

PACIFIC ELEMENTARY SCHOOL DISTRICT
COUNTY OF SANTA CRUZ
DAVENPORT, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

PACIFIC ELEMENTARY SCHOOL DISTRICT
ORGANIZATION
JUNE 30, 2014

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

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Gwyan Rhabyt	President	November, 2016
Ms. Patty Auten	Trustee	November, 2014
Ms. Susie Devergranne	Trustee	November, 2014

ADMINISTRATION

<u>Name</u>	<u>Title</u>	<u>Tenure</u>
Mr. Eric Bitter*	Superintendent	3 Years
Ms. Noel G. Bock	Administrative Assistant	22 Years

* Mr. Bitter resigned from the District June 30, 2014.
Ms. Kris Stanga is the current Superintendent.

ADDRESS OF DISTRICT OFFICE

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
JUNE 30, 2014

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PACIFIC ELEMENTARY SCHOOL DISTRICT
JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pacific Elementary School District
Davenport, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Elementary School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Elementary School District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information, on pages 4 through 15 and 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements and the District's introductory section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary information as listed in the table of contents are required by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013/2014* (published by the Education Audit Appeals Panel), are presented for purposes of additional analysis, and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Robertson & Associates, CPAs

Lakeport, California
November 25, 2014

**Pacific Elementary School District
Management's Discussion and Analysis
June 30, 2014**

INTRODUCTION

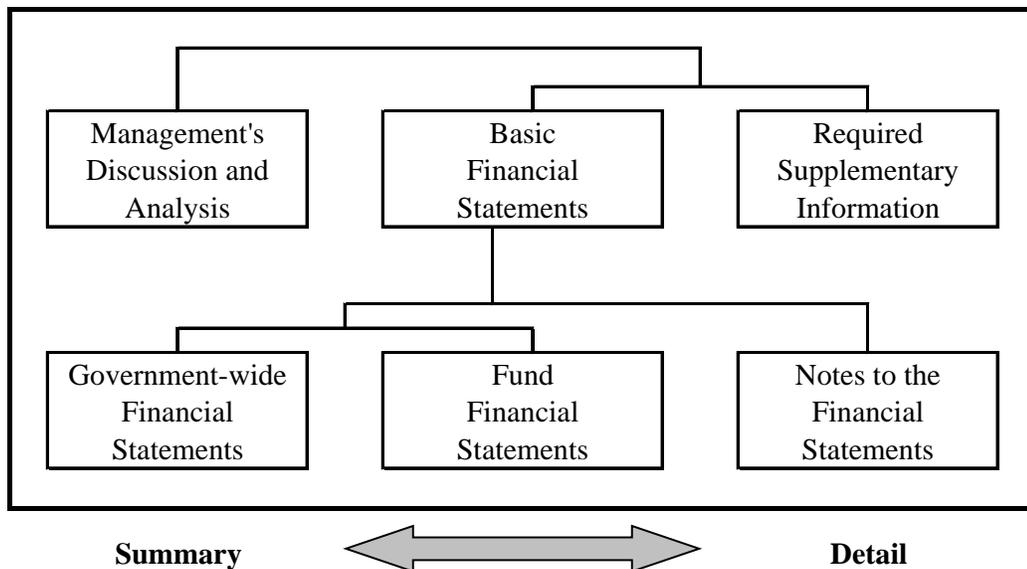
Our discussion and analysis of Pacific Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2014. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ Total net position was \$1,497,031 at June 30, 2014. This was a decrease of \$123,902 from the prior year.
- ❑ Overall revenues, were \$1,260,370, overall expenses were \$1,384,272.

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 District'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 position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively. The net position of the District has decreased by 8% in the past year. This is due primarily to increase in debt from the bond issue project. Increase costs in Health and Welfare benefits and overall reduction in revenue from the state and local agencies also contributed to the decrease 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. The District's average daily attendance has increased by 2 ADA in the past year; but with the change in funding model to Local Control Funding Formula (LCFF), revenue did not substantially increase. The District received the same level of revenue from 2012/2013.
- With rising costs of materials; increased cost in the health and welfare, assets will go down. The District passed the Bond issue for the modifications to the Multi-purpose building which increased their debt. They did not make enough cuts in classified personnel costs to mitigate the deficit spending issue. The District is aware that decreases to fund balance will have to cease in the future.

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 \$1,985,534 as compared to the prior year's ending fund balance of \$1,254,962.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$1,497,031 at June 30, 2014.

	Governmental Activities		Net Change
	2014	2013	
ASSETS			
Cash and Equivalents	\$ 1,916,259	\$ 1,127,620	\$ 788,639
Other Current Assets	89,712	145,838	(56,126)
Capital Assets, Net of Accumulated Depreciation	491,007	365,971	125,036
TOTAL ASSETS	<u>\$ 2,496,978</u>	<u>\$ 1,639,429</u>	<u>\$ 857,549</u>
LIABILITIES			
Current Liabilities	\$ 33,235	\$ 18,496	\$ 14,739
Long-Term Liabilities	966,712	-	966,712
TOTAL LIABILITIES	<u>\$ 999,947</u>	<u>\$ 18,496</u>	<u>\$ 981,451</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	\$ (337,464)	\$ 365,971	\$ (703,435)
Restricted	808,844	45,428	763,416
Unrestricted	1,025,651	1,209,534	(183,883)
TOTAL NET POSITION	<u>\$ 1,497,031</u>	<u>\$ 1,620,933</u>	<u>\$ (123,902)</u>
The June 30, 2013 components of net position have been restated.			

Changes in Net Position

	Governmental Activities		Net Change
	2014	2013	
REVENUES			
Program Revenues:			
Charges for Services	\$ 78,395	\$ 61,453	\$ 16,942
Operating Grants and Contributions	288,437	175,686	112,751
General Revenues:			
Property Taxes	172,291	141,078	31,213
Unrestricted Federal and State Aid	629,975	607,905	22,070
Miscellaneous and Other Local	91,272	104,464	(13,192)
TOTAL REVENUES	1,260,370	1,090,586	169,784
EXPENSES			
Instruction	696,474	685,523	10,951
Instruction-Related Services	184,773	157,551	27,222
Pupil Services	113,795	110,849	2,946
General Administration	236,758	117,250	119,508
Plant Services	54,337	59,292	(4,955)
Ancillary Services	24,215	9,948	14,267
Community Services	32,023	38,909	(6,886)
Transfers Between Agencies	163	240	(77)
Interest on Long-Term Debt	26,378	-	26,378
Other Outgo	15,356	-	15,356
TOTAL EXPENSES	1,384,272	1,179,562	204,710
INCREASE (DECREASE) IN NET POSITION	(123,902)	(88,976)	(34,926)
NET POSITION - BEGINNING	1,620,933	1,709,909	(88,976)
NET POSITION - ENDING	\$ 1,497,031	\$ 1,620,933	\$ (123,902)

