

PACIFIC ELEMENTARY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

ROBERTSON & ASSOCIATES, CPAs  
A Professional Corporation

PACIFIC ELEMENTARY SCHOOL DISTRICT  
ORGANIZATION  
JUNE 30, 2011

The Pacific Elementary School District (District) was established in September 1905 and comprises an area located in Santa Cruz County. There were no changes in the boundaries of the District during the current year. The District currently operates one elementary school.

**BOARD OF TRUSTEES**

Name	Office	Term Expires
Mr. Gwyan Rhabyt	President	November, 2012
Ms. Patricia Auten	Trustee	November, 2014
Ms. Susan Devergranne	Trustee	November, 2014

**ADMINISTRATION**

Name	Title	Tenure
Ms. Sharon Smith	Administrator	12 Years

\*Ms. Sharon Smith retired from the District June 30, 2011;  
Mr. Eric Bitter is the current Superintendent.

**ADDRESS OF DISTRICT OFFICE**

50 Ocean Street  
P.O. Box H  
Davenport, CA 95017

PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	
Organization	
Table of Contents	
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 12
FINANCIAL SECTION	
Basic Financial Statements	
Government-Wide	
Statement of Net Assets	13
Statement of Activities	14
Governmental Funds	
Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	19
Notes to Financial Statements	20 - 37

PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
<b>SUPPLEMENTARY INFORMATION SECTION</b>	
Other Governmental Funds Financial Schedules	
Combining Balance Sheet	38
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	39
Schedule of Average Daily Attendance	40
Schedule of Instructional Time	41
Schedule of Financial Trends and Analysis	42
Reconciliation of Annual Financial and Budget Report (SACS) with Audited Financial Statements	43
Notes to Supplementary Information	44
<b>OTHER INDEPENDENT AUDITOR'S REPORTS</b>	
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 <i>Government Auditing Standards</i>	45 - 46
Independent Auditor's Report on State Compliance	47 - 48
<b>FINDINGS AND RESPONSES</b>	
Findings and Responses	49
Summary Schedule of Prior Audit Findings	50

# ROBERTSON & ASSOCIATES, CPAs

A PROFESSIONAL CORPORATION

55 FIRST STREET, BOX G, SUITE 306  
LAKEPORT, CA 95453

WWW.ROBERTSONCPA.COM

LAKEPORT: (707) 263-9012 ♦ UKIAH: (707) 463-2078  
FAX: (707) 263-6001

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pacific Elementary School District  
Davenport, California

We have audited the accompanying financial statements of each major fund, and the aggregate remaining fund information of the Pacific Elementary School District (District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010/2011* (published by the Education Audit Appeals Panel). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the District adopted the provisions of GASB 54, *Fund Balance Reporting and Government Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of the District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and on pages 3 through 12 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and the combining nonmajor funds financial schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying statistical tables are presented for purposes of additional analysis as required by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010/2011* (published by the Education Audit Appeals Panel), and are also not a required part of the financial statements. The combining nonmajor funds financial schedules and the statistical tables are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Robertson & Associates, CPA*

Lakeport, California  
November 22, 2011

**Pacific Elementary School District  
Management's Discussion and Analysis  
June 30, 2011**

## INTRODUCTION

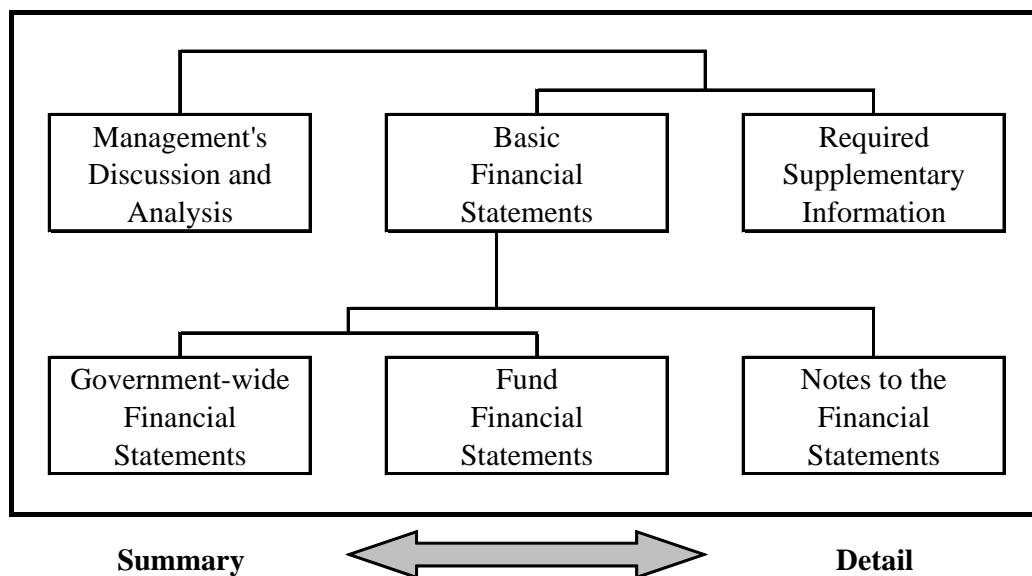
Our discussion and analysis of Pacific Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- Total net assets were \$1,818,889 at June 30, 2011. This was a decrease of \$39,954 from the prior year.
- Overall revenues were \$1,160,952, overall expenses were \$1,200,906.

## OVERVIEW OF FINANCIAL STATEMENTS

### Components of the Financials Section



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

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.

- **Governmental fund** statements tell how general government services were financed in the short term as well as what remains for future spending.

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

## **Government-Wide Statements**

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

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The net assets of the District have decreased by 2.1% in the past year. This is due primarily to further reductions and deferrals of State revenues. With the decrease in revenues and increases in costs such as Health & Welfare, the District may continue to experience decreases in assets.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities. Even though the District's average daily attendance increased by 4.3, the overall State revenues have decreased from the prior year. Also, this was the last year that federal grants (ARRA) and (Federal Education Jobs) were utilized. With the elimination of these funds, personnel may have to be eliminated in future years. Currently, the District remains in stable financial condition and is aware that they are spending down Fund balance and Assets are decreasing.

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

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant governmental funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular programs.

- Some funds are required to be established by State law and by bond covenants.

- The governing board establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.

The District has one type of fund:

- Governmental funds** – All of the District's basic services are included in governmental funds, which generally focus on: (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds' statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources than previously to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds' statements that explains the relationship (or differences) between them.

The financial performance of the District is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,400,344 as compared to the prior year's ending fund balance of \$1,419,505.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

### Net Assets

The District's combined net assets were \$1,818,889 at June 30, 2011.

