & Desk Reference and reinforce the importance for sound internal control procedures to be implemented. Proper controls over cash receipting and cash disbursements are integral for proper safeguarding of assets.

District Response: The Shoreline District has distributed the FCMAT ASB Accounting Manual, Fraud Prevention Guide and Desk Reference to all employees. A form has been developed for all sites for cash disbursements. Required approvals are highlighted on the form. A form has also been created for all sites for all fund raising activities that identifies required information and tracking. A meeting of all site secretaries that handle the ASB accounts will be held in the January/February time frame to review procedures.

SHORELINE UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-02: BANK RECONCILIATIONS (30000)

Criteria: Internal controls over bank accounts and reconciliations are important to ensure that the District's financial statements are free of material misstatement.

Condition: During our testing of the District's bank accounts and reconciliations, we noted the following:

Revolving Cash Fund

Revolving Fund should reconcile to imprest balance. The register ending balance as of June 30, 2016, had an ending balance of \$444. This amount does not match the unaudited actuals which shows a balance of \$3,000. The variance of \$2,556 is immaterial.

Cause: Lack of oversight over District bank accounts and reconciliations.

Perspective/Context: Testing of District's bank accounts and reconciliations for the year under audit.

Effect: Risk of material misstatement.

Recommendation: Sound internal controls and oversight should be put into place to review all activity related to the District's bank accounts and reconciliations.

District Response: The closing procedures will be updated to include a requirement to fund the revolving fund to the imprest balance prior to year end reporting.

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

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings and questioned costs for the year ended June 30, 2016.

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

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2016-03: SCHOOL ACCOUNTABILITY REPORT CARDS (72000)

Criteria: School Accountability Report Cards (SARCs), prepared on annual basis for each school site within the District and posted in February, should contain information regarding school facilities conditions, as indicated in the most recently prepared facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002(d).

Condition: During testing of a representative sample of SARCs, we found the information reported under the School Facility Conditions and Planned Improvements (Most Recent Year) section presented facilities inspection data from February 2016 FIT forms. For the SARC information to be accurate, the facilities inspection data should come from the February 2015 FIT forms.

This issue was found in the following SARCs:

- ❖ Tomales Elementary School
- ❖ Tomales High School

Effect: The District is not in compliance with Education Code.

Cause: Likely due to clerical error in preparation of the SARCs.

Questioned Costs: None. There is no State funding related to SARC.

Recommendation: We recommend that the District implement procedures to ensure that all information presented on the SARCs is accurate and complete.

District Response: The District will update procedures to ensure the appropriate FIT forms are included in the SARC reports.

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

FINDING #2015-01: CASH DISBURSEMENTS (30000)

Criteria: Sound accounting practices require supporting documentation for cash disbursements and the use of purchase orders as a management tool to document prior approval and encumbrance of District expenditures.

Condition: During our testing of controls over purchasing and cash disbursements, it was noted purchases for West Marin Elementary School are frequently made in advance of processing a purchase order.

Questioned Cost: The conditions referred to above were the result of our tests of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in an incorrect conclusion.

Cause: District controls over purchases and cash disbursements were not followed.

Effect: Without proper approval by an authorized person, unauthorized disbursements may be made limiting management's control over the purchases and cash disbursements and ultimately the budget.

Recommendation: To improve internal and budgetary controls, we recommend all District expenditures be supported by a completed purchase order prepared and approved in advance of the purchase. Before the purchase is approved, the budget should be reviewed for availability of funds and the order should be coded and encumbered.

District Response: The District office has been working with the West Marin School on procedures to ensure adherence to District procedures as well as expedient turn around on sites expenditures needs. Also in 2015-16 Shoreline will be implementing online requisitioning and purchasing in at least pilot mode with full implementation in 2016-17. The new online procedures will significantly improve turn around and provide improved controls to the process.

Current Status: Implemented.

