SCOTTS VALLEY UNIFIED SCHOOL DISTRICT
COUNTY OF SANTA CRUZ
SCOTTS VALLEY, CALIFORNIA

AUDIT REPORT

JUNE 30, 2016

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

Scotts Valley Unified School District
County of Santa Cruz

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Scotts Valley Unified School District
Scotts Valley, 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 Scotts Valley Unified School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

District 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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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 the District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

New Accounting Pronouncements

As discussed in Note 1 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local* Governments, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Deficit Net Position

As of June 30, 2016, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 9 and Note 10. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, and the other information listed in the supplementary section of the table of contents, as required by the 2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are the responsibility of management and were 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 combining and individual nonmajor fund financial statements, and the other information listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of The 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 The District's internal control over financial reporting and compliance.

C & A LLP

December 22, 2016
San Jose, California

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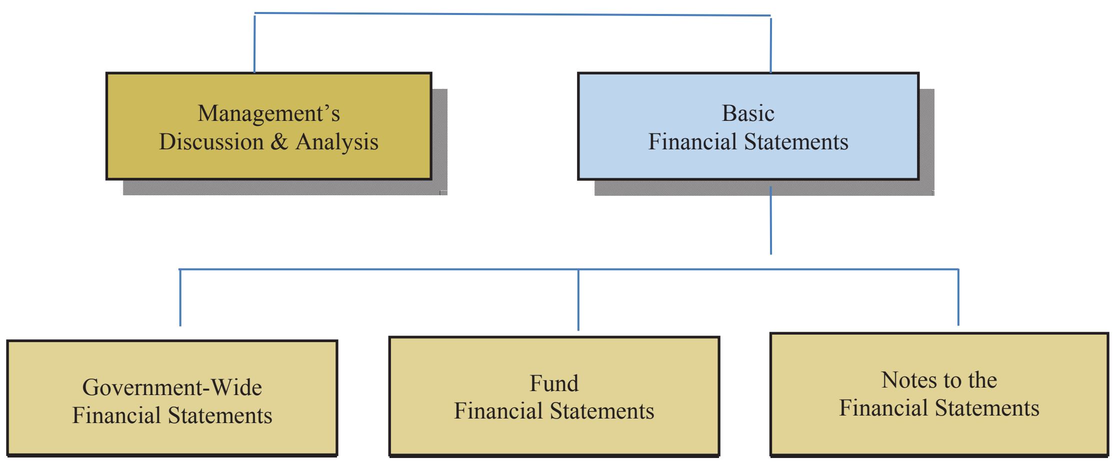
Management's Discussion and Analysis

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2016 were as follows:

- The 2013-14 school year was the first funded under the State of California's new Local Control Funding Formula (LCFF). The goal of the new funding formula is to reach 2007-08 funding levels, adjusted for cost of living increases (COLAs), for California K-12 education in approximately eight years, while equalizing the base funding per average daily attendance (ADA) for most districts. The formula also provides supplemental and concentration grant funding in addition to the base grant funding for programs to improve educational success for students eligible for free or reduced price meals, students who are English learners, and students who are foster youth. For Scotts Valley Unified School District the LCFF funding for 2014-15 was $14.6M, while the target funding was $19.4M , a difference of $4.8M. This difference is called the funding gap.

- The district's Board of Education called a parcel tax election for June 5, 2012. Measure K was successful and generated approximately $290,000 of revenue per year for three years. 2014-15 was the last year of the parcel tax.

- The district's total assets increased by $1,774,942, or 3.86%, from June 30, 2015, as a result of Measure A funding during the fiscal year. Total liabilities increased by $882,342, or 1.83%, from

June 30, 2015, as a result of the liabilities incurred from the sale of Measure A General Obligation Bonds, and net pension liabilities from the implementation of GASB 68.

- The total governmental fund balances increased by $60,338, which is a 0.3% increase from June 30, 2015. The increase resulted from the sale of Measure A bonds. The fund balance in the General Fund increased by 26.7%.

- In June of 2014 the voters of the Scotts Valley Unified School District approved Measure A, which passed with 71.3% approval. Measure A is a facilities bond measure authorizing $35M for the construction of a new Scotts Valley Middle School to replace the aging campus and allow for 21st Century Learning for this California Distinguished School and national School to Watch. The measure includes funds to improve earthquake safety at the district's two elementary schools.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

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

- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.

- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2015 - 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on page 14. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, Deferred Maintenance Fund, Special Reserve for Capital Outlay Projects, and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary funds

The district is the trustee, or fiduciary, for student body funds. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district's fund and government-wide financial statements because the district cannot use these assets to finance its operations.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2016 as compared to June 30, 2015:

Table 1 - Summary of Statement of Net Position

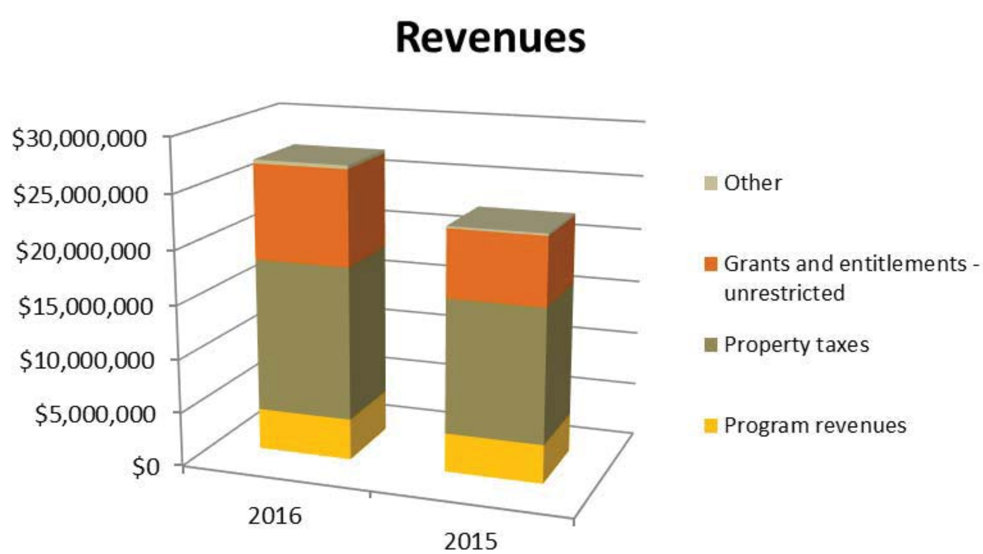
	2016	2015	Change	Percentage Change
Assets				
Current Assets	$ 23,670,576	$ 23,364,738	$ 305,838	1.31%
Capital Assets	24,045,739	22,576,635	1,469,104	6.51%
Total Assets	$ 47,716,315	$ 45,941,373	$ 1,774,942	3.86%
Total Deferred Outflows of Resources	$ 2,925,418	$ 1,576,588	$ 1,348,830	46.11%
Liabilities				
Current Liabilities	$ 2,074,895	$ 1,832,792	$ 242,103	13.21%
Long-term Liabilities	47,000,654	46,360,415	640,239	1.38%
Total Liabilities	$ 49,075,549	$ 48,193,207	$ 882,342	1.83%
Total Deferred Outflows of Resources	$ 1,847,034	$ 3,963,213	$ (2,116,179)	-114.57%
Net Position				
Net Investment in Capital Assets	$ 3,551,921	$ 3,052,691	$ 499,230	16.35%
Restricted	4,115,102	3,344,728	770,374	23.03%
Unrestricted	(7,947,873)	(11,035,878)	3,088,005	27.98%
Total Net Position	$ (280,850)	$ (4,638,459)	$ 4,357,609	93.95%

