

PACIFIC ELEMENTARY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

ROBERTSON & ASSOCIATES, CPAs  
A Professional Corporation

PACIFIC ELEMENTARY SCHOOL DISTRICT  
ORGANIZATION  
JUNE 30, 2012

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. Gwyn Rhabyt	President	November, 2012
Mrs. Patty Auten	Member	November, 2014
Mrs. Susie Devergranne	Member	November, 2014

**ADMINISTRATION**

<u>Name</u>	<u>Title</u>	<u>Tenure</u>
Mr. Eric Bitter	Superintendent	1 Year
Ms. Noel G Bock	Administrative Assistant	20 Years

**ADDRESS OF DISTRICT OFFICE**

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2012

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PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2012

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pacific Elementary School District  
Davenport, California

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011/2012* (published by the Education Audit Appeals Panel). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The combining nonmajor fund financial statements 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 presented for purposes of additional analysis as required by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011/2012* (published by the Education Audit Appeals Panel), and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the accompanying supplementary information as listed in the table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Robertson & Associates, CPAs*

Lakeport, California  
November 30, 2012

**Pacific Elementary School District  
Management's Discussion and Analysis  
June 30, 2012**

**INTRODUCTION**

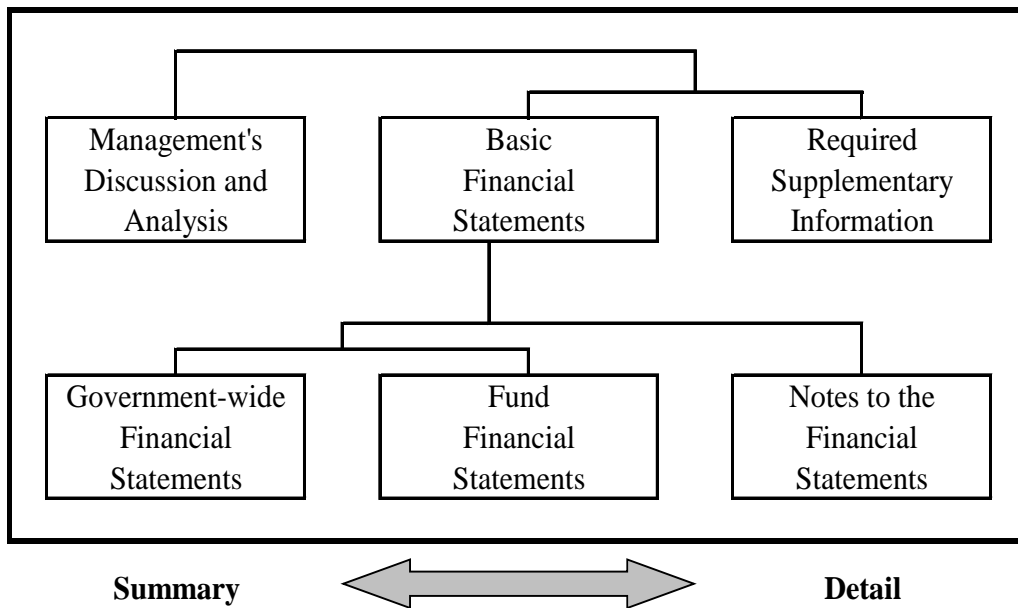
Our discussion and analysis of Pacific Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- ❑ Total net assets were \$1,709,909 at June 30, 2012. This was a decrease of \$108,980 from the prior year.
- ❑ Overall revenues, were \$1,079,728, overall expenses were \$1,188,708.

**OVERVIEW OF FINANCIAL STATEMENTS**

**Components of the Financials Section**



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

- ❑ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ❑ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - **Governmental fund** statements tell how general government services were financed in the short term as well as what remains for future spending.

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

### **Government-Wide Statements**

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The net assets of the District have decreased by 6.0% in the past year. This is due primarily to reductions and deferrals of state revenues. With the decrease in revenues and increases in costs such as Health & Welfare; Special Education; and Teachers rise on the salary schedule, the district may continue to experience decreases in assets.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities. The District had a slight reduction in average daily attendance and experienced an overall decrease in state revenues from the prior year. Federal revenue decreased from the prior year by \$30,000 due to the elimination of SFSF program and the Fed. Education Jobs grants. The District made cuts in classified personnel cost to help mitigate the reduction in revenues. The District is in stable financial condition and is aware that they are spending down Fund balance and that Assets are decreasing.