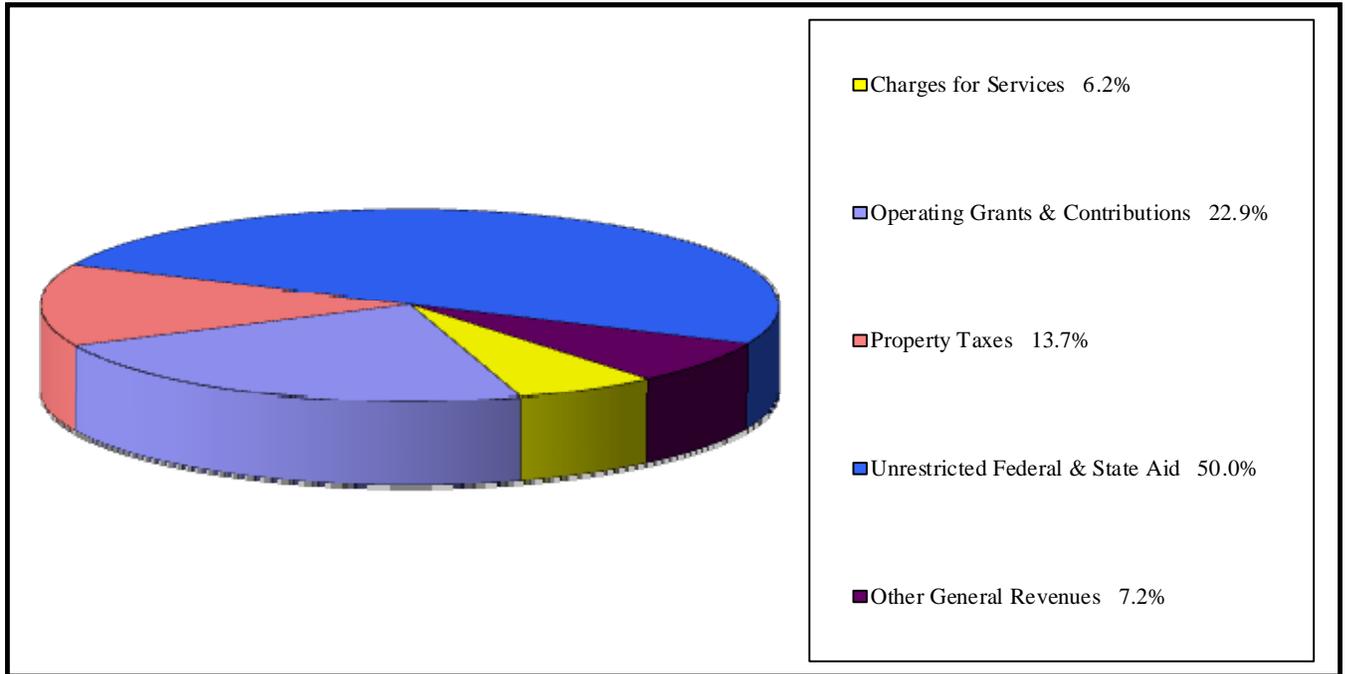
Governmental Activities

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.

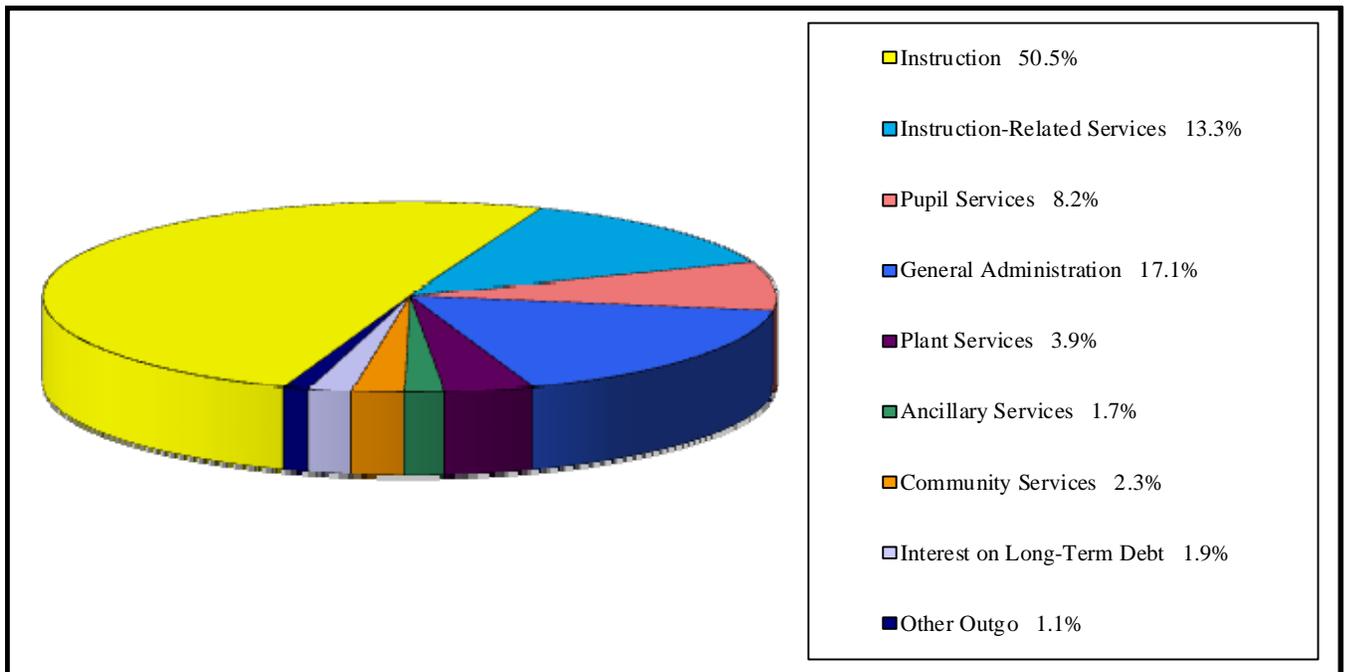
Net Cost of Services

	Net Cost of Services		Net Change
	2014	2013	
NET COST OF SERVICES			
Instruction	\$ 552,379	\$ 552,232	\$ 147
Instruction-Related Services	175,094	150,634	24,460
Pupil Services	25,718	25,609	109
General Administration	236,758	117,250	119,508
Plant Services	3,770	58,843	(55,073)
Facility Acquisition and Construction	(57,597)	-	(57,597)
Ancillary Services	7,872	2,013	5,859
Community Services	32,023	38,909	(6,886)
Transfers Between Agencies	(311)	240	(551)
Interest on Long-Term Debt	26,378	-	26,378
Other Outgo	15,356	(3,307)	18,663
TOTAL NET COSTS OF SERVICES	<u>\$ 1,017,440</u>	<u>\$ 942,423</u>	<u>\$ 75,017</u>

2013/2014 Summary of Revenues for Governmental Activities



2013/2014 Summary of Expenses for Governmental Activities



Fund Balance Comparison

The District currently maintains the following funds:

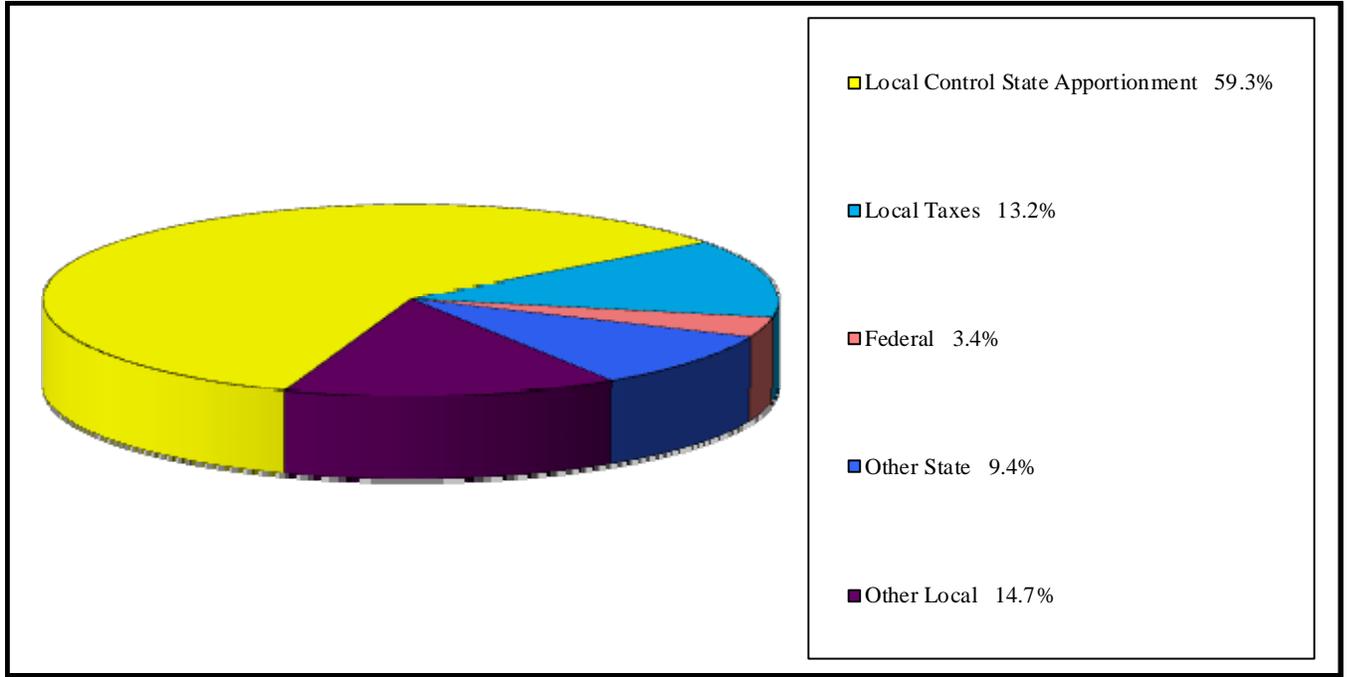
FUNDS	Ending Fund Balance		Net Change
	2014	2013	
Governmental:			
General	\$ 1,247,684	\$ 1,217,754	\$ 29,930
Child Development	5,073	3,094	1,979
Cafeteria Special Revenue	9,295	8,035	1,260
Deferred Maintenance	614	524	90
Student Body	1,463	2,275	(812)
Building	681,769	-	681,769
Capital Facilities	23,364	23,280	84
Bond Interest and Redemption	16,272	-	16,272
Total Governmental	<u>1,985,534</u>	<u>1,254,962</u>	<u>730,572</u>
TOTAL FUNDS	<u>\$ 1,985,534</u>	<u>\$ 1,254,962</u>	<u>\$ 730,572</u>

General Fund

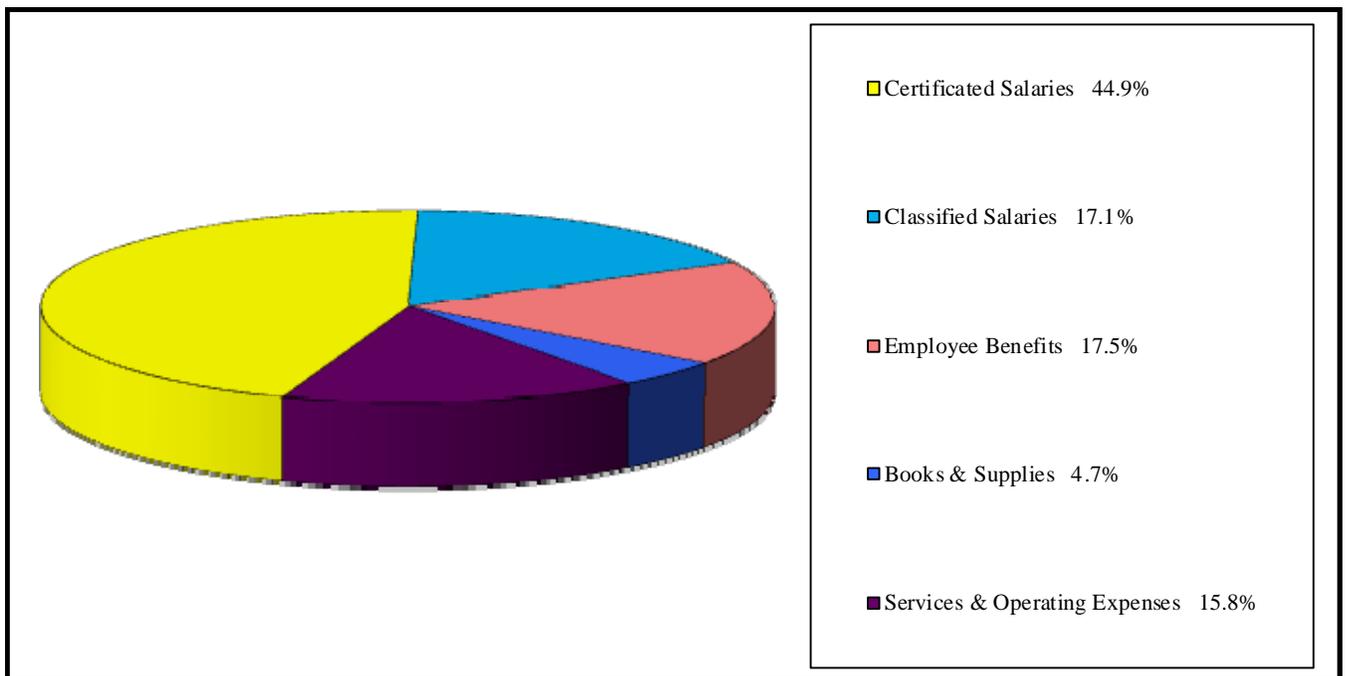
The General Fund appears to have had a slight increase in fund balance, due to the Proposition 39 Energy Grant funds received but not spent. The District received the same level of local grants and federal revenues. The District made reductions in classified personnel, which also reduced statutory benefit costs.