During the year, deferred outflows of resources increased by 46.11%, deferred inflows of resources decreased by 114.57%, long-term liabilities increased by 1.38% and net position increased by 93.95% because of the implementation of GASB 68 which requires all local governments to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. In 2014/15, the District reduced beginning net position by $14,854,279 (see Table 2) to account for its proportionate share of the PERS and STRS net pension liabilities as of June 30, 2015. There was no impact on fund balance as a result of GASB 68. See note 9 for additional information.

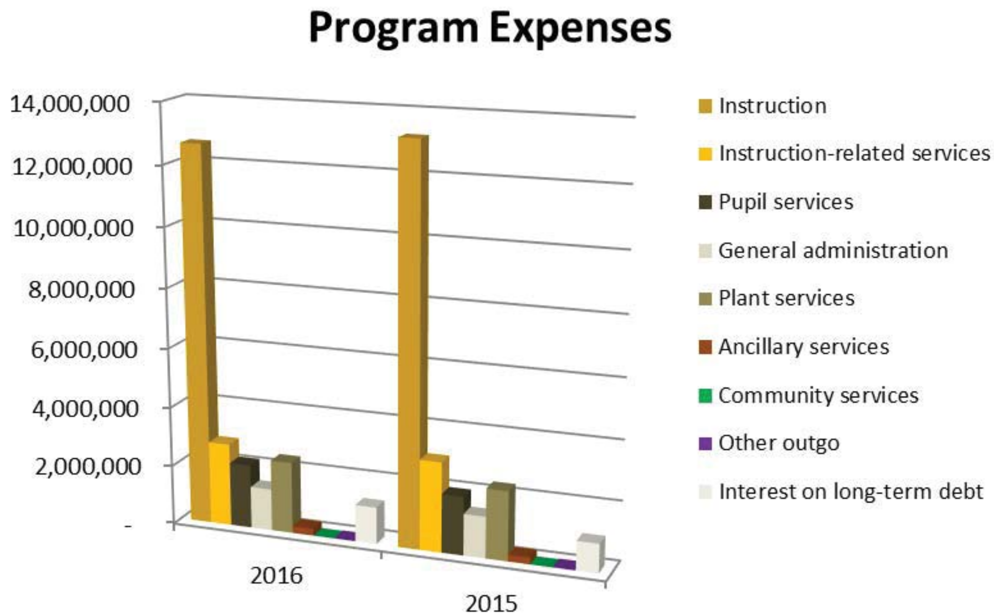
Table 2 shows the changes in net position for fiscal year 2016 as compared to 2015:

Table 2 - Summary of Changes in Statement of Activities				
	2016	2015	Change	Percentage Change
Revenues				
Program revenues	$ 3,816,684	$ 3,592,513	$ 224,171	6.24%
General revenues:				
Property taxes	14,239,102	12,435,510	1,803,592	14.50%
Grants and entitlements - unrestricted	8,819,744	6,262,786	2,556,958	40.83%
Other	339,136	203,774	135,362	66.43%
Total Revenues	27,214,666	22,494,583	4,720,083	20.98%
Program Expenses				
Instruction	12,652,831	13,216,083	(563,252)	-4.26%
Instruction-related services	2,778,814	3,018,586	(239,772)	-7.94%
Pupil services	2,142,887	1,967,786	175,101	8.90%
General administration	1,404,358	1,397,149	7,209	0.52%
Plant services	2,399,386	2,331,226	68,160	2.92%
Ancillary services	225,891	225,544	347	0.15%
Community services	2,124	3,133	(1,009)	-32.21%
Other outgo	14,617	23,930	(9,313)	-38.92%
Interest on long-term debt	1,236,149	979,199	256,950	26.24%
Total Expenses	22,857,057	23,162,636	(305,579)	-1.32%
Change in Net Position	4,357,609	(668,053)	5,025,662	752.28%
Beginninng Net Position	(4,638,459)	10,883,873	(15,522,332)	-142.62%
Prior Period Adjustment - GASB 68	-	(14,854,279)	14,854,279	100.00%
Beginninng Net Position as Restated	(4,638,459)	(3,970,406)	(668,053)	-16.83%
Ending Net Position	$ (280,850)	$ (4,638,459)	$ 4,357,609	93.95%

The following is a summary of government wide revenues for the fiscal year ended June 30, 2016:



The following is a summary of expenses by function for the fiscal year ended June 30, 2016:



GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services				
	2016	2015	Change	Percentage Change
Instruction	$ 10,756,328	$ 11,274,120	$ (517,792)	-4.59%
Instruction-related services	2,583,837	2,765,705	(181,868)	-6.58%
Pupil services	1,312,025	1,109,259	202,766	18.28%
General administration	1,304,799	1,298,008	6,791	0.52%
Plant services	2,307,666	2,237,852	69,814	3.12%
Ancillary services	191,600	156,102	35,498	22.74%
Community services	1,847	2,589	(742)	-28.66%
Other outgo	(653,878)	(252,711)	(401,167)	-158.75%
Interest on long-term debt	1,236,149	979,199	256,950	26.24%
Total Net Cost of Services	$ 19,040,373	$ 19,570,123	$ (529,750)	-2.71%

Instruction expenditures include activities directly dealing with the teaching of pupils. *Instruction-related Services* include the activities involved with assisting staff with the content and process of educating students. *Pupil Services* include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students. *General Administration* reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services. *Plant Services* involve keeping the school grounds, buildings, and equipment in effective working condition. *Ancillary Services* represent the expenditures associated with co-curricular and athletic programs for students of the District. *Community Services* include paid overtime or extra time for custodial services performed entirely as a result of community services activities. *Other Outgo* includes tuitions and transfers of resources between Scotts Valley Unified School District and other educational agencies for services provided to Scotts Valley students.