	Governmental Activities		Percent Change
	2011	2010	
<b>ASSETS</b>			
Cash and Investments	\$ 1,183,224	\$ 1,280,475	(7.6 %)
Other Current Assets	225,563	145,110	55.4 %
Capital Assets, Net of Accumulated Depreciation	418,545	439,338	(4.7 %)
<b>TOTAL ASSETS</b>	<b>\$ 1,827,332</b>	<b>\$ 1,864,923</b>	<b>(2.0 %)</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 8,443	\$ 6,080	38.9 %
<b>TOTAL LIABILITIES</b>	<b>\$ 8,443</b>	<b>\$ 6,080</b>	<b>38.9 %</b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	\$ 418,545	\$ 439,338	(4.7 %)
Restricted	84,648	68,476	23.6 %
Unrestricted	1,315,696	1,351,029	(2.6 %)
<b>TOTAL NET ASSETS</b>	<b>\$ 1,818,889</b>	<b>\$ 1,858,843</b>	<b>(2.1 %)</b>

## Changes in Net Assets

	Governmental Activities		Percent Change
	2011	2010	
<b>REVENUES</b>			
Program Revenues:			
Charges for Services	\$ 32,921	\$ 26,935	22.2 %
Operating Grants and Contributions	233,026	180,622	29.0 %
General Revenues:			
Property Taxes	139,997	224,599	(37.7 %)
Unrestricted Federal and State Aid	609,141	460,799	32.2 %
Miscellaneous and Other Local	145,867	132,793	9.8 %
<b>TOTAL REVENUES</b>	<b>1,160,952</b>	<b>1,025,748</b>	<b>13.2 %</b>
<b>EXPENSES</b>			
Instruction	722,760	685,336	5.5 %
Instruction-Related Services	143,828	160,216	(10.2 %)
Pupil Services	113,373	99,234	14.2 %
General Administration	105,360	102,004	3.3 %
Plant Services	60,679	68,748	(11.7 %)
Ancillary Services	5,522	25,546	(78.4 %)
Community Services	49,206	45,725	7.6 %
Transfers Between Agencies	178	214	(16.8 %)
<b>TOTAL EXPENSES</b>	<b>1,200,906</b>	<b>1,187,023</b>	<b>1.2 %</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>(39,954)</b>	<b>(161,275)</b>	<b>(75.2 %)</b>
<b>BEGINNING NET ASSETS</b>	<b>1,858,843</b>	<b>2,020,118</b>	<b>(8.0 %)</b>
<b>ENDING NET ASSETS</b>	<b>\$ 1,818,889</b>	<b>\$ 1,858,843</b>	<b>(2.1 %)</b>

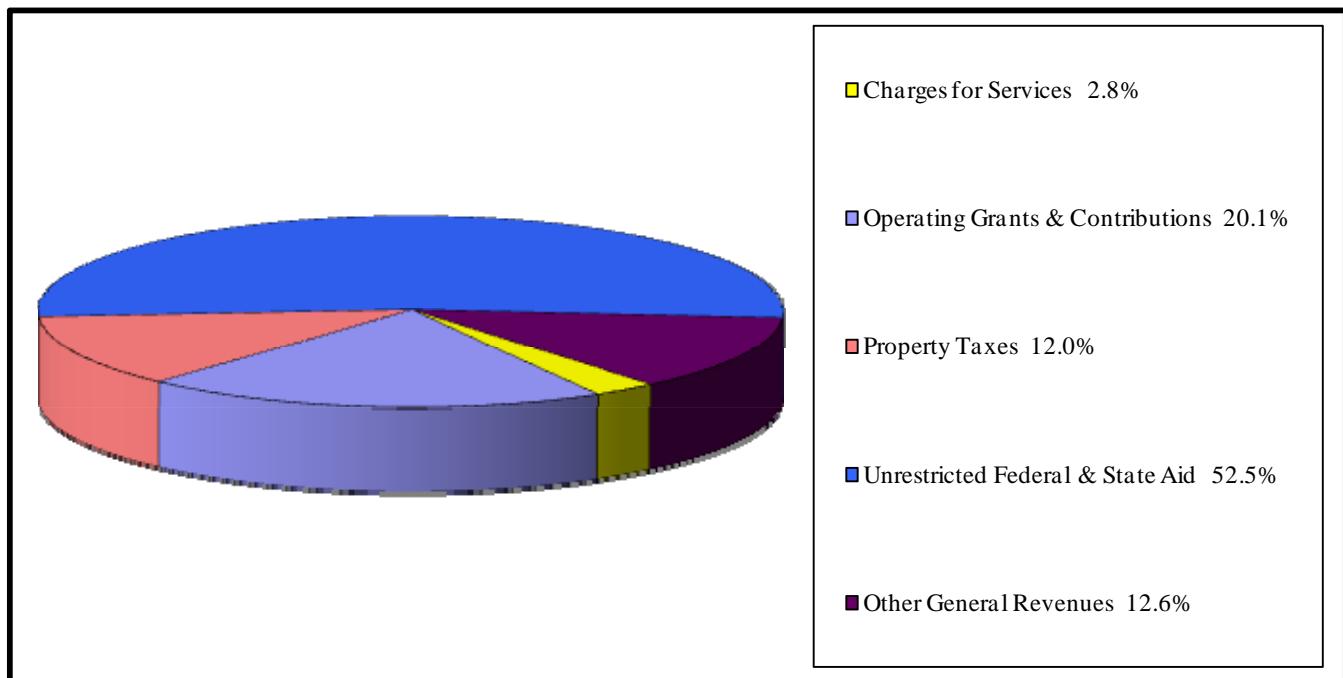
### Governmental Activities

Net cost is total cost less fees generated by the related activity. The net cost reflects amounts funded by charges for services, operating grants and capital grants and contributions.

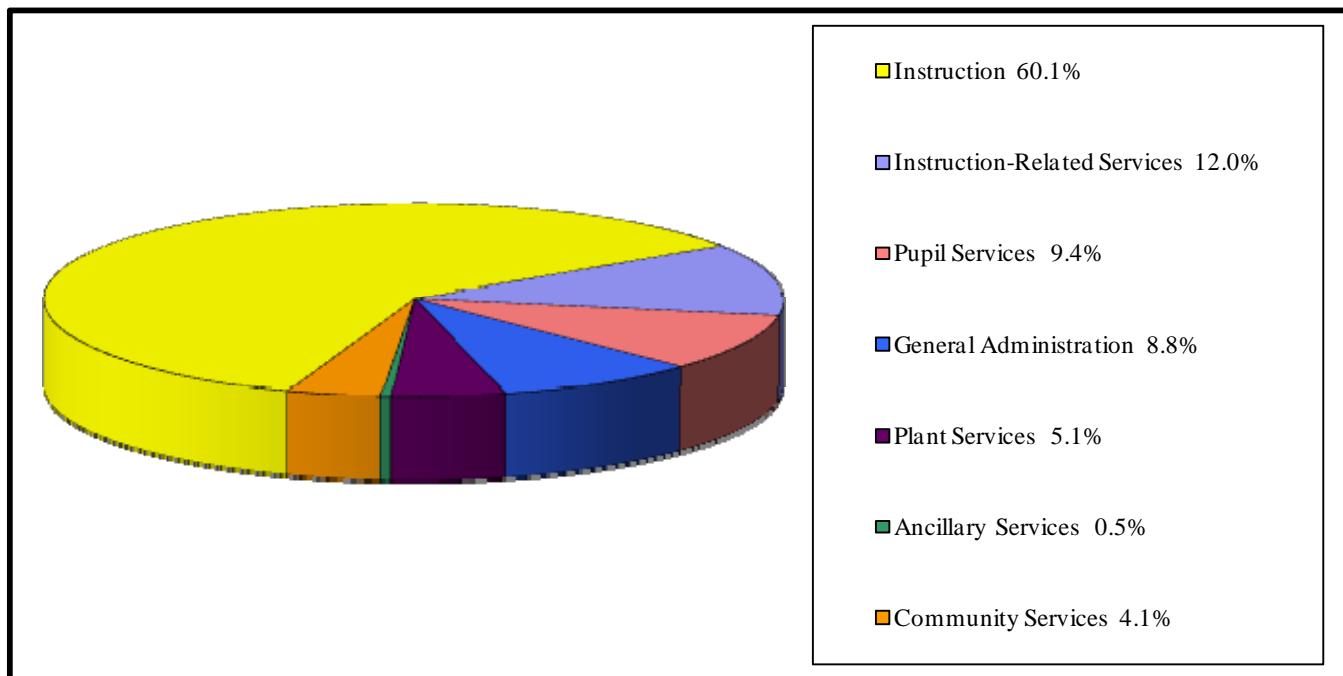
## Net Cost of Services

	Net Cost of Services		Percent Change
	2011	2010	
<b>NET COST OF SERVICES</b>			
Instruction	\$ 559,974	\$ 579,531	(3.4 %)
Instruction-Related Services	132,391	147,081	(10.0 %)
Pupil Services	27,967	19,513	43.3 %
General Administration	105,360	102,004	3.3 %
Plant Services	58,641	67,970	(13.7 %)
Facility Acquisition and Construction	-	(7,024)	(100.0 %)
Ancillary Services	1,242	24,452	(94.9 %)
Community Services	49,206	45,725	7.6 %
Transfers Between Agencies	178	214	(16.8 %)
<b>TOTAL NET COSTS OF SERVICES</b>	<b>\$ 934,959</b>	<b>\$ 979,466</b>	<b>(4.5 %)</b>