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

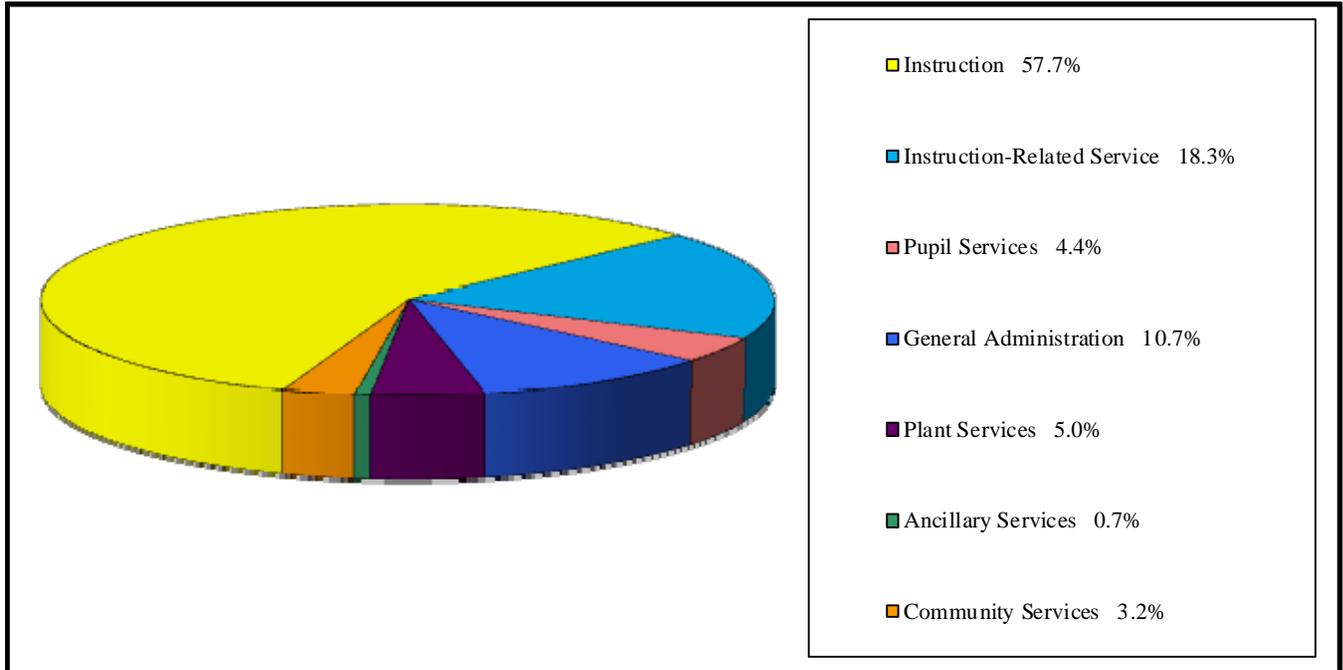
2013/2014 General Fund Revenues



2013/2014 General Fund Expenditures by Object



2013/2014 General Fund Expenditures by Function



Other Governmental Funds

Other governmental funds had the following activity and changes for the year ended June 30, 2014:

The Child Development Fund received more revenue than the prior year and had a slight increase classified personnel costs. The program experienced a slight increase in fund balance. This program is self-sustaining with local fees and minimal state revenues.

The Cafeteria Special Revenue Fund increased local income, by creating a new fundraising program. The Friends of Food Lab (FOFL) received donations and had fundraising activities to pay for the increased program expenditures. Even with the reduction in Federal and State funding, the District had a minimal increase in the Fund 13 balance.

The Deferred Maintenance Fund did not receive state dollars to maintain the school's facilities. However, the District transferred LCFF dollars for expenditures tracked under this fund. The transfer of funds is committed to the facility maintenance program.

The Building Fund received the Bond proceeds of \$825,040 and expenditures for architectures drawings and studies were completed. Progress has slowed due to change in District personnel. The new District Superintendent will continue the work once all procedural notification have been completed.

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

The Bond Interest and Redemption Fund is maintained with the Santa Cruz County Treasurer. They are responsible for the collection of tax revenue. The first principal payment on the bond will begin in 2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$491,007 invested, net of accumulated depreciation, in capital assets. Current year depreciation expense is \$20,792. The Bond passed and the funds came in August, 2013. The studies and architecture designs have begun. Currently the construction has ceased due to modification in the plan. The construction in progress represents cost incurred as of June 30, 2014.

	Governmental Activities		Net Change
	2014	2013	
CAPITAL ASSETS			
Construction In Progress	\$ 145,828	\$ -	\$ 145,828
Land Improvements	115,548	115,548	-
Buildings And Improvements	871,092	871,092	-
Accumulated Depreciation	(641,461)	(620,669)	(20,792)
NET CAPITAL ASSETS	<u>\$ 491,007</u>	<u>\$ 365,971</u>	<u>\$ 125,036</u>

Long-Term Debt

At year end, the District had \$966,712 in long-term debt. The bond passed and the District has increased their debt to build a new multipurpose room and increase in class room capacity.

	Governmental Activities		Net Change
	2014	2013	
LONG-TERM DEBT			
General Obligation Bonds Payable	\$ 966,712	\$ -	\$ 966,712
TOTAL LONG-TERM DEBT	<u>\$ 966,712</u>	<u>\$ -</u>	<u>\$ 966,712</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- ❑ With the passage of the new funding model “Local Control Funding Formula”, Pacific’s state revenue levels were slightly increased over the July 1st budget estimates.
- ❑ The District eliminated the Art and Music classified costs that were included in the July 1st budget. It also had to increase certificated costs due to column increase received after the beginning of the year.
- ❑ A Special Education. Instructional aide was added after the July 1st budget.

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 18, 2014. 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 District hired a new Superintendent for the 2014/2015 school year.
- ❑ The District had a special education settlement of \$20,000 which was not included in the 2014/2015 July 1st Budget.
- ❑ The Multi-Purpose Building Project was placed on hold until all statutory Bond compliance issues have been met.

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 Kris Stanga, P.O. Box H, 50 Ocean Street, Davenport, CA 95017, phone 831-425-7002.

FINANCIAL SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 1,916,259
Accounts receivable	89,712
Capital assets:	
Non-depreciable	145,828
Depreciable, net of accumulated depreciation	345,179
Total Assets	\$ 2,496,978
LIABILITIES	
Accounts payable	\$ 20,437
Interest payable	12,798
Long-term debt:	
Due within one year	7,091
Due after one year	959,621
Total Liabilities	\$ 999,947
NET POSITION	
Investment in capital assets, net of related long-term debt	\$ (337,464)
Restricted for:	
Capital projects	705,133
Debt service	16,272
Educational programs	76,067
Other purposes (expendable)	11,372
Unrestricted	1,025,651
Total Net Position	\$ 1,497,031

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 696,474	\$ 15,230	\$ 128,865	\$ (552,379)
Instruction-related services:				
Supervision of instruction	24,913	-	8,522	(16,391)
Instructional library, media and technology	10,490	-	-	(10,490)
School site administration	149,370	144	1,013	(148,213)
Pupil services:				
Food services	69,897	31,812	25,392	(12,693)
All other pupil services	43,898	917	29,956	(13,025)
General administration:				
Data processing	657	-	-	(657)
All other general administration	236,101	-	-	(236,101)
Plant services	54,337	113	50,454	(3,770)
Facility acquisition and construction	-	29,933	27,664	57,597
Ancillary services	24,215	-	16,343	(7,872)
Community services	32,023	-	-	(32,023)
Transfers between agencies	163	246	228	311
Interest on long-term debt	26,378	-	-	(26,378)
Other outgo	15,356	-	-	(15,356)
Total Governmental Activities	\$ 1,384,272	\$ 78,395	\$ 288,437	(1,017,440)
GENERAL REVENUES				
Taxes and subventions:				
Property taxes levied for general purposes				140,681
Property taxes levied for debt service				31,610
Federal and state aid not restricted to specific purposes				629,975
Interest and investment earnings				4,575
Interagency revenues				4,983
Miscellaneous				81,714
Total General Revenues				893,538
Change in Net Position				(123,902)
Net Position - Beginning				1,620,933
Net Position - Ending				\$ 1,497,031