THE DISTRICT'S FUNDS

Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances

	2016	2015	Change	Percentage Change
General	$ 5,961,153	$ 4,703,296	$ 1,257,857	26.7%
Cafeteria Fund	47,694	58,328	(10,634)	-18.2%
Deferred Maintenance Fund	70,567	92,291	(21,724)	-23.5%
Building Fund	12,707,482	14,775,956	(2,068,474)	-14.0%
Capital Facilities Fund	381,726	315,338	66,388	21.1%
Special Reserve Fund for Capital Outlay Projects	39,776	43,205	(3,429)	-7.9%
Bond Interest and Redemption Fund	2,937,886	2,097,532	840,354	40.1%
Total Fund Balances	$ 22,146,284	$ 22,085,946	$ 60,338	0.3%

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting.

During the course of the 2015-16 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim, which resulted in an increase in budgeted expenditures of $767,631 from the original to final budget. Each year categorical and donated fund balances designated for use in subsequent years are carried forward from the prior year and budgeted to be spent. Maintenance costs increased as some infrastructure required immediate repair. The district reached agreements with its bargaining units for a 4% increase in salaries. This was the first increase to salary schedules since 2007-08. Expense increases were offset in part by revenue increases. For the General Fund, the final budget basis revenue and other financing sources estimate was $23,148,080. The original budgeted estimate was $21,693,954. This allowed the district to end the year with excess spending of $1,307,857 in the General Fund. When combined with the district's reserve for economic uncertainties, the year ended with a 26.7% increase in the combined fund balance. The district maintains combined reserves of $4.7M, of which $734,147 is the reserve for economic uncertainties, and $4.0M is either restricted, committed, or assigned for specific purposes.

CAPITAL ASSETS

Table 5 shows June 30, 2016 balances as compared to June 30, 2015.

Table 5 - Summary of Capital Assets Net of Depreciation

	2016	2015	Change	Percentage Change
Land	$ 3,905,000	$ 3,905,000	$ -	0.00%
Work-in-Progress	2,478,065	267,781	2,210,284	825.41%
Site Improvements	3,906,989	4,145,056	(238,067)	-5.74%
Buildings and Improvements	13,694,130	14,189,788	(495,658)	-3.49%
Equipment	61,555	69,010	(7,455)	-10.80%
Total Capital Assets - Net	$ 24,045,739	$ 22,576,635	$ 1,469,104	6.51%

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities				
	2016	2015	Change	Percentage Change
General Obligation Bonds	$ 28,320,000	$ 29,205,000	$ (885,000)	-3.03%
Unamortized Bond Premiums	1,451,300	1,564,900	(113,600)	-7.26%
Certificates of Participation	3,430,000	3,530,000	(100,000)	-2.83%
Net Pension Liabilities	13,695,846	11,975,736	1,720,110	14.36%
Annual Net OPEB Obligation	55,490	42,985	12,505	29.09%
Compensated Absences	48,018	41,794	6,224	14.89%
Total Long-term Liabilities	$ 47,000,654	$ 46,360,415	$ 640,239	1.38%

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that will affect the school district's future. Enrollment has fluctuated which translates into fluctuating revenue. The impact on revenue will depend primarily on the state economy, as it affects the continued implementation of the Local Control Funding Formula.

With the recent drop in the CalPERS discount rate, the district will incur the additional cost to the classified employees' retirement system. It is believed CalSTRS - which covers certificated employees - will follow suit and increase their rates as well. These increases will have a major impact on staffing throughout the district.

By far the largest change for the district will be the reconstruction of Scotts Valley Middle School. The project broke ground in late 2016 and is projected to be completed in 2018. This project will impact the Scotts Valley community and new housing developments which are currently underway. New real estate development will be limited though as Scotts Valley district boundaries are landlocked and small in scope as compared to districts in close proximity.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 additional financial information, please contact the Chief Business Official, Scotts Valley Unified School District, 4444 Scotts Valley Drive, Suite 5B, Scotts Valley, California 95066.

Basic Financial Statements

Scotts Valley Unified School District
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Current assets:	
Cash and investments	$ 22,863,465
Accounts receivable	796,315
Prepaid expenses	3,627
Stores inventories	7,169
Total current assets	23,670,576
Noncurrent assets:	
Non-depreciable capital assets	6,383,065
Capital assets, net of depreciation	17,662,674
Total noncurrent assets	24,045,739
Total Assets	$ 47,716,315
Deferred Outflows of Resources	
Pension plan contributions	$ 2,496,533
Deferred loss on early retirement of long-term debt	428,885
Total Deferred Outflows of Resources	$ 2,925,418
Liabilities	
Current liabilities:	
Accounts payable	$ 1,521,619
Unearned revenue	2,673
Accrued interest	550,603
Total current liabilities	2,074,895
Long-term liabilities:	
Due within one year	2,405,000
Due after one year	44,595,654
Total long-term liabilities	47,000,654
Total Liabilities	$ 49,075,549
Deferred Inflows of Resources	
Net difference between projected and actual earnings from pension plans	$ 1,847,034
Total Deferred Outflows of Resources	$ 1,847,034
Net Position	
Net Investment in Capital Assets	$ 3,551,921
Restricted for:	
Categorical programs	1,112,925
Debt service	2,937,886
Cafeteria programs	40,025
Capital projects	13,470
Other purposes (nonexpendable)	10,796
Total restricted	4,115,102
Unrestricted	(7,947,873)
Total Net Position	$ (280,850)

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	$ 12,652,831	$ -	$ 1,896,503	$ (10,756,328)
Instruction-related services:				
Supervision of instruction	596,128	-	123,233	(472,895)
Instruction library, media and technology	495,584	-	31,405	(464,179)
School site administration	1,687,102	-	40,339	(1,646,763)
Pupil services:				
Home-to-school transportation	304,323	-	-	(304,323)
Food services	497,011	325,207	120,211	(51,593)
All other pupil services	1,341,553	-	385,444	(956,109)
General administration:				
Data processing	86,787	-	-	(86,787)
All other general administration	1,317,571	-	99,559	(1,218,012)
Plant services	2,399,386	-	91,720	(2,307,666)
Ancillary services	225,891	-	34,291	(191,600)
Community services	2,124	-	277	(1,847)
Other outgo	14,617	-	668,495	653,878
Interest on long-term debt	1,236,149	-	-	(1,236,149)
Total governmental activities	$ 22,857,057	$ 325,207	$ 3,491,477	(19,040,373)
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				11,189,631
Taxes levied for debt service				2,792,614
Taxes levied for other specific purposes				256,857
Federal and state aid not restricted to specific purposes				8,819,744
Interest and investment earnings				152,809
Miscellaneous				186,327
Total general revenues and special items				23,397,982
Change in net position				4,357,609
Net position beginning				(4,638,459)
Net position ending				$ (280,850)