## 2010/2011 Summary of Revenues for Governmental Activities



## 2010/2011 Summary of Expenses for Governmental Activities



### Fund Balance Comparison

The District currently maintains the following funds:

	Ending Fund Balance		Percent Change	
	2011	2010		
<b>FUNDS</b>				
Governmental:				
General <sup>1</sup>	\$ 1,324,134	\$ 1,351,029	(2.0 %)	
Child Development	41,088	34,353	19.6 %	
Cafeteria Special Revenue	11,952	11,003	8.6 %	
Deferred Maintenance	199	497	(60.0 %)	
Student Body	619	1,272	(51.3 %)	
Capital Facilities	22,352	21,351	4.7 %	
Total Governmental	1,400,344	1,419,505	(1.3 %)	
<b>TOTAL FUNDS</b>	<b>\$ 1,400,344</b>	<b>\$ 1,419,505</b>	<b>(1.3 %)</b>	

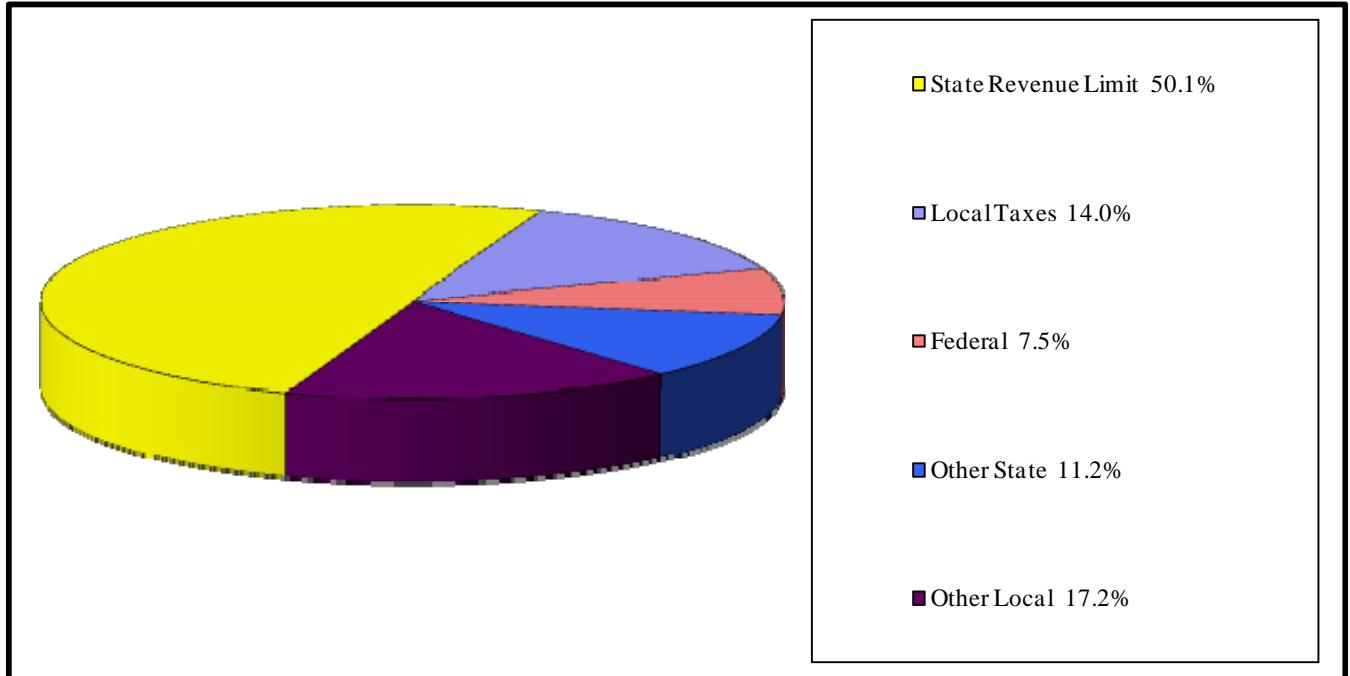
<sup>1</sup> The June 30, 2010 General Fund ending balance has been restated to conform with implementation of GASB Statement No. 54. The Special Reserve Fund for Other Than Capital Outlay Projects the District reported at June 30, 2010 does not meet the GASB Statement No. 54 definition of special revenue funds and has been retroactively combined with the General Fund.

## **General Fund**

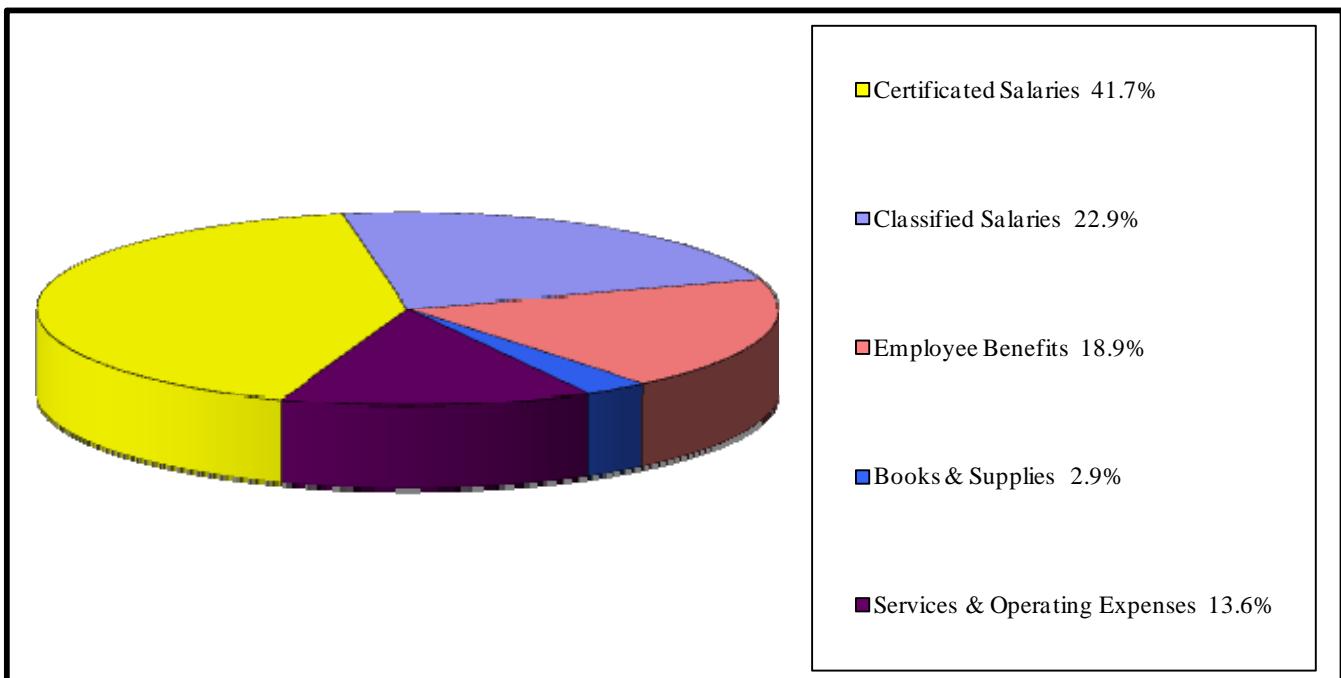
The change in fund balance in the General Fund is primarily due to overall decrease in Federal and local revenues. Also, expenditures for Special Education services increased from the prior year. The District reduced the level of decrease in fund balance from the prior year and continues to maintain tight controls over their expenditures.