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 1,177,260	\$ 688,371	\$ 50,628	\$ 1,916,259
Accounts receivable	84,182	-	5,530	89,712
Total Assets	<u>\$ 1,261,442</u>	<u>\$ 688,371</u>	<u>\$ 56,158</u>	<u>\$ 2,005,971</u>
LIABILITIES				
Accounts payable	\$ 13,758	\$ 6,602	\$ 77	\$ 20,437
Total Liabilities	<u>13,758</u>	<u>6,602</u>	<u>77</u>	<u>20,437</u>
FUND BALANCES				
Non spendable				
Restricted	70,994	681,769	55,467	808,230
Committed				
Other commitments	-	-	614	614
Assigned				
Other assignments	653,291	-	-	653,291
Unassigned				
Reserve for economic uncertainties	75,000	-	-	75,000
Unassigned amount	448,399	-	-	448,399
Total Fund Balance	<u>1,247,684</u>	<u>681,769</u>	<u>56,081</u>	<u>1,985,534</u>
Total Liabilities and Fund Balance	<u>\$ 1,261,442</u>	<u>\$ 688,371</u>	<u>\$ 56,158</u>	<u>\$ 2,005,971</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 POSITION
JUNE 30, 2014

	Detail	Total
Total fund balances - governmental funds		\$ 1,985,534
<p>Amounts reported for governmental activities in the Statement of Net Position differ from amounts reported in governmental funds as follows:</p>		
<p>Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		
Historical cost of capital assets	\$ 1,132,468	
Accumulated depreciation	(641,461)	
		491,007
<p>Interest on long-term debt is not reported in the governmental funds until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liabilities for the unmatured interest owing at the end of the period are included on the Statement of Net Position.</p>		
		(12,798)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities, net of unamortized premiums, discounts, and deferred charges, are included in the Statement of Net Position.</p>		
General obligation bonds payable		(966,712)
Total net position, governmental activities		\$ 1,497,031

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local control sources:				
State apportionments	\$ 613,010	\$ -	\$ -	\$ 613,010
Local sources	136,681	-	4,000	140,681
Federal	34,681	-	20,529	55,210
Other state	97,667	-	37,183	134,850
Other local	152,198	4,526	159,895	316,619
Total Revenues	1,034,237	4,526	221,607	1,260,370
EXPENDITURES				
Instruction	576,584	-	99,098	675,682
Instruction related services:				
Supervision of instruction	24,913	-	-	24,913
Instructional library, media, and technology	10,490	-	-	10,490
School site administration	147,608	-	1,762	149,370
Pupil services:				
Food services	-	-	69,897	69,897
All other pupil services	43,898	-	-	43,898
General administration:				
Data processing	657	-	-	657
All other general administration	106,040	5,400	124,661	236,101
Plant services	49,871	-	4,466	54,337
Facility acquisition and construction	-	145,828	-	145,828
Ancillary services	7,060	-	17,155	24,215
Community services	32,023	-	-	32,023
Transfers between agencies	163	-	-	163
Interest on long-term debt	-	-	15,356	15,356
Total Expenditures	999,307	151,228	332,395	1,482,930
Excess (deficiency) of revenues over (under) expenditures	34,930	(146,702)	(110,788)	(222,560)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	6,200	6,200
Operating transfers out	(5,000)	-	(1,200)	(6,200)
All other financing sources	-	828,471	124,661	953,132
Total Other Financing Sources (Uses)	(5,000)	828,471	129,661	953,132
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	29,930	681,769	18,873	730,572
Fund Balance - Beginning	1,217,754	-	37,208	1,254,962
Fund Balance - Ending	<u>\$ 1,247,684</u>	<u>\$ 681,769</u>	<u>\$ 56,081</u>	<u>\$ 1,985,534</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, 2014

	Detail	Total
Total change in fund balances - governmental funds		\$ 730,572
<p>Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:</p>		
<p>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.</p>		
Capital outlay	\$ 145,828	
Depreciation expense	(20,792)	
		125,036
<p>Proceeds from debt provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net position. This amount is the net effect of proceeds and issuance costs.</p>		
		(828,471)
<p>Accreted interest on capital appreciation bonds is accrued as long-term debt in the government wide financials, increasing interest expense.</p>		
		(20,080)
<p>Debt issued at a premium or at a discount is recognized as an Other Financing Source or Other Financing Use in the period it is incurred in the governmental funds. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt.</p>		
Premium on new debt	(124,661)	
Amortization Expense	6,500	
		(118,161)
<p>Unmatured interest on long-term debt is recognized in governmental funds in the period when it is due. However, in the statement of activities, unmatrued interest on long-term debt is accrued at year end.</p>		
		(12,798)
Change in net position of governmental activities		\$ (123,902)

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

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Future Implementation of New Accounting Pronouncements

The following is a summary of the upcoming GASB Statements that may have an impact on the District's future reporting at the time of this report in order of implementation date:

Statement Number	Title	Effective for Periods beginning after:	Description
GASB 69	Government Combinations and Disposals of Government Operations	December 15, 2013	This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
GASB 68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	June 15, 2014	<p>This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.</p> <p>This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.</p> <p>This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years.</p>
GASB 71	Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB Statement No. 68.	June 15, 2014	<p>The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.</p> <p>This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.</p>

The provisions of these Statements generally are required to be applied retroactively for all periods presented. Early application, if allowable, was not adopted.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Presentation

1. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units. 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.

2. Fund Financial Statements

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 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:

a. Major Governmental Funds

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

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings funded primarily with proceeds from the sale of bonds.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. 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:

The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.

The *Cafeteria Fund* is used to account for revenues and expenditures associated with the District's food service program.

The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of the District's facilities.

The *Student Body Fund* is used to account for the proceeds of Board approved student activities and student body approved expenditures.

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:

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).

Debt Service Funds are used to account for the accumulation of resources for, and the debt service payments related to, the District's debt issuances. The District maintains the following non-major debt service fund:

The *Bond Interest and Redemption Fund* is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the interest payments and redemption of principal of the District's general obligation bond issuance as discussed later in the Notes to Financial Statements.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. 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.

2. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned 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 unearned revenue.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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.

I. Assets, Liabilities, and Equity

1. Cash and 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and, therefore, no asset is reported.

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	20 - 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. Accrued Liabilities and Long-Term Obligations

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

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:

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. 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.

b. Restricted Fund Balance

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the highest level of decision-making authority. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

c. Committed Fund Balance

The committed fund balance classification reflects 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.

d. 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.

e. 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Reserve for Economic Uncertainties maintained by the District pursuant to the Criteria and Standards for fiscal solvency adopted by the State Board of Education is a stabilization-like arrangement of the "minimum fund balance policy" type. The Reserve for Economic Uncertainties does not meet the criteria to be reported as either restricted or committed because it is not an externally enforceable legal requirement, and because even where the Reserve for Economic Uncertainties is established by formal action of the District's highest level of decision-making authority, the circumstances in which the Reserve for Economic Uncertainties might be spent are by their nature neither specific nor non-routine. For this reason, the Reserve for Economic Uncertainties is reported as 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.

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.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2. CASH AND EQUIVALENTS

Cash and equivalents at June 30, 2014 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Equivalents	
Pooled Funds:	
Cash in county treasury	\$ 1,914,496
Deposits:	
Cash on hand and in banks	1,763
Total Cash and Equivalents	\$ 1,916,259

A. 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.

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, Investments were stated at cost, as the fair market value adjustment at the year-end was immaterial.

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, 2014

NOTE 2. CASH AND EQUIVALENTS (Continued)

B. 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds or Notes	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
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 Corporate Notes	5 years	30%	None
Mutual Funds	n/a	20%	10%
Mortgage Pass through Securities	5 years	20%	None
Joint Power Authority Pools	5 years	20%	None
County Pooled Investment Funds	n/a	None	None
Local Agency Investment Funds (LAIF)	n/a	None	None

C. 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, 2014, the weighted average maturity of the investments contained in the Treasury investment pool was 533 days.