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 6,282,742	$ 13,026,036	$ 2,937,886	$ 616,801	$ 22,863,465
Accounts receivable	796,315	-	-	-	796,315
Prepaid expenditures	3,627	-	-	-	3,627
Stores inventories	-	-	-	7,169	7,169
	-				
Total Assets	$ 7,082,684	$ 13,026,036	$ 2,937,886	$ 623,970	$ 23,670,576
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 1,118,858	$ 318,554	$ -	$ 84,207	$ 1,521,619
Unearned revenue	2,673	-	-	-	2,673
Total Liabilities	1,121,531	318,554	-	84,207	1,524,292
Fund balances:					
Nonspendable:					
Revolving fund	2,000	-	-	500	2,500
Stores inventories	-	-	-	7,169	7,169
Prepaid expenditures	3,627	-	-	-	3,627
Restricted for:					
Educational programs	1,112,925	-	-	-	1,112,925
Debt service	-	-	2,937,886	-	2,937,886
Cafeteria programs	-	-	-	40,025	40,025
Capital projects	-	12,707,482	-	13,470	12,720,952
Assigned for:					
Contingencies	3,821,196	-	-	-	3,821,196
Portable leases/facilities needs	-	-	-	408,032	408,032
Bargaining Unit Increases	282,258	-	-	-	282,258
Deferred maintenance	-	-	-	70,567	70,567
Unassigned:					
Economic uncertainties	739,147	-	-	-	739,147
Unappropriated	-	-	-	-	-
Total Fund Balances	5,961,153	12,707,482	2,937,886	539,763	22,146,284
Total Liabilities and Fund Balances	$ 7,082,684	$ 13,026,036	$ 2,937,886	$ 623,970	$ 23,670,576

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District

Reconciliation of the Governmental Funds

Balance Sheet to the Statement of Net Position

June 30, 2016

Total fund balances - governmental funds		$ 22,146,284
Amounts reported in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital assets at cost	$ 33,543,598	
Accumulated depreciation	(9,497,859)	24,045,739
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(550,603)
Contributions made to pension plans will not be included in the calculation of the District's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		2,496,533
The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position.		(1,847,034)
The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred inflow in the government-wide statement of net position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements.		428,885
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:		
General obligation bonds	$ 28,320,000	
Unamortized bond premiums	1,451,300	
Certificates of participation	3,430,000	
Net pension liabilities	13,695,846	
Annual net OPEB obligation	55,490	
Compensated absences (vacation)	48,018	(47,000,654)
Total net position - governmental activities		$ (280,850)

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	$ 18,297,868	$ -	$ -	$ -	$ 18,297,868
Federal revenue	655,050	-	-	111,128	766,178
Other state	2,784,413	-	19,155	8,305	2,811,873
Other local	1,864,387	93,127	2,798,028	469,606	5,225,148
Total revenues	23,601,718	93,127	2,817,183	589,039	27,101,067
Expenditures:					
Current					
Instruction	14,202,743	-	-	-	14,202,743
Instruction-related services:					
Supervision of instruction	596,128	-	-	-	596,128
Instruction library, media and technology	483,737	-	-	-	483,737
School site administration	1,612,226	-	-	-	1,612,226
Pupil services:					
Home-to-school transportation	304,323	-	-	-	304,323
Food services	-	-	-	456,051	456,051
All other pupil services	1,341,553	-	-	-	1,341,553
General administration:					
Data processing	86,787	-	-	-	86,787
All other general administration	1,308,653	-	-	-	1,308,653
Plant services	1,867,362	-	-	150,812	2,018,174
Facilities acquisition and construction	-	2,161,601	-	1,575	2,163,176
Ancillary services	225,891	-	-	-	225,891
Community services	2,124	-	-	-	2,124
Other outgo	14,617	-	-	-	14,617
Debt service:					
Principal	100,000	-	885,000	-	985,000
Interest and fees	147,717	-	1,091,829	-	1,239,546
Total expenditures	22,293,861	2,161,601	1,976,829	608,438	27,040,729
Excess (deficiency) of revenues over (under) expenditures	1,307,857	(2,068,474)	840,354	(19,399)	60,338
Other financing sources (uses):					
Transfers in	-	-	-	50,000	50,000
Transfers out	(50,000)	-	-	-	(50,000)
Total other financing sources (uses)	(50,000)	-	-	50,000	-
Net changes in fund balances	1,257,857	(2,068,474)	840,354	30,601	60,338
Fund balances beginning	4,703,296	14,775,956	2,097,532	509,162	22,085,946
Fund balances ending	$ 5,961,153	$ 12,707,482	$ 2,937,886	$ 539,763	$ 22,146,284

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District

Reconciliation of the Governmental Funds Statement of
Revenues and Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Total net change in fund balances - governmental funds		$	60,338
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Additions to capital assets	$ 2,210,284		
Depreciation expense	(741,180)		1,469,104
The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:			
Repayment of bond principal	$ 885,000		
Repayment of certificates of participation princpal	100,000		985,000
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. The difference between premiums or discounts recognized in the current period and amortized over future periods is:			113,600
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.			1,744,899
In the Statement of Activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year, vacation earned exceeded the amounts used.			(6,224)
In the Statement of Activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net postemployment benefit obligation is not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the Statement of Activities in the amount of:			(12,505)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.			3,397
Changes in net position of governmental activities		$	4,357,609

The notes to the financial statements are an integral part of this statement.

Scotts Valley Unified School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	Student Body Agency Fund Total
Assets	
Cash on hand and in banks	$ 94,544
Total Assets	$ 94,544
Liabilities	
Due to student groups	$ 94,544
Total Liabilities	$ 94,544

The notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Scotts Valley 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 account policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

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. For the District, “available” means collectible within the current period or within 60 days after year-end.

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 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.

Deferred Outflows/Deferred Inflows:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period; for example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period; for example, unearned revenue and advance collections.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

Using 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.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for proceeds from the sale of real property and account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue funds. The District maintains one nonmajor special revenue fund:

- The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service programs.

- The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains one nonmajor capital projects funds:

- The *Capital Facilities Fund* is used to account for resources received from developer impact fees committed to acquire temporary or permanent facilities.

- The *Special Reserve Fund for Capital Outlay Projects* exists primarily to account for resources accumulated for capital outlay and related expenses.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. <u>Budgets and Budgetary Accounting</u>

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. For the fiscal year ended June 30, 2016, expenditures within the General Fund in the certificated salaries and classified salaries categories exceeded budget by $470,608 and $250,391, respectively. Fund balance was more than adequate to cover the excess appropriations.

G. Encumbrances

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

H. Pensions

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

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

I. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to $250,000 by the Federal Deposit Insurance Corporation. In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

c) Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's central warehouse inventory is valued at cost and consists of expendable supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Position.

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of $5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Assets	**Years**
Improvement of sites	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

e) Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

f) Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

g) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

h) Fund Balance Classifications

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, of 3 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.

- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Superintendent and the Chief Business Official.