The following charts graphically depict revenues and expenditures, both by major object as well as by function.

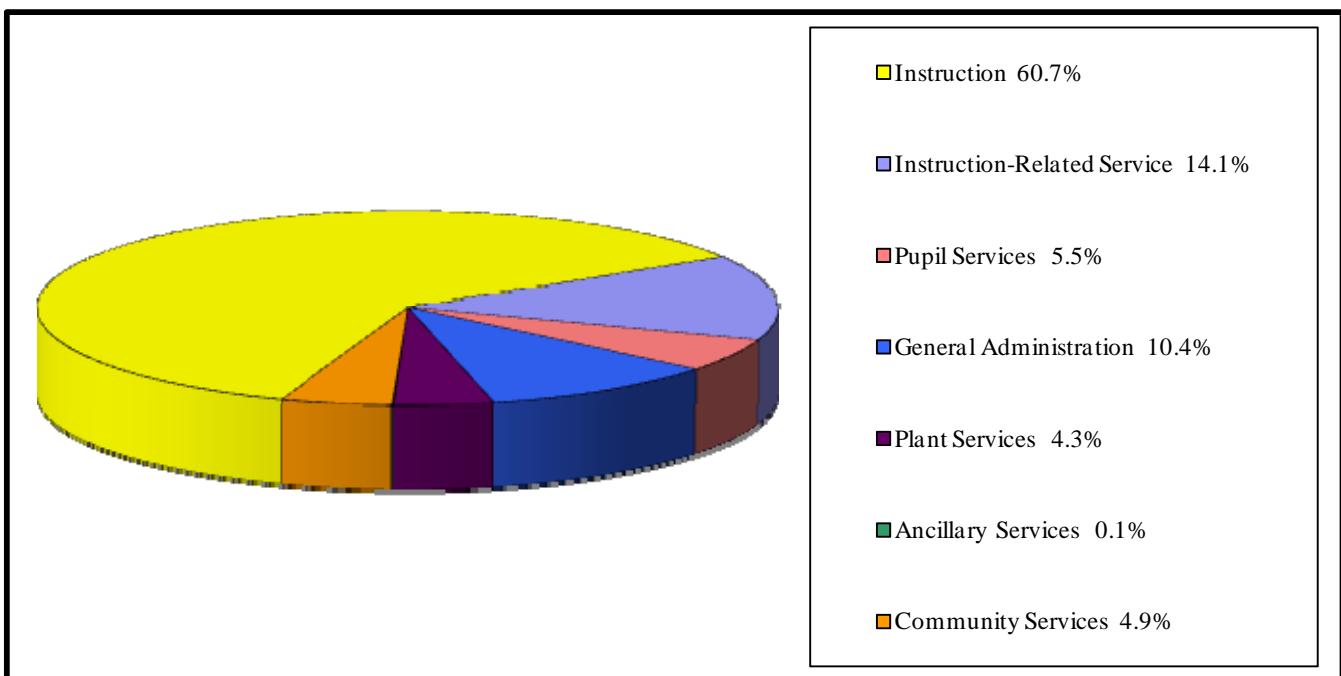
### **2010/2011 General Fund Revenues**



## **2010/2011 General Fund Expenditures by Object**



## **2010/2011 General Fund Expenditures by Function**



## **Other Governmental Funds**

The Child Development Fund increased due to the receipt prior year state revenue. This revenue was recognized in the current year.

The Cafeteria Fund experienced a slight increase due to increase in local revenues.

The Deferred Maintenance Fund is continuing to receive state dollars to maintain the schools 5 year maintenance program. Expenditures will continue to be tracked under this fund, and the General fund will make transfers.

The Capital Facilities Fund and Special Reserve Fund had no expenditures and income was derived primarily from interest revenue.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2011, the District had \$418,545 invested net of accumulated depreciation, in a broad range of capital assets. There were no changes in the District's investment in the capital assets other than the accumulation of current year depreciation in the amount of \$20,793.

	Governmental Activities		Percent Change
	2011	2010	
<b>CAPITAL ASSETS</b>			
Construction In Progress	\$ 10,988	\$ 10,988	0.0 %
Land Improvements	115,548	115,548	0.0 %
Buildings And Improvements	871,092	871,092	0.0 %
Accumulated Depreciation	(579,083)	(558,290)	3.7 %
<b>NET CAPITAL ASSETS</b>	<b>\$ 418,545</b>	<b>\$ 439,338</b>	<b>(4.7 %)</b>

### **Long-Term Debt**

The District had no long-term debt in the 2010/2011 school year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The difference in the original versus final budget amounts and actual versus budget amounts is primarily due to the following:

The major change between the Adopted Budget and the Final Budget came from the State revenue limit due to increase in ADA and increase in estimates of State categorical funding. Federal dollars (Federal Ed. Jobs) came in after the July 1<sup>st</sup> adoption, this was an increase of \$20,000. The District in turn increased the expenditures for salaries and supplies. Also, increases in Special Education costs occurred after the adoption of the July 1<sup>st</sup> budget. The District continues to keep expenditures within their budget and maintain a healthy fund balance.

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 2011. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

- The continuing State Fiscal crisis will directly affect Pacific's revenue limit and categorical funding. The District has dipped into their healthy fund balance to weather the volatile changes in revenues.
- The District experienced a 10% drop in local property taxes. Even though the state will back-fill this reduction, this reduction may affect the District's cash flow as the State has "deferred" the transfer of cash out several years.
- The District decided to fund the reading intervention specialist position for one more year; however, due to the untimely loss has not filled the position yet.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Eric Bitter, P.O. Box H, 50 Ocean Street, Davenport, CA 95017, phone 831-425-7002.