D. 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.

E. 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2. CASH AND EQUIVALENTS (Continued)

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). 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, 2014, the District's bank balances were fully insured.

F. 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

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 netted as part of the reconciliation to the government wide financial statements.

A. Interfund Transfers

Permanent reallocations of resources between funds of the reporting District are classified as interfund transfers. As of June 30, 2014, interfund transfers are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Cafeteria Fund	General Fund	\$ 1,000	To transfer recreation costs to Cafeteria.
Cafeteria Fund	General Fund	4,000	To transfer old TIIBG amount to Cafeteria.
Cafeteria Fund	Child Development Fund	1,200	To reimburse for costs of meals served.
Total		<u>\$ 6,200</u>	

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4. CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2014, are shown below:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ -	\$ 145,828	\$ -	\$ 145,828
Total Capital Assets Not Being Depreciated	<u> -</u>	<u>145,828</u>	<u> -</u>	<u>145,828</u>
Capital Assets Being Depreciated:				
Land improvements	115,548	-	-	115,548
Buildings and improvements	871,092	-	-	871,092
Total Capital Assets Being Depreciated	<u>986,640</u>	<u> -</u>	<u> -</u>	<u>986,640</u>
Less Accumulated Depreciation for:				
Land improvements	(115,548)	-	-	(115,548)
Buildings and improvements	(505,121)	(20,792)	-	(525,913)
Total Accumulated Depreciation	<u>(620,669)</u>	<u>(20,792)</u>	<u> -</u>	<u>(641,461)</u>
Total Capital Assets Being Depreciated, Net	<u>365,971</u>	<u>(20,792)</u>	<u> -</u>	<u>345,179</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 365,971</u>	<u>\$ 125,036</u>	<u>\$ -</u>	<u>\$ 491,007</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 20,792</u>
Total Depreciation Expense	<u>\$ 20,792</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 5. GENERAL OBLIGATION BONDS

In August 2013, the District issued General Obligation Bonds in the amount of \$828,471 for the purpose of financing the renovation, construction and improvement of school facilities in the District. The bonds were authorized pursuant to the election of the registered voters of the District held on November 6, 2012, and are payable from the ad valorem taxes to be levied annually upon all properties subject to taxation by the District. The current interest and capital appreciation bonds interest rates range between 5.25% and 12.00%. The bonds are scheduled to mature through August 2052.

The outstanding bonded debt of the District as of June 30, 2014 is as follows:

General Obligation Bonds	Date of Issuance	Interest Rate %	Maturity Date August 1	Amount of Original Issue	Outstanding Principal and Accreted Interest June 30, 2013	Current Year Additions	Accreted Interest Current Year	Redeemed Current Year	Balance June 30, 2014
2012 Current Interest	2013	5.25 8.00 -	2052	\$ 585,000	\$ -	\$ 585,000	\$ -	\$ -	\$ 585,000
2012 Capital Appreciation Accreted Interest	2013	12.00	2047	\$ 1,635,000	-	243,471	-	-	243,471
					-	-	20,080	-	20,080
Totals					<u>\$ -</u>	<u>\$ 828,471</u>	<u>\$ 20,080</u>	<u>\$ -</u>	<u>\$ 848,551</u>

Future debt service requirements related to this liability will continue to be accounted for in the District's Bond Interest and Redemption Fund and are as follows:

For the Year Ended June 30:	Principal and Accreted Interest	Future Interest	Total
2015	\$ -	\$ 30,714	\$ 30,714
2016	-	30,714	30,714
2017	-	30,714	30,714
2018	-	30,714	30,714
2019	12,508	38,206	50,714
2020 - 2024	33,702	189,868	223,570
2025 - 2029	42,939	240,631	283,570
2030 - 2034	49,037	324,533	373,570
2035 - 2039	47,319	421,251	468,570
2040 - 2044	45,043	548,527	593,570
2045 - 2049	148,003	557,548	705,551
2050 - 2053	470,000	43,839	513,839
Totals	<u>\$ 848,551</u>	<u>\$ 2,487,259</u>	<u>\$ 3,335,810</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 6. GENERAL LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2014 is shown below:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within One Year
General obligation bonds payable	\$ -	\$ 848,551	\$ -	\$ 848,551	\$ -
Premium on issuance	-	124,661	6,500	118,161	7,091
Totals	<u>\$ -</u>	<u>\$ 973,212</u>	<u>\$ 6,500</u>	<u>\$ 966,712</u>	<u>\$ 7,091</u>

NOTE 7. RESTATEMENT

June 30, 2013 components of ending net position have been restated for a correction of an error in a prior period.

<u>Net Position</u>	<u>June 30, 2013 Reported</u>	<u>Restatement</u>	<u>July 1, 2013 Restated</u>
Invested in capital assets, net of related debt	\$ 365,971	\$ -	\$ 365,971
Restricted	37,208	8,220	45,428
Unrestricted	1,217,754	(8,220)	1,209,534
Totals	<u>\$ 1,620,933</u>	<u>\$ -</u>	<u>\$ 1,620,933</u>

NOTE 8. RESTRICTED NET POSITION

The government-wide statement of net position reports \$808,844 of restricted net position, of which \$16,272 is restricted by enabling legislation.

NOTE 9. 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, 2014

NOTE 10. 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 generous gifts, which in the past included the portable stage, sports equipment and classroom supplies. During the year ended June 30, 2014, PSF provided support in the amount of \$35,000 to the District. PSF support covered salary and benefits costs for classroom aides; visual and performing arts instructors; and Life Lab personnel. They provided funds for the Music Program; classroom supplies and Friends of Food Lab costs.

NOTE 11. 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, 2014, 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 SC-SBCSIG. 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 Self-Insured Schools of California (SISC) SISC III arranges for and provides medical insurance coverage for its member school districts.
- The Santa Cruz County School Health Insurance Group (HIG) arranges for and provides dental and vision insurance coverage for its member school districts.

The District also participated in JPAs for other administrative and program operations as follows:

- 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, 2014

NOTE 11. JOINT POWERS AGREEMENTS (Continued)

The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. Each joint venture is governed by a board consisting of representatives from various member Districts. Each board controls the operations of the JPA, including selection of management, independent of any influence by the member Districts beyond their representation on the board. Each member District pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities, or fund equity is not calculated by the JPAs. Separately issued financial statements can be requested from each JPA.

NOTE 12. 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).

A. State Teachers' Retirement System

1. 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.

2. 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 2013/2014 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 years ending June 30, 2014, 2013, and 2012 were \$37,105, \$35,817, and \$35,769 respectively, and equal 100% of the required contributions for each year.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 12. EMPLOYEE RETIREMENT SYSTEMS (Continued)

3. Plan Outlook Affecting Future Contributions

In September 2013, the California State Auditor issued an updated assessment of high-risk issues facing the California State Teacher's Retirement System (CalSTRS). In summary, the report states:

The funding status of the Defined Benefit Program of the California State Teachers' Retirement System (CalSTRS) has not improved, and it remains on the high-risk list. One of the major risks to CalSTRS' funding is that its board does not have the authority to set contribution rates. The inability to adjust contributions, as well as poor investment returns due to economic recessions, have caused the funding ratio of the CalSTRS Defined Benefit Program to decrease from 98 percent in 2001 to 67 percent in 2012, well below the 80 percent considered fiscally sound. At the current contribution rate and actuarially estimated rate of return on investments, the Defined Benefit Program's funding ratio will continue to drop and assets will eventually be depleted.