- Unassigned includes positive fund balances within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

i) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. 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. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Categorical Program and Local Grant and Donation restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Cafeteria Program restrictions reflect the cash balances in the Cafeteria fund that are restricted for food services and child nutrition programs.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

i) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

j) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District pools its risks with other school districts in the County as a part of two public entity risk pools. The District pays annual premiums for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels. The District is also a part of a risk pool which provides medical, dental and vision coverage. See Note 8 for further disclosure.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

k) Accounting Estimates

The presentation of 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 reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

l) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

J. Implemented New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (*a*) a government holds primarily for the purpose of income or profit and (*b*) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

a. donated capital assets;
b. donated works of art, historical treasures, and other similar assets; and
c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

K. Upcoming Accounting and Reporting Changes

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

The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

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

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

Management anticipates that this statement will not have a direct impact on the District's financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

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

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*

GASB Statement No. 77, *Tax Abatement Disclosures,* addresses financial reporting about the nature and magnitude of tax abatements of governmental entities. The statement requires that governments that enter into tax abatements disclose more comprehensive information about the agreements, including the following:

a. Brief descriptive information including what tax is being abated, the authority under which the abatement is provided, and the eligibility criteria
b. The gross dollar amount of taxes abated during the period
c. Other commitments made by a government as part of the agreement

The complete disclosure requirements are provided in paragraphs 7 and 8 of GASB 77

GASB 77 is effective for periods beginning after December 15, 2015.

The District does not anticipate a material impact on its financial statements from the implementation of this standard.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The District does not anticipate a material impact on its financial statements from the implementation of this standard.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2016 is as follows:

Deposit or Investment	Carrying Amount	Fair Value
Government-Wide Statements:		
Cash in county treasury investment pool	$ 22,592,437	$ 22,648,222
Cash in banks	1,273	1,273
Cash in revolving fund	2,500	2,500
Cash awaiting deposit	1,100	1,100
Cash with fiscal agent	266,155	266,155
Total Government-Wide Cash and Investments	22,863,465	22,919,250
Fiduciary Funds:		
Cash in banks	94,544	94,544
Total Cash and Investments	$ 22,958,009	$ 23,013,794

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to $250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2016, the bank balances of the District's accounts totaled $338,509, of which $4,206 was not insured by the FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with Education Code Section 41001. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of 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.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Entity has the following recurring fair value measurements as of June 30, 2016:

- The cash in the County investment pool of $22,648,222 are valued using Level 2 inputs.

Policies and Practices

The District is authorized under California Government Code Section 53635 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; and collateralized mortgage obligations.

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of Santa Cruz Investment Pool. The pool has a fair value of approximately $733 million and an amortized book value of $731 million. The average maturity of the pool was 377 days and holds no derivative products.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of Santa Cruz Investment Pool is governed by the County's general investment policy. The investment with the County of Santa Cruz Investment Pool is rated at least AA by Moody's Investor Service.

Custodial Credit Risk - Deposits

Custodial credit risk 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 (unless so waived by the governmental unit). 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.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are, therefore, exempt.

3. ACCOUNTS RECEIVABLE

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

Receivables	General Fund	Total
Federal Government	$ 521,166	$ 521,166
State Government	70,473	70,473
Local Government	158,243	158,243
Unrestricted	46,433	46,433
Total Accounts Receivable	$ 796,315	$ 796,315

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2016 were as follows:

Capital Assets	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Land - not depreciable	$ 3,905,000	$ -	$ -	$ 3,905,000
Work-in-progress - not depreciable	267,781	2,210,284	-	2,478,065
Site improvements	5,189,767	-	-	5,189,767
Buildings and improvements	21,548,673	-	-	21,548,673
Furniture and equipment	422,093	-	-	422,093
Total capital assets	31,333,314	2,210,284	-	33,543,598
Less accumulated depreciation for:				
Site improvements	1,044,711	238,067	-	1,282,778
Buildings and improvements	7,358,885	495,658	-	7,854,543
Furniture and equipment	353,083	7,455	-	360,538
Total accumulated depreciation	8,756,679	741,180	-	9,497,859
Total capital assets - net depreciation	$ 22,576,635	$ 1,469,104	$ -	$ 24,045,739

Depreciation expense was charged to governmental activities as follows:

Instruction	$	599,013
Instruction library, media and technology		11,847
School site administration		74,876
Food services		40,960
All other general administration		8,918
Plant services		5,566
Total depreciation expense	$	741,180

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2016, there were no interfund payables and receivables.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. During the fiscal year ended June 30, 2016 the District transferred $50,000 from the General Fund to the Deferred Maintenance Fund.

6. LONG-TERM DEBT

Schedule of Changes in Long-term Debt

The following summarizes the District's changes in long-term debt for the fiscal year ended June 30, 2016:

Long-term Debt	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
General obligation bonds	$ 29,205,000	$ -	$ 885,000	$ 28,320,000	$ 2,300,000
Unamortized bond premiums - net	1,564,900	-	113,600	1,451,300	-
Certificates of participation	3,530,000	-	100,000	3,430,000	105,000
Net pension liabilities	11,975,736	5,575,603	3,855,493	13,695,846	-
Annual net OPEB obligation	42,985	12,505	-	55,490	-
Compensated absences	41,794	6,224	-	48,018	-
Total Long-term Debt	$ 46,360,415	$ 5,594,332	$ 4,954,093	$ 47,000,654	$ 2,405,000

Payments on the general obligation bonds were made from the Bond Interest and Redemption Fund using local revenues. Payments on the certificates of participation were paid for from the General Fund. Compensated absences and net OPEB obligations were paid by the fund for which the employee worked. Capital leases were paid from the Capital Facilities Fund.

General Obligation Bonds Payable

On September 5, 2013, the District issued $15,145,000 of 2013 General Obligation Refunding Bonds. The bonds were issued under and pursuant to a Resolution of the Board of Trustees. Interest is payable on August 1 and February 1 and principal is payable on August 1 each year through maturity. The proceeds of the Bonds were used to refund $15,200,000 of 2003 and 2004 General Obligation Refunding Bonds. The proceeds of the prior bonds were used to finance the construction of a new high school, to repair existing elementary and middle schools and for modernization of existing schools.

As described above, the District has defeased various General Obligation Bonds 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 removed as a liability from the District's government-wide financial statements. The advance refunding of the 2003 and 2004 general obligation refunding bonds resulted in a difference of $428,885 between the reacquisition price and the net carrying value amount of the old debt. The difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged (amortized) to operations through fiscal year 2028 using the straight line method. The District completed the advance refunding to reduce its total debt service payments over the next 15 years by $654,968 and received a premium of $728,035.

On January 29, 2015 the District issued $15,000,000 of 2014 General Obligation Bonds, Series A, to finance construction projects for facilities improvements. Gross proceeds from the bond were $15,975,955, which included a premium of $975,955. Net proceeds of $15,745,401 were deposited with the County in the District's name, after bond issuance costs of $140,000 and underwriter's discounts of $90,554. Of the net proceeds deposited, $14,860,000 was deposited into the Measure A building fund and $885,401 was recorded in the bond interest and redemption fund.