SHORELINE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-02: CASH RECONCILIATIONS (30000)

Criteria: Sound accounting practices require internal controls for cash activity that includes reconciliation of the recorded balance to the monthly bank statement and amount reimbursed to the District's imprest balance. In addition, adequate supporting documentation for revolving account payments should be maintained.

Condition: During our testing, it was noted reconciliations were unavailable for the District commercial bank revolving account and the cafeteria clearing account for the June 30, 2015 bank statements.

Questioned Cost: None. This finding refers to an attribute of the District's internal accounting controls.

Cause: The District is not consistent following internal control procedures requiring monthly reconciliations of bank statements and retention of adequate supporting documentation.

Effect: Without monthly reconciliations to the bank statement and revolving bank account imprest balance, errors may occur and not be detected in a timely manner.

Recommendation: The District should reconcile the recorded balance for each commercial bank account to the monthly bank statement on a timely basis and maintain a record of those reconciliations as a permanent record. Differences noted on the reconciliations should be promptly resolved.

District Response: The District CBO in the past has not reviewed and approved the reconciliations for the Revolving and Clearing accounts. This will be instituted in 2015-16.

Current Status: Not implemented, see finding #2016-01.

SHORELINE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-03: JOURNAL ENTRY POSTING (30000)

Criteria: Proper internal accounting controls include segregation of duties that require journal entries are reviewed by someone other than the person creating the entry, knowledgeable about accounting principles prior to entry to the general ledger.

Condition: During testing of Journal Entries, it was noted entries are not reviewed by a second person prior to posting.

Questioned Cost: We determined an incorrect journal entry was recorded at June 30, 2015, resulting in property tax revenues overstated \$157 thousand.

Cause: The District does not have a policy requiring a review of journal entries.

Effect: Without a review and approval for each journal entry, there is an increased risk that an inappropriate entry may be recorded to the District's general ledger either by mistake or intentionally, and not be detected by a District employee performing their regular duties.

Recommendation: We recommend procedures for processing journal entries be reviewed and revised to strengthen adherence to the requirement of documented approval and review for each journal entry.

District Response: Smaller district in many cases cannot establish complete segregation of duties given the small number of employees and appropriate training. Starting in 2015-16 the District office will implement the following changes:

1. During the school year regular and routine entries are made to the general ledger. These entries for the most part are; transfer of expense between categories due to miss posting or unexpected changes in funding, booking of cash received directly at the District office or posted on our behalf by the county office of education and payroll transfers resulting from organization changes. These entries will be assigned to District office staff with a second staff member, in most cases the CBO reviewing and approving entries.
2. Mostly during the annual accounting close but occasionally during the year complex entries are required to the general ledger. Examples of these are year-end accruals, GASB 68. These entries are created by the CBO and currently there is no staff in the District office to provide a value added review and approval. Going forward the CBO will be reviewing these entries with staff at the county office of education to ensure appropriateness of accounting.

Current Status: Implemented.

SHORELINE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2015-04: GENERAL LEDGER MAINTENANCE (30000)

Criteria: The District must record entries to the general ledger for apportionments deposited to the County Treasury by the County Office of Education. Sound accounting practices require making timely cash deposits and recording each deposit timely to the general ledger to provide control over District assets and improve reliability of District financial reports.

Condition: During our testing of the subsequent receipt of June 30, 2015 accounts receivable, we noted many were received, however, not entered into the general ledger.

Questioned Cost: The conditions referred to above were the result of our tests of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in an incorrect conclusion.

Cause: The District procedures requiring timely recording of all financial information were not followed.

Effect: Without accurate and timely posting of all deposits received, the District may not be able to maintain proper control over District assets. Also, financial reports are not reliable.

Recommendation: We recommend the District record all financial transactions.

District Response: The District office will ensure appropriate priority is given to the timely booking of our cash entries. Additionally, with the new segmentation of duties proposed in Finding 2015-003 the cash entries will be seen by a second set of eyes to ensure there are current.

Current Status: Implemented.