4. Funding Plan

Assembly Bill 1469, signed into law by Governor Edmund G. Brown Jr., as part of the 2014-15 budget, increases member, employer and state contributions over the next several years and sets the program on a sustainable course.

Member contribution increases are as follows:

Effective Date	Prior Member Contribution Rate	Rate Changes Under AB 1469	
		2% at 60 Members	2% at 62 Members*
July 1, 2014	8.00%	8.15%	8.15%
July 1, 2015	8.00%	9.20%	8.56%
July 1, 2016	8.00%	10.25%	9.21%

* Rate imposed on 2% at 62 members is based on the normal cost of benefits for the Defined Benefit Program. The contribution rate in future years assumes no change in normal cost.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 12. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Employer contribution increases are as follows:

Effective Date	Prior Employer Contribution Rate	Increases Under AB 1469	
		Increase	Total
July 1, 2014	8.25%	1.25%	9.50%
July 1, 2015	8.25%	2.85%	11.10%
July 1, 2016	8.25%	4.45%	12.70%
July 1, 2017	8.25%	6.05%	14.30%
July 1, 2018	8.25%	7.65%	15.90%
July 1, 2019	8.25%	9.25%	17.50%
July 1, 2020	8.25%	10.85%	19.10%
July 1, 2046	8.25%	Increase from prior rate ceases in 2046-47	

AB 1469 increases the state's contribution attributable to the benefits in effect in 1990 but does not change the base rate of 2.017 percent. Thus, the state contribution rates, which in Fiscal Year 2013-14 were 3.041 percent, will increase over the next three years to a total of 6.328 percent. When contributions for purchasing power protection are included, the state's total contribution rate in 2016-17 will be 8.828 percent.

B. California Public Employees' Retirement System

1. 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.

2. 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 2013/2014 was 11.442% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the years ending June 30, 2014, 2013, and 2012 were \$17,237, \$19,605 and \$20,569 respectively and equal 100% of the required contributions for each year.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 12. EMPLOYEE RETIREMENT SYSTEMS (Continued)

3. Plan Outlook Affecting Future Contributions

In April 2013, the CalPERS board approved raising employer contribution rates up to 50 percent to fully fund the pension system's obligations in 30 years. The overhaul in the smoothing and amortization of assets will be used to set contribution rates beginning in the 2015/2016 fiscal year. CalPERS is currently estimated to be 70 percent funded, below the 80 percent considered fiscally sound.

4. Funding Plan

On March 10, 2014 CalPERS issued Circular Letter No.: 200-014-14 which projects the future employer contribution rates as follows:

<u>Projected Future Employer Contribution Rates</u>						
<u>2014 - 15</u>	<u>2015 - 16</u>	<u>2016 - 17</u>	<u>2017 - 18</u>	<u>2018 - 19</u>	<u>2019 - 20</u>	<u>2019 - 20</u>
11.77%	12.60%	15.00%	16.60%	18.20%	19.90%	20.40%

C. 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.

D. 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, 2014. 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 13. STATE TEACHERS' RETIREMENT SYSTEM EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2013/2014, pursuant to California Education Code, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14. COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund of other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

B. Litigation

As of June 30, 2014 the District is not currently involved in any litigation.

C. Commitments

As of June 30, 2014 the District had no material commitments outstanding.

NOTE 15. 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 25, 2014 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.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
REVENUES				
Local control sources:				
State apportionments	\$ 518,016	\$ 613,997	\$ 613,010	\$ (987)
Local sources	140,725	139,798	136,681	(3,117)
Federal	35,394	34,678	34,681	3
Other state	128,164	94,123	97,667	3,544
Other local	142,984	148,752	152,198	3,446
Total Revenues	<u>965,283</u>	<u>1,031,348</u>	<u>1,034,237</u>	<u>2,889</u>
EXPENDITURES				
Certificated salaries	449,977	454,654	448,332	6,322
Classified salaries	186,296	182,562	170,841	11,721
Employee benefits	194,973	187,284	174,954	12,330
Books and supplies	44,129	51,899	46,932	4,967
Services and other operating expenditures	146,167	170,049	158,085	11,964
Other outgo	256	256	163	93
Total Expenditures	<u>1,021,798</u>	<u>1,046,704</u>	<u>999,307</u>	<u>47,397</u>
Excess (deficiency) of revenues over expenditures before other financing Sources (uses)	<u>(56,515)</u>	<u>(15,356)</u>	<u>34,930</u>	<u>50,286</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(9,417)</u>	<u>(9,417)</u>	<u>(5,000)</u>	<u>4,417</u>
Total Other Financing Sources (Uses)	<u>(9,417)</u>	<u>(9,417)</u>	<u>(5,000)</u>	<u>4,417</u>
Net Increase (Decrease) in Fund Balance	(65,932)	(24,773)	29,930	54,703
Fund Balance - Beginning	<u>1,217,754</u>	<u>1,217,754</u>	<u>1,217,754</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,151,822</u>	<u>\$ 1,192,981</u>	<u>\$ 1,247,684</u>	<u>\$ 54,703</u>

See accompanying notes to required supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. PURPOSE OF REQUIRED SUPPLEMENTARY INFORMATION

A. Budgetary Comparison Schedule

Budgetary comparison schedules are required to be presented for the General Fund and each major special revenue fund that has a legally adopted budget. The originally adopted and final revised budgets are presented for such funds. The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, there were no excess expenditures over appropriations.

SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING BALANCE SHEET
JUNE 30, 2014

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund
ASSETS				
Cash and equivalents	\$ 4,716	\$ 4,199	\$ 614	\$ 1,463
Accounts receivable	390	5,140	-	-
Total Assets	<u>\$ 5,106</u>	<u>\$ 9,339</u>	<u>\$ 614</u>	<u>\$ 1,463</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 33	\$ 44	\$ -	\$ -
Total Liabilities	<u>33</u>	<u>44</u>	<u>-</u>	<u>-</u>
Fund Balance:				
Restricted	5,073	9,295	-	1,463
Committed				
Other commitments	-	-	614	-
Total Fund Balance	<u>5,073</u>	<u>9,295</u>	<u>614</u>	<u>1,463</u>
Total Liabilities and Fund Balance	<u>\$ 5,106</u>	<u>\$ 9,339</u>	<u>\$ 614</u>	<u>\$ 1,463</u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING BALANCE SHEET
JUNE 30, 2014