The following summarizes the general obligation bonds outstanding as of June 30, 2016:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2015	Issued (Redeemed)	Bonds Outstanding June 30, 2016
2013 Refunding GOB	2013	2027	2-5%	$ 15,145,000	$ 14,205,000	$ (885,000)	$ 13,320,000
2014 General Obligation Bonds	2014	2039	3-5%	15,000,000	15,000,000	-	15,000,000
Total General Obligation Bonds				$ 30,145,000	$ 29,205,000	$ (885,000)	$ 28,320,000

The annual debt service requirements of the bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 2,300,000	$ 1,040,156	$ 3,340,156
2018	1,085,000	989,381	2,074,381
2019	1,140,000	960,006	2,100,006
2020	1,180,000	923,306	2,103,306
2021	1,250,000	875,831	2,125,831
2022-2026	7,440,000	3,520,706	10,960,706
2027-2031	5,390,000	1,980,210	7,370,210
2032-2036	4,080,000	1,241,187	5,321,187
2037-2041	4,455,000	372,300	4,827,300
Total Debt Service	$ 28,320,000	$ 11,903,083	$ 40,223,083

Certificates of Participation

In September 2007, the Scotts Valley Unified School District issued $4,200,000 of certificates of participation, with an interest rate of 3.5-5.0 percent, to refund $3,875,000 of the 2001 certificates of participation outstanding. The proceeds of the certificates together with monies released from the trust agreement relating to the prior certificates were deposited in an escrow fund, held in trust by the U.S. Bank National Association.

A portion of the amounts deposited in the escrow fund were invested in direct obligations of the United States in an amount which, together with investment earnings thereon and the cash not invested in the escrow fund, will be sufficient to pay the principal and interest with respect to the prior certificates and to provide for the redemption of the prior certificates in full, at the redemption price of 102% of the principal amount thereon to be redeemed, plus accrued interest.

The annual debt service requirements of the certificates of participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 105,000	$ 143,899	$ 248,899
2018	110,000	139,868	249,868
2019	115,000	135,649	250,649
2020	120,000	131,093	251,093
2021	125,000	126,193	251,193
2022-2026	700,000	547,681	1,247,681
2027-2031	855,000	383,757	1,238,757
2032-2036	1,060,000	175,913	1,235,913
2037-2041	240,000	5,400	245,400
Total Debt Service	$ 3,430,000	$ 1,789,453	$ 5,219,453

7. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims involving the District are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Awards and Grants

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

8. JOINT POWERS AGREEMENTS

The District participates in four joint powers agreement (JPA) entities: Santa Cruz County Schools Health Insurance Group, Santa Cruz San Benito County School Insurance Group, Self-Insured Schools of California, and the Southern Peninsula Region Insurance Group. The relationship between the District and the JPA's are such that the JPA is not a component unit of the District for financial reporting purpose.

The Santa Cruz County Schools Health Insurance Group arranges for and provides vision and dental insurance benefits for its member school districts. The District pays a premium commensurate with the level of coverage requested. The Santa Cruz San Benito County School Insurance Group provides for the payment of workers compensation claims. The Self Insured Schools of California Insurance Group arranges for and provides medical insurance benefits. The Southern Peninsula Region Insurance Group arranges for and provides coverage for property and liability claims and secures excess liability coverage from School's Association for Excess Risk (SAFER). The District pays premiums commensurate with the level of coverage requested.

Each JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board.

The following is a summary of each JPA's most recent financial statement information:

	HIG June 30, 2015	SIG June 30, 2015	SPRIG June 30, 2015	SISC September 30, 2015
Total Assets	$ 914,563	$ 3,972,673	$ 1,721,609	$ 344,609,638
Total Liabilities	111,518	1,825,119	327,968	147,784,306
Total Equity	803,045	2,147,554	1,393,641	196,825,332
Total Revenues	1,505,267	3,417,687	1,386,994	1,642,782,008
Total Expenditures	1,526,021	3,159,558	1,076,761	1,591,548,088

9. EMPLOYEE RETIREMENT SYSTEMS

A. California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.00%
Required employer contribution rates	11.85%	11.85%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

	Total
Contributions - employer	$ 359,116
Contributions - employee	151,230
Total contributions	$ 510,346

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	$ 2,654,199
Total Net Pension Liability	$ 2,654,199

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0186%
Proportion - June 30, 2015	0.0187%
Change in Net Pension Liability	0.0001%

For the year ended June 30, 2016, the District recognized pension expense of $285,258 for the Plan. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 334,571	$ -
Changes in assumptions	-	(173,889)
Differences between expected and actual experiences	161,744	-
Net differences between projected and actual earnings on plan investments	464,814	(561,719)
Total	$ 961,129	$ (735,608)

The District reported $334,571 as deferred outflows of resources related to contributions subsequent to the measurement date that 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 as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/ (inflows) of Resources
2016	$ (75,224)
2017	(75,224)
2018	(74,805)
2019	116,203
Total	$ (109,050)

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	9.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total Allocation	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the 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 for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	$ 4,319,929
Current Discount Rate	7.65%
Net Pension Liability	$ 2,654,199
1% Increase	8.65%
Net Pension Liability	$ 1,269,032

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

B. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	55
Monthly benefits as a % of eligible compensation	2%	2%
Required employee contribution rates	9.20%	8.56%
Required employer contribution rates	10.73%	10.73%

Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms for the Plan:

	Participants
Inactive members	31
Retired members	46
Active members	71
Total Employees Covered	148

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

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

	Total
Contributions - employer	$ 1,443,063
Contributions - employee	426,700
Total contributions	$ 1,869,763

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	$ 11,041,647
Total Net Pension Liability	$ 11,041,647

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0180%
Proportion - June 30, 2015	0.0164%
Change in Net Pension Liability	-0.0016%

For the year ended June 30, 2016, the District recognized pension expense of $160,184 for the Plan. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,535,404	$ -
Changes in assumptions	-	-
Differences between expected and actual experiences	-	(178,432)
Net differences between projected and actual earnings on plan investments	-	(932,994)
Total	$ 1,535,404	$ (1,111,426)

The District reported $1,535,404 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/ (inflows) of Resources
2016	$ (430,746)
2017	(430,746)
2018	(430,746)
2019	180,812
Total Outflows/(Inflows) - Net	$ (1,111,426)

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	0.5% - 5.6% (1)
Investment Rate of Return	7.60% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using STRS' membership data for all funds

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.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)
Global Equity	51.00%	4.50%
Fixed Income	20.00%	0.20%
Inflation Sensitive	5.00%	3.20%
Private Equity	10.00%	6.20%
Real Estate	13.00%	4.35%
Liquidity	1.00%	0.00%
Total Allocation	100.00%	

(a) 10-year geometric average.

Sensitivity of the 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 for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		6.60%
Net Pension Liability	$	17,281,180
Current Discount Rate		7.60%
Net Pension Liability		11,041,647
1% Increase		8.60%
Net Pension Liability	$	6,594,810

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description. The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the following groups of employees.