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

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

### **Fund Financial Statements**

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

- Some funds are required to be established by State law and by bond covenants.
- The governing board establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.



The District has one type of fund:

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

The financial performance of the District is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,312,157 as compared to the prior year’s ending fund balance of \$1,400,344.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

### Net Assets

The District’s combined net assets were \$1,709,909 at June 30, 2012.

	<u>Governmental Activities</u>		Percent Change
	<u>2012</u>	<u>2011</u>	
<b>ASSETS</b>			
Cash and Investments	\$ 1,109,032	\$ 1,183,224	(6.3 %)
Other Current Assets	216,887	225,563	(3.8 %)
Capital Assets, Net of Accumulated Depreciation	<u>397,752</u>	<u>418,545</u>	<u>(5.0 %)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,723,671</u></b>	<b><u>\$ 1,827,332</u></b>	<b><u>(5.7 %)</u></b>
<b>LIABILITIES</b>			
Current Liabilities	<u>\$ 13,762</u>	<u>\$ 8,443</u>	<u>63.0 %</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 13,762</u></b>	<b><u>\$ 8,443</u></b>	<b><u>63.0 %</u></b>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	\$ 397,752	\$ 418,545	(5.0 %)
Restricted	70,120	84,648	(17.2 %)
Unrestricted	<u>1,242,037</u>	<u>1,315,696</u>	<u>(5.6 %)</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 1,709,909</u></b>	<b><u>\$ 1,818,889</u></b>	<b><u>(6.0 %)</u></b>

## Changes in Net Assets

	Governmental Activities		Percent Change
	2012	2011	
<b>REVENUES</b>			
Program Revenues:			
Charges for Services	\$ 26,355	\$ 32,921	(19.9 %)
Operating Grants and Contributions	173,068	233,026	(25.7 %)
General Revenues:			
Property Taxes	136,623	139,997	(2.4 %)
Unrestricted Federal and State Aid	618,454	609,141	1.5 %
Miscellaneous and Other Local	125,228	145,867	(14.1 %)
<b>TOTAL REVENUES</b>	<b>1,079,728</b>	<b>1,160,952</b>	<b>(7.0 %)</b>
<b>EXPENSES</b>			
Instruction	692,013	722,760	(4.3 %)
Instruction-Related Services	162,638	143,828	13.1 %
Pupil Services	104,048	113,373	(8.2 %)
General Administration	109,700	105,360	4.1 %
Plant Services	56,371	60,679	(7.1 %)
Ancillary Services	11,271	5,522	104.1 %
Community Services	52,564	49,206	6.8 %
Transfers Between Agencies	103	178	(42.1 %)
<b>TOTAL EXPENSES</b>	<b>1,188,708</b>	<b>1,200,906</b>	<b>(1.0 %)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>(108,980)</b>	<b>(39,954)</b>	<b>172.8 %</b>
<b>BEGINNING NET ASSETS</b>	<b>1,818,889</b>	<b>1,858,843</b>	<b>(2.1 %)</b>
<b>ENDING NET ASSETS</b>	<b>\$ 1,709,909</b>	<b>\$ 1,818,889</b>	<b>(6.0 %)</b>