## **FINANCIAL SECTION**

**PACIFIC ELEMENTARY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,183,224
Accounts receivable	225,563
Capital assets:	
Non-depreciable	10,988
Depreciable, net of accumulated depreciation	<u>407,557</u>
Total Assets	<u>\$ 1,827,332</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 7,955
Deferred revenue	<u>488</u>
Total Liabilities	<u>\$ 8,443</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 418,545
Restricted for:	
Capital projects	22,352
Educational programs	49,526
Other purposes (expendable)	12,770
Unrestricted	<u>1,315,696</u>
Total Net Assets	<u>\$ 1,818,889</u>

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

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 722,760	\$ -	\$ 162,786	\$ (559,974)
Instruction-related services:				
Supervision of instruction	3,807	-	-	(3,807)
Instructional library, media and technology	9,787	-	-	(9,787)
School site administration	130,234	-	11,437	(118,797)
Pupil services:				
Food services	63,896	32,921	22,213	(8,762)
All other pupil services	49,477	-	30,272	(19,205)
General administration:				
All other general administration	105,360	-	-	(105,360)
Plant services	60,679	-	2,038	(58,641)
Ancillary services	5,522	-	4,280	(1,242)
Community services	49,206	-	-	(49,206)
Transfers between agencies	178	-	-	(178)
Total Governmental Activities	<u>\$ 1,200,906</u>	<u>\$ 32,921</u>	<u>\$ 233,026</u>	<u>(934,959)</u>
<b>GENERAL REVENUES</b>				
Taxes and subventions:				
Property taxes levied for general purposes				139,997
Federal and state aid not restricted to specific purposes				609,141
Interest and investment earnings				7,841
Interagency revenues				25,355
Miscellaneous				<u>112,671</u>
Total General Revenues				<u>895,005</u>
Change in Net Assets				(39,954)
Net Assets - Beginning				<u>1,858,843</u>
Net Assets - Ending				<u>\$ 1,818,889</u>

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

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,109,946	\$ 73,278	\$ 1,183,224
Accounts receivable	<u>221,875</u>	<u>3,688</u>	<u>225,563</u>
Total Assets	<u><u>\$ 1,331,821</u></u>	<u><u>\$ 76,966</u></u>	<u><u>\$ 1,408,787</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 7,199	\$ 756	\$ 7,955
Deferred revenue	<u>488</u>	<u>-</u>	<u>488</u>
Total Liabilities	<u><u>7,687</u></u>	<u><u>756</u></u>	<u><u>8,443</u></u>
Fund Balance:			
Non spendable			
Other non spendable assets	300	-	300
Restricted	8,438	12,571	21,009
Assigned			
Other assignments	667,742	63,639	731,381
Unassigned			
Reserve for economic uncertainties	75,000	-	75,000
Unassigned amount	<u>572,654</u>	<u>-</u>	<u>572,654</u>
Total Fund Balance	<u><u>1,324,134</u></u>	<u><u>76,210</u></u>	<u><u>1,400,344</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 1,331,821</u></u>	<u><u>\$ 76,966</u></u>	<u><u>\$ 1,408,787</u></u>

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

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	<u>Detail</u>	<u>Total</u>
Total fund balances - governmental funds		\$ 1,400,344
Amounts reported for governmental activities in the Statement of Net Assets differ from amounts reported in governmental funds as follows:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Historical cost of capital assets	\$ 997,628	
Accumulated depreciation	<u>(579,083)</u>	
		<u>418,545</u>
Total net assets, governmental activities		<u>\$ 1,818,889</u>

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Revenue limit sources:			
State apportionments	\$ 501,748	\$ -	\$ 501,748
Local sources	139,997	-	139,997
Federal	75,349	18,242	93,591
Other state	111,715	52,437	164,152
Other local	171,971	89,493	261,464
Total Revenues	<u>1,000,780</u>	<u>160,172</u>	<u>1,160,952</u>
<b>EXPENDITURES</b>			
Instruction	612,027	89,940	701,967
Instruction related services:			
Supervision of instruction	3,807	-	3,807
Instructional library, media, and technology	9,787	-	9,787
School site administration	128,554	1,680	130,234
Pupil services:			
Food services	5,700	58,196	63,896
All other pupil services	49,477	-	49,477
General administration:			
All other general administration	105,342	18	105,360
Plant services	43,490	17,189	60,679
Ancillary services	589	4,933	5,522
Community services	49,206	-	49,206
Transfers between agencies	178	-	178
Total Expenditures	<u>1,008,157</u>	<u>171,956</u>	<u>1,180,113</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,377)</u>	<u>(11,784)</u>	<u>(19,161)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	-	20,718	20,718
Operating transfers out	<u>(19,518)</u>	<u>(1,200)</u>	<u>(20,718)</u>
Total Other Financing Sources (Uses)	<u>(19,518)</u>	<u>19,518</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	<u>(26,895)</u>	<u>7,734</u>	<u>(19,161)</u>
Fund Balance - Beginning	<u>1,351,029</u>	<u>68,476</u>	<u>1,419,505</u>
Fund Balance - Ending	<u>\$ 1,324,134</u>	<u>\$ 76,210</u>	<u>\$ 1,400,344</u>

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

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Total change in fund balances - governmental funds \$ (19,161)

Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:

Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation expense	<u>(20,793)</u>
Change in net assets of governmental activities	<u>\$ (39,954)</u>

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
Revenue limit sources:				
State apportionments	\$ 356,698	\$ 464,026	\$ 501,748	\$ 37,722
Local sources	215,230	140,061	139,997	(64)
Federal	39,192	66,171	75,349	9,178
Other state	100,989	105,674	111,715	6,041
Other local	126,389	171,922	171,971	49
Contributions	-	40,544	-	(40,544)
Total Revenues	<u>838,498</u>	<u>988,398</u>	<u>1,000,780</u>	<u>12,382</u>
<b>EXPENDITURES</b>				
Certificated salaries	424,594	428,479	420,030	8,449
Classified salaries	232,806	236,308	231,283	5,025
Employee benefits	177,666	195,737	190,514	5,223
Books and supplies	29,985	34,761	28,978	5,783
Services and other operating expenditures	128,665	138,433	137,174	1,259
Other outgo	256	256	178	78
Total Expenditures	<u>993,972</u>	<u>1,033,974</u>	<u>1,008,157</u>	<u>25,817</u>
Excess (deficiency) of revenues over expenditures before other financing				
Sources (uses)	<u>(155,474)</u>	<u>(45,576)</u>	<u>(7,377)</u>	<u>38,199</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(15,985)</u>	<u>(19,758)</u>	<u>(19,518)</u>	<u>240</u>
Total Other Financing Sources (Uses)	<u>(15,985)</u>	<u>(19,758)</u>	<u>(19,518)</u>	<u>240</u>
Net Increase (Decrease) in Fund Balance	<u>(171,459)</u>	<u>(65,334)</u>	<u>(26,895)</u>	<u>38,439</u>
Fund Balance - Beginning	<u>1,351,029</u>	<u>1,351,029</u>	<u>1,351,029</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,179,570</u>	<u>\$ 1,285,695</u>	<u>\$ 1,324,134</u>	<u>\$ 38,439</u>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

The Pacific Elementary School District (District) is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a three member Board of Trustees (Board) elected by registered voters of the District, which comprises an area in Santa Cruz County. The District was established in 1905 and serves students in grades K-6.

**B. Accounting Policies**

The District prepares its basic financial statements in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and complies with the policies and procedures of the Department of Education's *California School Accounting Manual*.

**C. Reporting Entity**

The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is therefore a financial reporting entity as defined by the GASB in its Statement No. 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units*.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The criteria include, but are not limited to, whether the District exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District has determined that no outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the District's general-purpose financial statements. In addition, the District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Future Implementation of New Accounting Pronouncements**

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements of periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**E. Basis of Presentation**

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 which are not classified as program revenues are presented as general revenues of the District, with certain limited 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1.** SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses, as appropriate.

The emphasis in fund financial statements is on the major funds in the governmental activities categories. Non-major funds by category are summarized in to a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The District's accounts are organized into major, and non-major governmental 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.

Non-major Governmental Funds:

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following non-major special revenue funds:

1. The Child Development Fund is used to account for resources committed to child development programs maintained by the District
2. The Cafeteria Fund is used to account for revenues and expenditures associated with the District's food service program.
3. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of the District's facilities.
4. The Student Body Fund is used to account for the proceeds of Board approved student activities and student body approved expenditures.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Capital Projects Funds* are used to account for the acquisition and construction of all major governmental capital assets. The District maintains the following non-major capital projects fund:

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

**F. Basis of Accounting**

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental funds are reported using the current financial resources measurement focus and the modified 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. Under the 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 collectable within the current period or with 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions are those 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1.** SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue:

Deferred 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 revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

Under the accrual basis of accounting, expenses are recognized at the time they are incurred. However, the measurement focus of governmental fund accounting is on decreases in the net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements.