	Certificated	Classified[2]
Benefit types provided	Medical and dental	Medical and dental
Duration of Benefits	5 years but not beyond age 65	5 years
Required Service	10 years[1]	10 years[1]
Minimum Age	50	50
Maximum Age	64	None
Dependent Coverage	No	No
District Contribution %	100%	100%
District Cap	$3500 per year[1]	$3500 per year[1]

[1] The amount of the cap varies based on years of service as follows:

Years of Service	Annual Cap
10-14	$2,300
15-19	$2,500
20-24	$3,000
25+	$3,500

[2] Employees hired prior to 7/1/88 are entitled to lifetime benefits subject to different eligibility requirements.

Funding Policy. The required contribution to the PHP is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2016, the District contributed $86,556 to the plan from payment of current premiums and current retiree benefits.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 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 liabilities (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:

Annual required contribution	$	99,061
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		99,061
Contributions made		(86,556)
Increase in net OPEB obligation		12,505
Net OPEB obligation - beginning of year		42,985
Net OPEB obligation - end of year	$	55,490

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 99,061	93%	$ 33,005
6/30/2015	99,061	90%	42,985
6/30/2016	99,061	90%	55,490

Actuarial Methods and Assumptions. In the Entry Age Normal method, the cost of each individual's OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a "normal cost" is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability. The remaining amortization period at June 30, 2016, was twenty-six years.

The actuarial assumptions included a discount rate of 5% per year and an annual healthcare cost trend rate of 4%. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflects the expected investment return on the District's investments.

Required Supplementary Information (OPEB Schedule of Funding Progress)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
10/14/2010	$ -	$ 1,668,723	$ 1,668,723	0%	$ 10,178,963	16.39%
2/1/2013	$ -	$ 2,195,654	$ 2,195,654	0%	$ 10,140,041	21.65%

REQUIRED SUPPLEMENTARY INFORMATION

Scotts Valley Unified School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF sources	$ 17,943,257	$ 18,031,751	$ 18,297,868	$ 266,117
Federal revenues	664,790	683,467	655,050	(28,417)
Other state	2,084,046	2,709,011	2,784,413	75,402
Other local	1,001,861	1,723,851	1,864,387	140,536
Total revenues	21,693,954	23,148,080	23,601,718	453,638
Expenditures:				
Certificated salaries	8,880,507	8,978,644	9,449,252	(470,608)
Classified salaries	2,306,182	2,232,669	2,483,060	(250,391)
Employee benefits	5,080,795	5,741,996	5,457,180	284,816
Books and supplies	986,230	1,886,214	1,161,767	724,447
Services and other operating expenditures	3,371,505	3,954,924	3,480,269	474,655
Other outgo	267,045	267,045	262,333	4,712
Total expenditures	20,892,264	23,061,492	22,293,861	767,631
Excess (deficiency) of revenues over (under) expenditures	801,690	86,588	1,307,857	1,221,269
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(50,000)	(50,000)	(50,000)	-
Change in fund balance	751,690	36,588	1,257,857	1,221,269
Fund balance beginning	4,703,296	4,703,296	4,703,296	-
Fund balance ending	$ 5,454,986	$ 4,739,884	$ 5,961,153	$ 1,221,269

SCOTTS VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CALPERS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 334,571	$ 359,116
Contributions in Relation to Actuarially Determined Contributions	334,571	359,116
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	**$ 2,823,384**	**$ 3,139,126**
Contributions as a Percentage of Covered Payroll	**11.85%**	**11.44%**

Notes to Schedule:

Valuation Date:	June 30, 2014
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	3.9 Years Remaining Amortization Period
	Inflation Assumed at 2.75%
	Investment Rate of Returns set at 7.5%
	CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SCOTTS VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF CALPERS PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
District's Proportion of Net Pension Liability	0.01874%	0.01860%
District's Proportionate Share of Net Pension Liability	$ 2,654,199	$ 2,111,553
District's Covered Employee Payroll	$ 2,823,384	$ 3,139,126
District's Proportionate Share of NPL as a % of Covered Employee Payroll	**94.01%**	**67.27%**
Plan's Fiduciary Net Position as a % of the TPL	**79.31%**	**83.38%**

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SCOTTS VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF STRS PENSION PLAN CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 427,570	$ 276,962
Contributions in Relation to Actuarially Determined Contributions	427,570	276,962
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	**$ 4,013,561**	**$ 3,357,115**
Contributions as a Percentage of Covered Payroll	**10.65%**	**8.25%**

Notes to Schedule:

Valuation Date:	June 30, 2014
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	30 Years Remaining Amortization Period
	Inflation Assumed at 3.0%
	Investment Rate of Returns set at 7.6%
	STRS mortality table using membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SCOTTS VALLEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF STRS PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
District's Proportion of Net Pension Liability	0.01640%	0.01800%
District's Proportionate Share of Net Pension Liability	$ 11,041,647	$ 9,864,184
District's Covered Employee Payroll	$ 4,013,561	$ 3,357,115
District's Proportionate Share of NPL as a % of Covered Employee Payroll	**275.11%**	**293.83%**
Plan's Fiduciary Net Position as a % of the TPL	**76.28%**	**76.52%**

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds
Combining Schedules

Scotts Valley Unified School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Special Revenue Fund		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Assets					
Cash and investments	$ 98,209	$ 91,779	$ 385,427	$ 41,386	$ 616,801
Stores inventories	7,169	-	-	-	7,169
Total Assets	$ 105,378	$ 91,779	$ 385,427	$ 41,386	$ 623,970
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 57,684	$ 21,212	$ 3,701	$ 1,610	$ 84,207
Total Liabilities	57,684	21,212	3,701	1,610	84,207
Fund Balances:					
Nonspendable revolving funds	500	-	-	-	500
Nonspendable stores inventories	7,169	-	-	-	7,169
Restricted for cafeteria programs	40,025	-	-	-	40,025
Restricted for capital projects	-	-	2,575	10,895	13,470
Assigned for portable leases and facility needs assessment	-	-	379,151	28,881	408,032
Assigned for miscellaneous	-	70,567	-	-	70,567
Unassigned	-	-	-	-	-
Total Fund Balances	47,694	70,567	381,726	39,776	539,763
Total Liabilities and Fund Balances	$ 105,378	$ 91,779	$ 385,427	$ 41,386	$ 623,970

Scotts Valley Unified School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2016

	Special Revenue Fund		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Revenues:					
Federal revenue	$ 111,128	$ -	$ -	$ -	$ 111,128
Other state	8,305	-	-	-	8,305
Other local	325,984	259	143,082	281	469,606
Total revenues	445,417	259	143,082	281	589,039
Expenditures:					
Pupil services:					
Food services	456,051	-	-	-	456,051
Plant services	-	71,983	75,119	3,710	150,812
Facilities acquisition and construction	-	-	1,575	-	1,575
Total expenditures	456,051	71,983	76,694	3,710	608,438
Excess (deficiency) of revenues over (under) expenditures	(10,634)	(71,724)	66,388	(3,429)	(19,399)
Other financing sources (uses):					
Transfers in	-	50,000	-	-	50,000
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	50,000	-	-	50,000
Change in fund balances	(10,634)	(21,724)	66,388	(3,429)	30,601
Fund balances beginning	58,328	92,291	315,338	43,205	509,162
Fund balances ending	$ 47,694	$ 70,567	$ 381,726	$ 39,776	$ 539,763

The Scotts Valley Unified School District is located in Santa Cruz and encompasses the community generally known as Scotts Valley and its immediate surroundings. There were no changes in the District boundaries during the fiscal year. Election for unification of the District was made on November 8, 1994, effective July 1, 1995. The District currently operates two elementary schools, one middle school and one high school.