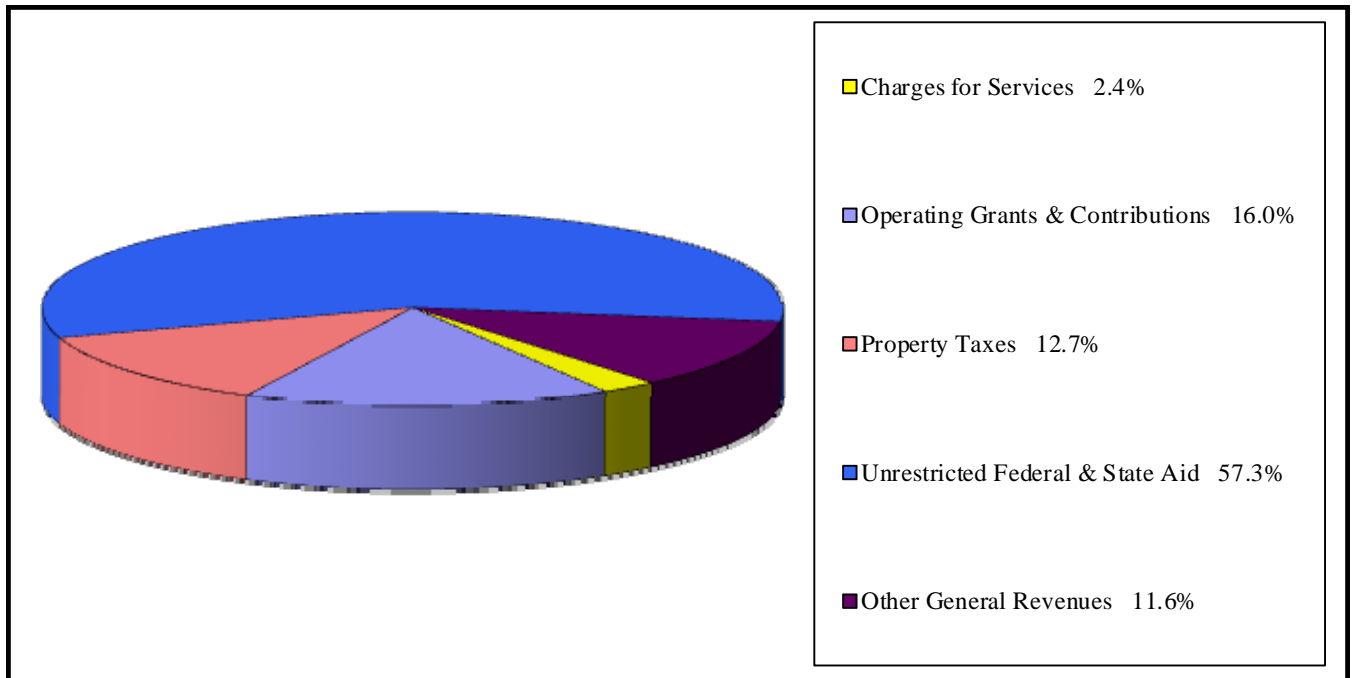
## Governmental Activities

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

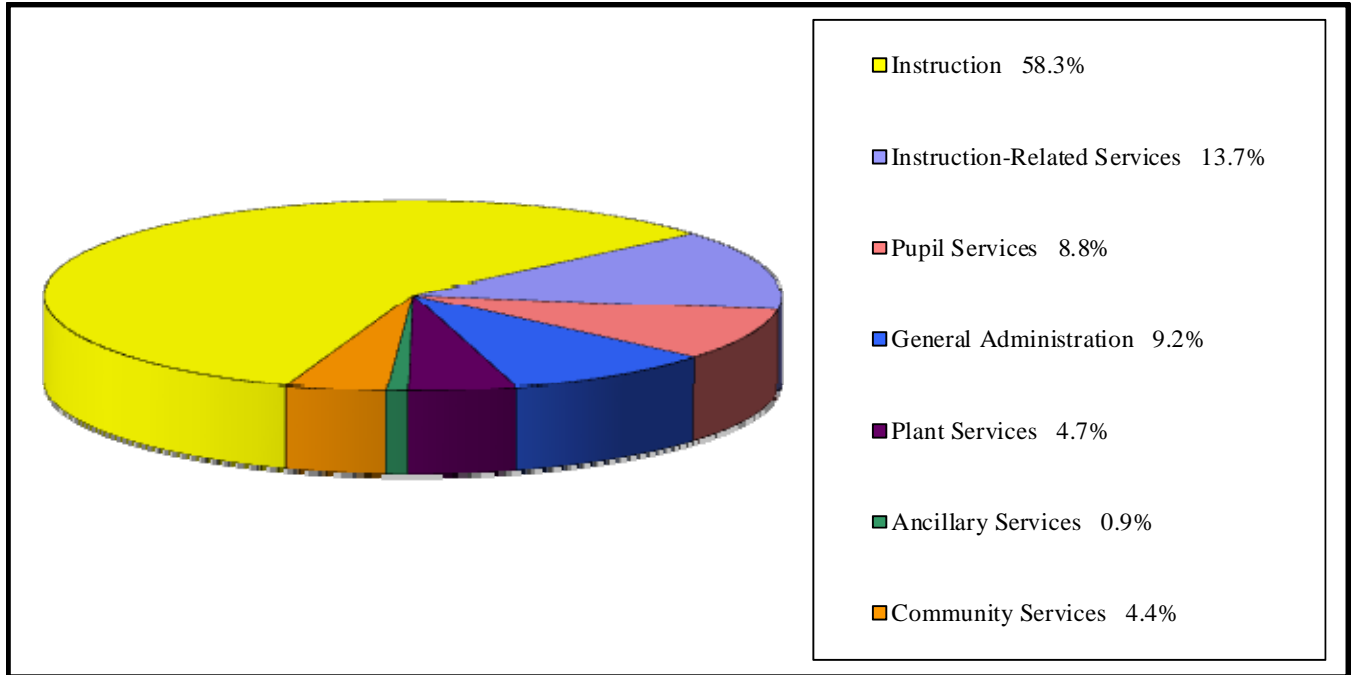
## Net Cost of Services

	Net Cost of Services		Percent Change
	2012	2011	
<b>NET COST OF SERVICES</b>			
Instruction	\$ 572,814	\$ 559,974	2.3 %
Instruction-Related Services	161,290	132,391	21.8 %
Pupil Services	29,455	27,967	5.3 %
General Administration	109,700	105,360	4.1 %
Plant Services	55,169	58,641	(5.9 %)
Ancillary Services	8,190	1,242	559.4 %
Community Services	52,564	49,206	6.8 %
Transfers Between Agencies	103	178	(42.1 %)
<b>TOTAL NET COSTS OF SERVICES</b>	<b>\$ 989,285</b>	<b>\$ 934,959</b>	<b>5.8 %</b>