	<u>Capital Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Total Other Governmental Funds</u>
ASSETS			
Cash and equivalents	\$ 23,364	\$ 16,272	\$ 50,628
Accounts receivable	-	-	5,530
	<u>23,364</u>	<u>16,272</u>	<u>56,158</u>
Total Assets	<u>\$ 23,364</u>	<u>\$ 16,272</u>	<u>\$ 56,158</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 77
	<u>-</u>	<u>-</u>	<u>77</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>77</u>
Fund Balance:			
Restricted	23,364	16,272	55,467
Committed			
Other commitments	-	-	614
	<u>23,364</u>	<u>16,272</u>	<u>56,081</u>
Total Fund Balance	<u>23,364</u>	<u>16,272</u>	<u>56,081</u>
Total Liabilities and Fund Balance	<u>\$ 23,364</u>	<u>\$ 16,272</u>	<u>\$ 56,158</u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund
REVENUES				
Local control sources:				
Local sources	\$ -	\$ -	\$ 4,000	\$ -
Federal	-	20,529	-	-
Other state	35,565	1,395	-	-
Other local	69,026	43,033	4	16,343
Total Revenues	<u>104,591</u>	<u>64,957</u>	<u>4,004</u>	<u>16,343</u>
EXPENDITURES				
Classified salaries	65,806	21,973	-	-
Employee benefits	33,958	9,594	-	-
Books and supplies	855	34,857	-	17,155
Services and other operating expenditures	793	3,473	3,914	-
Debt Service:				
Interest	-	-	-	-
Total Expenditures	<u>101,412</u>	<u>69,897</u>	<u>3,914</u>	<u>17,155</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>3,179</u>	<u>(4,940)</u>	<u>90</u>	<u>(812)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	6,200	-	-
Transfers out	(1,200)	-	-	-
Other sources	-	-	-	-
Total Other Financing Sources (Uses)	<u>(1,200)</u>	<u>6,200</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Fund Balance	1,979	1,260	90	(812)
Fund Balance - Beginning	<u>3,094</u>	<u>8,035</u>	<u>524</u>	<u>2,275</u>
Fund Balance - Ending	<u>\$ 5,073</u>	<u>\$ 9,295</u>	<u>\$ 614</u>	<u>\$ 1,463</u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Other Governmental Funds
REVENUES			
Local control sources:			
Local sources	\$ -	\$ -	\$ 4,000
Federal	-	-	20,529
Other state	-	223	37,183
Other local	84	31,405	159,895
Total Revenues	<u>84</u>	<u>31,628</u>	<u>221,607</u>
EXPENDITURES			
Classified salaries	-	-	87,779
Employee benefits	-	-	43,552
Books and supplies	-	-	52,867
Services and other operating expenditures	-	124,661	132,841
Debt Service:			
Interest	-	15,356	15,356
Total Expenditures	<u>-</u>	<u>140,017</u>	<u>332,395</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>84</u>	<u>(108,389)</u>	<u>(110,788)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	6,200
Transfers out	-	-	(1,200)
Other sources	-	124,661	124,661
Total Other Financing Sources (Uses)	<u>-</u>	<u>124,661</u>	<u>129,661</u>
Net Increase (Decrease) in Fund Balance	84	16,272	18,873
Fund Balance - Beginning	<u>23,280</u>	<u>-</u>	<u>37,208</u>
Fund Balance - Ending	<u>\$ 23,364</u>	<u>\$ 16,272</u>	<u>\$ 56,081</u>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2014

Original - Second Period Report

	Grades TK / K-3	Grades 4 - 6	Total
Regular Average Daily Attendance	57	45	102
Average Daily Attendance Totals	57	45	102

Original - Annual Report

	Grades TK / K-3	Grades 4 - 6	Total
Regular Average Daily Attendance	57	45	102
Average Daily Attendance Totals	57	45	102

PACIFIC ELEMENTARY SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87		1982-83		2013/2014	Number of Days Traditional Calendar ¹	Status
	Minutes Requirement	Minutes Reduced	Actual Minutes	Minutes Reduced	Actual Minutes		
Kindergarten	36,000	35,000	31,500	30,625	40,500	180	In Compliance
Grade one	50,400	49,000	47,250	45,938	50,670	180	In Compliance
Grade two	50,400	49,000	47,250	45,938	50,670	180	In Compliance
Grade three	50,400	49,000	47,250	45,938	50,670	180	In Compliance
Grade four	54,000	52,500	52,500	51,042	54,660	180	In Compliance
Grade five	54,000	52,500	52,500	51,042	54,660	180	In Compliance
Grade six	54,000	52,500	52,500	51,042	54,660	180	In Compliance

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

<u>General Fund:</u>	(Budgeted) *			
	2014/2015	2013/2014	2012/2013	2011/2012
Revenues and Other Financing Sources	\$ 1,047,161	\$ 1,034,237	\$ 942,151	\$ 938,726
Expenditures	1,141,371	999,307	964,983	997,433
Other Uses and Transfers Out	346,000	5,000	14,741	10,100
Total Outgo	1,487,371	1,004,307	979,724	1,007,533
Change in Fund Balance	(440,210)	29,930	(37,573)	(68,807)
Ending Fund Balance	\$ 807,474	\$ 1,247,684	\$ 1,217,754	\$ 1,255,327
Available Reserves ¹	\$ 508,501	\$ 523,399	\$ 538,317	\$ 573,319
Reserve for Economic Uncertainties	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Unassigned Fund Balance	\$ 433,501	\$ 448,399	\$ 463,317	\$ 498,319
Available Reserves as a percentage of Total Outgo	34.2%	52.1%	54.9%	56.9%
Total Long-Term Debt	\$ 959,621	\$ 966,712	\$ -	\$ -
Average Daily Attendance at P-2	105	102	101	103

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 \$7,643 over the past two years. The District has incurred an operating deficit in two of the past three years. 2014/2015 General Fund budget projects a decrease of \$440,210 (-35.3%).

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).

Total long-term debt has increased by \$966,712 over the past two years.

Average daily attendance has decreased by 1 ADA over the past two years. The ADA is anticipated to increase 3 ADA during the fiscal year 2014/2015.

* The 2014/2015 budget is included for analytical purposes only and has not been subjected to audit.

¹ 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, 2014

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects *
June 30, 2014 Annual Financial and Budget Report (SACS) Fund Balance	\$ 691,501	\$ 556,183
Adjustments and Reclassifications:		
Reclassification for financial statement presentation	556,183	(556,183)
June 30, 2014 Audited Financial Statement Fund Balance	\$ 1,247,684	\$ -
	Long-Term Debt	
June 30, 2014 Annual Financial and Budget Report (SACS) Long-Term Debt		\$ 828,471
Adjustments and Reclassifications:		
Long-Term Debt:		
General obligation bonds payable		20,080
June 30, 2014 Audited Financial Statement Balance		\$ 848,551

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

NOTE 1. PURPOSE OF SUPPLEMENTARY INFORMATION

A. Other Governmental Funds Financial Statements

These statements 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(b), for fiscal years 2013-14 and 2014-15, 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.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pacific Elementary School District
Davenport, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Elementary School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robertson & Associates, CPAs

Lakeport, California
November 25, 2014

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Pacific Elementary School District
Davenport, California

Compliance

We have audited Pacific Elementary School District (District)'s compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, that could have a material effect on each of the District's state programs for the year ended June 30, 2014.

Management's Responsibility

Compliance with the applicable compliance requirements is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements based on our compliance audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a 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 in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

Description	Procedures in the Audit Guide	Procedures Performed
Local Education Agencies Other Than Charter Schools:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not Applicable
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Yes
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
School Districts, County Office of Education and Charter Schools:		
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	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	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

Opinion on State Programs

In our opinion, the Pacific Elementary School District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2014.

Purpose of this Report

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

Robertson & Associates, CPAs

Lakeport, California
November 25, 2014

FINDINGS AND RESPONSES SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT
FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

Financial Statement Findings

There were no findings or questioned costs relative to the financial statements.

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, 2014

Finding/Recommendation	Current Status	District Explanation, If Not Implemented
2013-001 The District's General Fund has incurred deficit spending in three of the last three fiscal years. The District projects deficit spending in fiscal year 2012/2013. The General Fund available reserves are significantly higher than the State recommended reserves for a district of this size. The District should continue to closely monitor its budget and available reserves.	Implemented	