The Board of Education for the fiscal year ended June 30, 2016, was comprised of the following members:

Governing Board

Name	Office	Term Expires
Art Bubb	President	2018
John Abel	Vice President	2018
Kim Shultz	Clerk	2018
Michael Shulman	Member	2016
Sue Roth	Member	2016

Administration

Penny Weaver
Superintendent

Rudolph Ramirez
Chief Business Official

Scotts Valley Unified School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2016

	Second Period Report	Annual Report
Regular ADA:		
Grades TK/K through three	680.16	680.48
Grades four through six	553.54	554.66
Grades seven and eight	403.66	403.37
Grades nine through twelve	802.78	798.64
Regular ADA Totals	2,440.14	2,437.15
Extended year special education:		
Grades TK/K through three	1.21	1.21
Grades four through six	1.17	1.17
Grades seven and eight	0.34	0.34
Grades nine through twelve	0.39	0.39
Special education - nonpublic and nonsectarian:		
Grades four through six	0.96	0.70
Grades seven and eight	0.98	0.69
Extended Special education - nonpublic and nonsectarian:		
Grades TK/K through three		
Grades four through six	0.31	0.31
Grades seven and eight	0.28	0.28
ADA Totals	2,445.78	2,442.24

Scotts Valley Unified School District
Schedule of Instructional Time Offered
For the Fiscal Year Ended June 30, 2016

Grade Level	Minutes Requirements	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	0	In compliance
Grade 1	50,400	50,625	180	0	In compliance
Grade 2	50,400	50,625	180	0	In compliance
Grade 3	50,400	50,625	180	0	In compliance
Grade 4	54,000	55,630	180	0	In compliance
Grade 5	54,000	55,630	180	0	In compliance
Grade 6	54,000	59,320	180	0	In compliance
Grade 7	54,000	59,320	180	0	In compliance
Grade 8	54,000	59,320	180	0	In compliance
Grade 9	64,800	67,200	180	0	In compliance
Grade 10	64,800	67,200	180	0	In compliance
Grade 11	64,800	67,200	180	0	In compliance
Grade 12	64,800	67,200	180	0	In compliance

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

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the providisions of Education Code Sections 46200 through 46206. The District has not met or exceeded its target funding.

The purpose of this schedule is to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Scotts Valley Unified School District.

Scotts Valley Unified School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2016

	(Budget [1]) 2017	2016	2015	2014
General Fund				
Revenues and other financial sources	$ 21,693,954	$ 23,601,718	$ 20,444,133	$ 18,708,726
Expenditures	20,892,264	22,293,861	21,172,994	18,961,945
Other uses and transfers (out)	-	50,000	50,000	-
Total outgo	20,892,264	22,343,861	21,222,994	18,961,945
Change in fund balance	$ 801,690	$ 1,257,857	$ (778,861)	$ (253,219)
Ending fund balance	$ 6,762,843	$ 5,961,153	$ 4,703,296	$ 5,482,157
Available reserves [(2)]	$ 737,456	$ 739,147	$ 734,341	$ 3,752,647
Reserve for economic uncertainties	$ 737,456	$ 739,147	$ 734,341	$ 730,970
Unassigned fund balance	$ -	$ -	$ -	$ 3,021,677
Available reserves as a percentage of total outgo	3.5%	3.3%	3.5%	19.8%
Total long-term debt	$ 44,595,654	$ 47,000,654	$ 46,360,415	$ 19,794,667
Average daily attendance (ADA) at P-2	2,391	2,446	2,391	2,382

ADA has increased by 64 over the past three years. The District anticipates a decrease of 55 in ADA from 2016 to 2017.

The General Fund balance has increased by $478,996 since 2014. For a district this size, the state recommends available reserves of at least 3% of total General Fund expenditures, transfers out and other uses (total outgo). The fiscal year 2016-17 budget projects a $801,690 increase in fund balance.

The District has had an operating deficit in two of the past three years. Total long-term debt has increased by $27,205,987 over the past three years.

[1] Budget numbers are based on the first adopted budget of the fiscal year 2016/17.

[2] Available reserves consists of all unassigned fund balances in the General Fund, which includes the reserve for economic uncertainties.

Scotts Valley Unified School District
Reconciliation of Annual Financial and Budget Report (SACS)
to the Audited Financial Statements
For the Fiscal Year Ended June 30, 2016

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2016 Annual Financial and Budget Report Fund Balances	$ 5,222,006	$ 12,707,482	$ 2,937,886	$ 1,278,910
Adjustments and Reclassifications:				
Special Reserve Fund for Other Than Capital Outlay:				
Cash with County Treasury	739,147	-	-	(739,147)
June 30, 2016 Audited Financial Statements Fund Balances	$ 5,961,153	$ 12,707,482	$ 2,937,886	$ 539,763

COMPLIANCE SECTION

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. 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 46201 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

2. EARLY RETIREMENT INCENTIVE PROGRAM

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan & Associates, LLP
Certified Public Accountants

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

Board of Trustees
Scotts Valley Unified School District
Scotts Valley, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Scotts Valley Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

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on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

C & A LLP

December 22, 2016
San Jose, California

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS

The Honorable Board of Trustees
Scotts Valley Unified School District
Scotts Valley, California

Compliance

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

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 applicable program as identified in the State's audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. 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*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Description	Procedures Performed
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	No
Instructional Time	Yes
Instructional Materials	Yes

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Description	Procedures Performed
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
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	No
Immunizations	Yes
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for Continuation Education, Full-time Independent Study and Independent Study-Course Based programs because the ADA was under the level that requires testing.

Opinion

In our opinion, Scotts Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2016.

C & A LLP

December 22, 2016
San Jose, California

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FINDINGS AND RECOMMENDATIONS

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	**Unmodified**
Internal control over financial reporting:	
Material weaknesses?	____ Yes **x** No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes **x** No
Non-compliance material to financial statements noted?	____ Yes **x** No

Federal Awards

The District did not spend or incur expenditures of $750,000 or more in federal awards.

State Awards

Internal control over state programs:	
Material weaknesses?	____ Yes **x** No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes **x** No
Type of auditor's report issued on compliance over state programs:	**Unmodified**

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None