## 2011/2012 Summary of Revenues for Governmental Activities



## 2011/2012 Summary of Expenses for Governmental Activities



## Fund Balance Comparison

The District currently maintains the following funds:

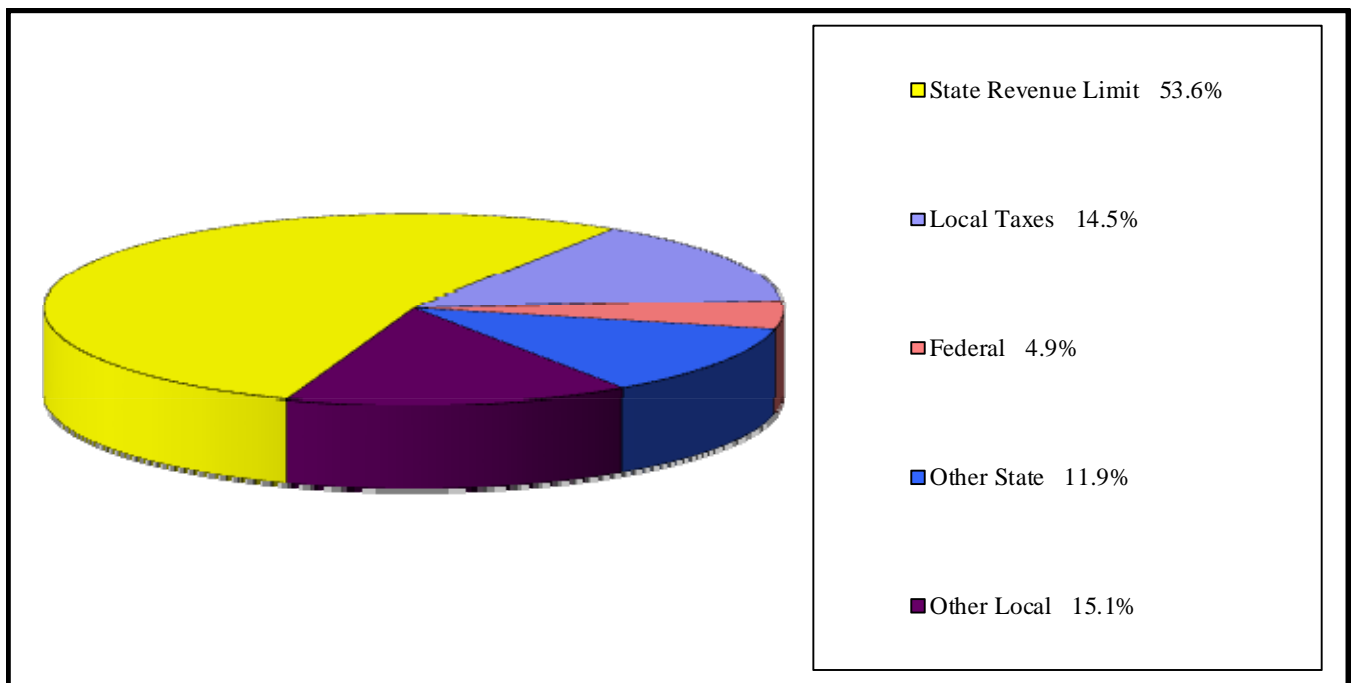
FUNDS	Ending Fund Balance		Percent Change
	2012	2011	
Governmental:			
General	\$ 1,255,327	\$ 1,324,134	(5.2 %)
Child Development	23,143	41,088	(43.7 %)
Cafeteria Special Revenue	9,580	11,952	(19.8 %)
Deferred Maintenance	623	199	213.1 %
Student Body	284	619	(54.1 %)
Capital Facilities	23,200	22,352	3.8 %
Total Governmental	1,312,157	1,400,344	(6.3 %)
<b>TOTAL FUNDS</b>	<b>\$ 1,312,157</b>	<b>\$ 1,400,344</b>	<b>(6.3 %)</b>