**G. Budgets and Budgetary Accounting**

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

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated revenue and expenditures. The original and final revised budgets for the General Fund are presented as required supplementary information in these financial statements.

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. Expenditures cannot legally exceed appropriations by major object account.

**H. 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Assets, Liabilities, and Equity**

**1. Cash and Cash Equivalents**

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**2. Receivables**

Accounts receivable in governmental fund types consist primarily of receivables from federal, state and local governments for various programs.

**3. Prepaid Expenditures**

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

**4. Capital Assets**

Capital assets are those purchased or acquired with an original cost of \$20,000 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 the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis and an annual convention over the following estimated useful lives:

Land improvements	20
Buildings and improvements	25 - 50

**5. Compensated Absences**

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.

**6. Long-Term Obligations**

The District reports long-term obligations of governmental funds at face value in the government-wide financial statements.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**7. Fund Balance Classifications**

The governmental fund financial statements present fund balances based on a classification hierarchy that depicts the extent to which the District is bound by spending constraints imposed on the use of its resources. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable Fund Balance**

The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory and prepaid items. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact.

**Restricted Fund Balance**

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide statements.

**Committed Fund Balance**

The committed fund balance classification reflect amounts subject to internal constraints self-imposed by formal action of the highest level of decision-making authority. The constraints giving rise to committed fund balance must be imposed no later than the end of the fiscal year. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

In contrast to restricted fund balance, committed fund balance may be redirected by the District to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the highest level of decision-making authority.

California school district governing boards' authority is typically limited to action like public meetings, such as a vote, resolution or the adoption of a budget. As a result, the District has determined that the difference between the committed classification and the assigned classification is minimal and reports only Assigned Fund Balances as described below.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assigned Fund Balance**

The assigned fund balance classification reflects amounts that the District intends to be used for specific purposes. Assignments may be established either by the Board of Trustees or by a designee of the Board of Trustees, and are subject to neither the restricted nor committed levels of constraint.

Constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority. The action may be delegated to another body or official. Additionally, the assignment need not be made before the end of the fiscal year, but rather may be made any time prior to the issuance of the financial statements.

**Unassigned Fund Balance and Minimum Fund Balance Policy**

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District 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 Board intends to maintain a minimum fund balance of 10% of the District's General Fund annual operating expenditures. If a fund balance drops below 10%, it shall be recovered at a rate of 1% minimally, each year.

The District's policy regarding the order in which spendable fund balances are spent when more than one classification is available for a specific purpose is that they are spent in restricted, committed, assigned, and then unassigned order.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 1.** SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

**NOTE 2.** CASH

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Cash Equivalents	
Pooled Funds:	
Cash in county treasury	\$ 1,182,305
Deposits:	
Cash on hand and in banks	<u>919</u>
Total Cash and Cash Equivalents	<u>\$ 1,183,224</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 2.**      CASH (Continued)

Cash in County Treasury

In accordance with *Education Code* 41001, the District maintains substantially all of its cash in the Santa Cruz County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the County and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The Treasury is authorized to deposit cash and invest excess funds by *California Government Code* Section 53648 et seq. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

The Treasury is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

**PACIFIC ELEMENTARY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2.**      CASH (Continued)

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the *California Government Code* Section 53601. This table also identifies certain provisions of the *California Government Code* that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	n/a	20%	10%
Mortgage Pass through Securities	5 years	20%	None
Joint Power Agreements	5 years	20%	None
County Pooled Investment Funds	n/a	None	None
Local Agency Investment Funds (LAIF)	n/a	None	None

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 values to changes in market interest rates. As of June 30, 2011, the weighted average maturity of the investments contained in the Treasury investment pool was 375 days.

Credit Risk

Generally, credit risk, is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 2.**      CASH (Continued)

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk for deposits.

Cash balances in banks and revolving funds are insured up to \$250,000 from October 3, 2008 through December 31, 2013 by the Federal Deposit Insurance Corporation (FDIC). In addition, 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. As of June 30, 2011, the District's bank balance was fully insured.

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The *California Government Code* and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

**NOTE 3.**      INTERFUND TRANSACTIONS AND OTHER TRANSFERS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/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 eliminated as part of the reconciliation to the government wide financial statements.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 3.** INTERFUND TRANSACTIONS AND OTHER TRANSFERS (Continued)

Interfund Transfers

Interfund transfers consist of nonreciprocal operating movements of net assets from funds receiving revenue to funds through which the resources are to be expended. As of June 30, 2011, interfund transfers are as follows:

Transfers In	Transfers Out	Amount	Purpose
Cafeteria Fund	General Fund	\$ 5,418	Excess costs incurred in Cafeteria program.
Cafeteria Fund	Child Development Fund	1,200	Breakfast program for preschoolers.
Deferred Maintenance Fund	General Fund	<u>14,100</u>	Transfer of State Revenue and dollars to cover cost of repairs under the five year maintenance program.
Total		<u><u>\$ 20,718</u></u>	

**PACIFIC ELEMENTARY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 4. CAPITAL ASSETS**

The changes in capital assets for the year ended June 30, 2011, are shown below:

	Balance July 1, 2010	Additions	Decreases	Balance June 30, 2011
<b>Capital Assets Not Being Depreciated:</b>				
Construction in progress	\$ 10,988	\$ -	\$ -	\$ 10,988
Total Capital Assets Not Being Depreciated	<u>10,988</u>	<u>-</u>	<u>-</u>	<u>10,988</u>
<b>Capital Assets Being Depreciated:</b>				
Land improvements	115,548	-	-	115,548
Buildings and improvements	<u>871,092</u>	<u>-</u>	<u>-</u>	<u>871,092</u>
Total Capital Assets Being Depreciated	<u>986,640</u>	<u>-</u>	<u>-</u>	<u>986,640</u>
<b>Less Accumulated Depreciation for:</b>				
Land improvements	(115,548)	-	-	(115,548)
Buildings and improvements	<u>(442,742)</u>	<u>(20,793)</u>	<u>-</u>	<u>(463,535)</u>
Total Accumulated Depreciation	<u>(558,290)</u>	<u>(20,793)</u>	<u>-</u>	<u>(579,083)</u>
Total Capital Assets Being Depreciated, Net	<u>428,350</u>	<u>(20,793)</u>	<u>-</u>	<u>407,557</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 439,338</u>	<u>\$ (20,793)</u>	<u>\$ -</u>	<u>\$ 418,545</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 20,793
Total Depreciation Expense	<u>\$ 20,793</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 5. RESTATEMENT**

GASB Statement No. 54 changed the definition of special revenue funds. Prior to GASB Statement No. 54 the District reported the Special Reserve Fund for Other Than Capital Outlay Projects. Under GASB Statement No. 54, this fund does not meet the definition of special revenue funds. While this fund is authorized by statute and will remain open for reporting to the CDE, it functions effectively as extensions of the General Fund, and it has been combined with the General Fund for presentation in the financial statements in accordance with Generally Accepted Accounting Principles. The General Fund's beginning fund balance has been restated to combine the fund as follows:

Ending Fund Balance at June 30, 2010:

General Fund	\$ 789,852
Special Reserve Fund for Other Than Capital Outlay Projects	<u>561,177</u>
General Fund Balance at July 1, 2010	<u><u>\$ 1,351,029</u></u>

**NOTE 6. RESTRICTED NET ASSETS**

The District is a recipient of federal and state awards restricted categorical programs and as a result reported restricted net assets in the amount of \$84,648. The District is not aware of any planned changes to the underlying legislation enabling restrictions.

**NOTE 7. STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS**

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

**NOTE 8. STUDENT ORGANIZATIONS**

The District is responsible for student body funds accumulated and expended by the District's Associated Student Body (ASB). A stand alone accounting system, capable of reporting the individual club balances and activities as well as the aggregate total of all student body funds, is maintained at the schools and monitored by the District's business office.

The District has determined that the ASB fund meets the criteria to be classified as a special revenue fund and it is therefore included in the basic financial statements as an element of other governmental funds.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 9. PACIFIC SCHOOL FOUNDATION**

The Pacific School Foundation (PSF) was established as a 501(c)(3) non-profit organization in 1990 with the primary mission of providing additional financial support to the District. PSF has established an Endowment Fund the earnings of which are used to support the District, sponsors a variety of fundraising events throughout the school year, and seeks grants from businesses and foundations.

Through the years PSF has augmented the school's resources with a number of generous gifts, including the portable stage, sports equipment and classroom supplies. During the year ended June 30, 2010, PSF provided support in the amount of \$20,800 to the District. PSF support covered salary and benefits costs or the Librarian and Chorus Director. They also provided funds for the Instrumental Music Program and classroom supplies.

**NOTE 10. JOINT POWERS AGREEMENTS**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2011, the District participated in several joint powers agreements (JPAs) to manage these risks. There were no significant reductions in coverage during the year. Settled claims have not exceeded coverage in any of the past three years.

The various JPAs and the services they provide the District are as follows:

- The Southern Peninsula Region Property and Liability Insurance Group (SPRIG) arranges for and provides property and liability insurance coverage for its member agencies.
- The Santa Cruz - San Benito County Schools Insurance Group (SC-SBCSIG) is an insurance purchasing pool, the intent of which is to achieve the benefits of a reduced premium for the member agencies by virtue of its grouping and representation with other participants in the SCSBCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SC-SBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity-pooling fund" arrangement insures that each participant shares equally in the overall performance of the SC-SBCSIG.
- The Santa Cruz County School Health Insurance Group (HIG) arranges for and provides medical, dental and vision insurance coverage for its member school districts.

The North Santa Cruz County Special Education Local Plan Area arranges for and provides special education services for students of member school districts.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 11. EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certified employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

*STRS:*

Plan Description and Provisions - The District contributes to the 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. Copies of the STRS annual financial report may be obtained from the STRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy - Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for the year 2010/2011 was 8.25% of annual payroll.

The contribution requirements of the plan members are established by state statute. The District's contribution to STRS for the year ending June 30, 2011, 2010, and 2009 were \$35,044, \$35,326, and \$37,714 respectively, and equal 100% of the required contributions for each year.

*CalPERS:*

Plan Description and Provisions - The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, CA 95811.

Funding Policy - Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for year 2010/2011 was 10.707% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the year ending June 30, 2011, 2010 and 2009 were \$20,783, \$20,192 and \$16,581 respectively and equal 100% of the required contributions for each year.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 11.** EMPLOYEE RETIREMENT SYSTEMS (Continued)

*Social Security:*

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security.

*On Behalf Payment:*

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2011. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

**NOTE 12.** CONTINGENT LIABILITIES

As of June 30, 2011, there are no known uninsured material contingent liabilities pending for the District.

**NOTE 13.** SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the District through November 22, 2011 and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

## **SUPPLEMENTARY INFORMATION SECTION**

**PACIFIC ELEMENTARY SCHOOL DISTRICT**  
**OTHER GOVERNMENTAL FUNDS FINANCIAL SCHEDULE**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2011**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 39,079	\$ 11,029	\$ 199	\$ 619	\$ 22,352	\$ 73,278
Accounts receivable	2,461	1,227	-	-	-	3,688
<b>Total Assets</b>	<b>\$ 41,540</b>	<b>\$ 12,256</b>	<b>\$ 199</b>	<b>\$ 619</b>	<b>\$ 22,352</b>	<b>\$ 76,966</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities:						
Accounts payable	\$ 452	\$ 304	\$ -	\$ -	\$ -	\$ 756
<b>Total Liabilities</b>	<b>452</b>	<b>304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>756</b>
Fund Balance:						
Restricted	-	11,952	-	619	-	12,571
Assigned						
Other assignments	41,088	-	199	-	22,352	63,639
<b>Total Fund Balance</b>	<b>41,088</b>	<b>11,952</b>	<b>199</b>	<b>619</b>	<b>22,352</b>	<b>76,210</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 41,540</b>	<b>\$ 12,256</b>	<b>\$ 199</b>	<b>\$ 619</b>	<b>\$ 22,352</b>	<b>\$ 76,966</b>

See accompanying notes to supplementary information.

**PACIFIC ELEMENTARY SCHOOL DISTRICT**  
**OTHER GOVERNMENTAL FUNDS FINANCIAL SCHEDULE**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
<b>REVENUES</b>						
Federal	\$ 82	\$ 18,160	\$ -	\$ -	\$ -	\$ 18,242
Other state	51,026	1,411	-	-	-	52,437
Other local	51,236	32,957	1	4,280	1,019	89,493
Total Revenues	<u>102,344</u>	<u>52,528</u>	<u>1</u>	<u>4,280</u>	<u>1,019</u>	<u>160,172</u>
<b>EXPENDITURES</b>						
Classified salaries	62,002	19,015	-	-	-	81,017
Employee benefits	31,053	8,070	-	-	-	39,123
Books and supplies	449	31,112	-	4,933	-	36,494
Services and other operating expenditures	905	-	14,399	-	18	15,322
Total Expenditures	<u>94,409</u>	<u>58,197</u>	<u>14,399</u>	<u>4,933</u>	<u>18</u>	<u>171,956</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>7,935</u>	<u>(5,669)</u>	<u>(14,398)</u>	<u>(653)</u>	<u>1,001</u>	<u>(11,784)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	6,618	14,100	-	-	20,718
Transfers out	(1,200)	-	-	-	-	(1,200)
Total Other Financing Sources (Uses)	<u>(1,200)</u>	<u>6,618</u>	<u>14,100</u>	<u>-</u>	<u>-</u>	<u>19,518</u>
Net Increase (Decrease) in Fund Balance	6,735	949	(298)	(653)	1,001	7,734
Fund Balance - Beginning	<u>34,353</u>	<u>11,003</u>	<u>497</u>	<u>1,272</u>	<u>21,351</u>	<u>68,476</u>
Fund Balance - Ending	<u>\$ 41,088</u>	<u>\$ 11,952</u>	<u>\$ 199</u>	<u>\$ 619</u>	<u>\$ 22,352</u>	<u>\$ 76,210</u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2011

	Second Period Report	Annual Report
Elementary:		
Kindergarten	17	17
Grades one through three	38	38
Grades four through six	48	48
Average Daily Attendance Totals	103	103

See accompanying notes to supplementary information.

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Grade Level</u>	<u>1986/1987 Minutes Requirement</u>	<u>1986/1987 Minutes Reduced</u>	<u>1982/1983 Actual Minutes</u>	<u>1982/1983 Minutes Reduced</u>	<u>2010/2011 Actual Minutes</u>	<u>Number of Days Traditional Calendar <sup>1</sup></u>	<u>Status</u>
Kindergarten	36,000	35,000	31,500	30,625	40,500	180	In Compliance
Grade one	50,400	49,000	47,250	45,938	51,335	180	In Compliance
Grade two	50,400	49,000	47,250	45,938	51,335	180	In Compliance
Grade three	50,400	49,000	47,250	45,938	51,335	180	In Compliance
Grade four	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade five	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade six	54,000	52,500	52,500	51,042	55,325	180	In Compliance

<sup>1</sup> The District did not utilize a multitrack calendar during the 2010/2011 year.

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

General Fund:	(Budgeted)			
	2011/2012	2010/2011	2009/2010 *	2008/2009 *
Revenues and Other Financing Sources	\$ 912,140	\$ 1,000,780	\$ 914,043	\$ 1,011,544
Expenditures	1,080,079	1,008,157	994,948	1,026,634
Other Uses and Transfers Out	20,997	19,518	16,199	10,000
Total Outgo	<u>1,101,076</u>	<u>1,027,675</u>	<u>1,011,147</u>	<u>1,036,634</u>
Change in Fund Balance	(188,936)	(26,895)	(97,104)	(25,090)
Ending Fund Balance	<u>\$ 1,135,198</u>	<u>\$ 1,324,134</u>	<u>\$ 1,351,029</u>	<u>\$ 1,448,133</u>
Available Reserves <sup>1</sup>	<u>\$ 519,506</u>	<u>\$ 647,654</u>	<u>\$ 678,006</u>	<u>\$ 749,721</u>
Reserve for Economic Uncertainties	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>
Unassigned Fund Balance	<u>\$ 444,506</u>	<u>\$ 572,654</u>	<u>\$ 603,006</u>	<u>\$ 674,721</u>
Available Reserves as a percentage of Total Outgo	<u>47.2%</u>	<u>63.0%</u>	<u>67.1%</u>	<u>72.3%</u>
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Average Daily Attendance at P-2	<u>101</u>	<u>103</u>	<u>99</u>	<u>95</u>

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

The General Fund balance has decreased by \$123,999 over the past two years. The District has incurred an operating deficit in three of the last three years. The 2011/2012 General Fund budget projects a decrease of \$188,936 (-14.3%).

For a District of this size, the state recommends available reserves of at least 5% of total General Fund expenditures, transfers out, and other uses (other outgo).

Long-term debt has not changed over the past two years.

Average daily attendance has increased by 8 ADA over the past two years. The ADA is anticipated to decrease 2 ADA during the fiscal year 2011/2012.

\* The General Fund activity and calculation of Available Reserves for the years ending June 30, 2010 and June 30, 2009 have been restated to conform with the implementation of GASB Statement No. 54.

<sup>1</sup> Available reserves consists of all unassigned fund balances and reserves for economic uncertainty that are contained within the governmental funds. Unassigned fund balances are typically only reported in the General Fund. However, other governmental funds may report negative unassigned fund balances and are included in the reported available reserves.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND  
BUDGET REPORT (SACS) WITH AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Assets
June 30, 2011 Annual Financial and Budget Report (SACS)	
Capital Assets	<u>\$ 418,545</u>
Adjustments and Reclassifications:	
Capital Assets:	
Land	(115,548)
Land Improvements	<u>115,548</u>
June 30, 2011 Audited Financial Statement Balance	<u><u>\$ 418,545</u></u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2011

**NOTE 1. PURPOSE OF SCHEDULES**

A. Other Governmental Funds Financial Schedules

These schedules provide information on the Pacific Elementary School District's (District) Governmental non-major funds, by object.

B. Schedule of Average Daily Attendance

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

C. Schedule of Instructional Time

Districts must maintain their instructional minutes at either their 1982/1983 actual minutes or the 1986/1987 standard required minutes, whichever is greater, as required by *Education Code* Section 46201. However, pursuant to the provisions of *Education Code* Section 46201.2, for fiscal years 2009/2010 through 2012/2013, the minimum instructional time is reduced by the equivalent of 5 instructional days.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46201 through 46206.

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 (SACS) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

F. Charter School

This schedule represents a complete listing of all charter schools authorized by the District and indicates whether their financial activities and balances have been included in the District's annual audited financial statements for the year ended June 30, 2011. The District has not authorized any Charter Schools; therefore this schedule has not been included for 2010/2011.

**OTHER INDEPENDENT AUDITOR'S REPORTS**

# ROBERTSON & ASSOCIATES, CPAs

A PROFESSIONAL CORPORATION

55 FIRST STREET, BOX G, SUITE 306  
LAKEPORT, CA 95453

WWW.ROBERTSONCPA.COM

LAKEPORT: (707) 263-9012 ♦ UKIAH: (707) 463-2078  
FAX: (707) 263-6001

## 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  
Pacific Elementary School District  
Davenport, California

We have audited the financial statements of the Pacific Elementary School District's (District) governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2011. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as item 2011-1. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-1.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Robertson & Associates, CPA*

Lakeport, California

November 22, 2011

# ROBERTSON & ASSOCIATES, CPAs

A PROFESSIONAL CORPORATION

55 FIRST STREET, BOX G, SUITE 306  
LAKEPORT, CA 95453

WWW.ROBERTSONCPA.COM

LAKEPORT: (707) 263-9012 ♦ UKIAH: (707) 463-2078  
FAX: (707) 263-6001

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Pacific Elementary School District  
Davenport, California

We have audited the Pacific Elementary School District (District) compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2010/2011* applicable to the District's programs identified in the below schedule of the year ended June 30, 2011. Compliance with the requirements referred to the above is the responsibility of the District's management. Our responsibility is to express an opinion of the District's compliance based on our audit.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2010/2011*, published by the Education Audit-Appeals Panel. Those standards and the *Standards and the Procedures for Audits of California K-12 Local Educational Agencies* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the programs identified in the below schedule occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the applicable programs identified below:

Description	Procedures in the Audit Guide	Procedures Performed
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Not applicable
Instructional Time (School Districts)	6	Yes
Instructional Time (County Offices of Education)	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes

Description	Procedures in the Audit Guide	Procedures Performed
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter Schools with only one school serving K-3	4	Yes
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
For Charter Schools;		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	3	Not applicable

In our opinion, the District complied, in all material respects, with the applicable compliance requirements referred to above for the year ended June 30, 2011.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Robertson & Associates, CPA*

Lakeport, California  
November 22, 2011

## FINDINGS AND RESPONSES SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011

**Financial Statement Findings**

**2011-1     Deficit Spending / State Code 30000**

Condition

The District's General Fund has incurred deficit spending in four of the last four fiscal years. The General Fund available reserves are significantly higher than the State recommended reserves for a district of this size.

Effect

Continued deficit spending, or maintaining available reserves in the General Fund that are less than the State recommended levels, could affect the District's ability to meet its financial obligations in the future.

Cause

The District planned deficit spending in the current fiscal year which utilized restricted reserves carried over from the previous year.

Criteria

*Criteria and Standards for School Districts – Interim Reports* developed by the California Department of Education.

Recommendation

The District should continue to closely monitor its budget and available reserves.

District Response and Corrective Action Plan

The district plans to redistribute reading intervention specialist duties among the other teachers. This reorganization will help lower personnel costs.

**Federal Award Findings and Questioned Costs**

There were no findings or questioned costs relative to federal awards or programs.

**State Award Findings and Questioned Costs**

There were no findings or questioned costs relative to state awards or programs.

**PACIFIC ELEMENTARY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation, If Not Implemented</u>
2010-1 The District's SACS Form ASSET does not agree to its schedule of capital assets. The District should implement and follow procedures to post audit adjustments to the SACS Form ASSET.	Not repeated	