## General Fund

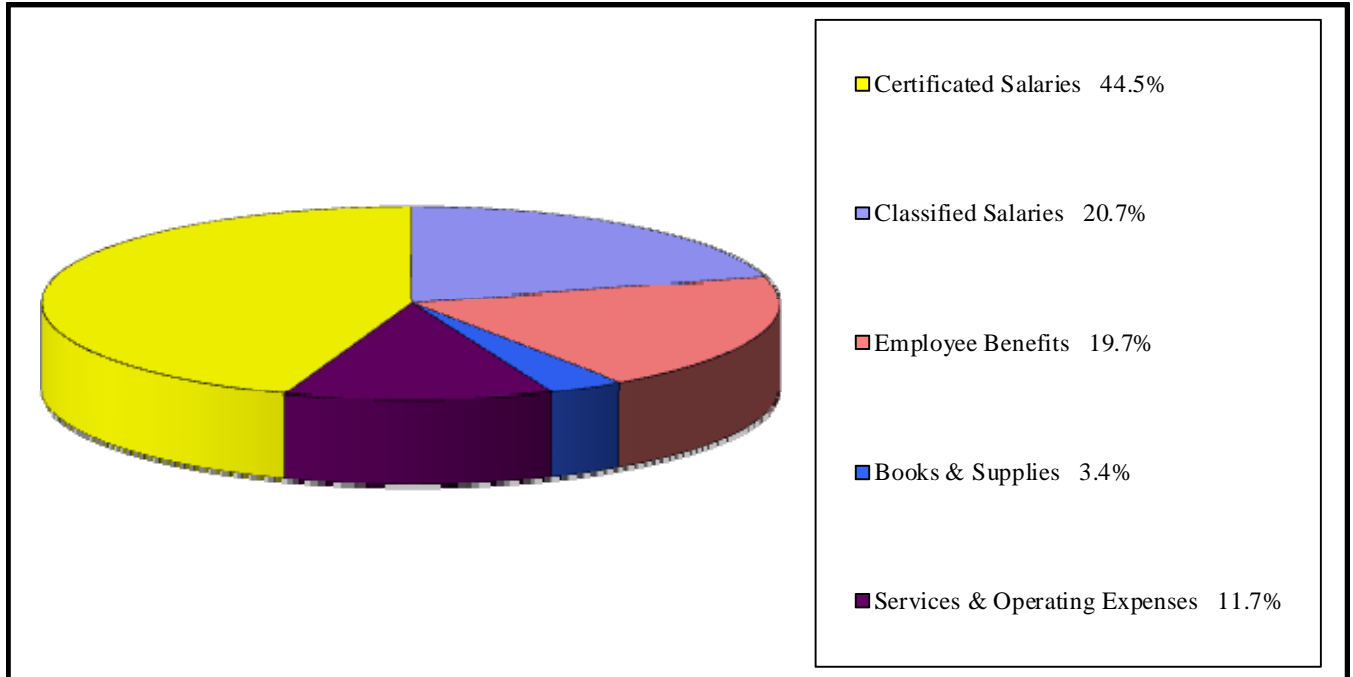
The change in fund balance in the General Fund is primarily due to overall decrease in federal and local revenues. Expenditures for Special Education services increased by \$18,000 (a one to one aide) from the prior year. Several teachers moved higher on the salary schedule, due to increase in credential levels. The District reduced cost by eliminating the Reading Intervention program, but this was not enough and further reductions are envisioned in upcoming years.

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

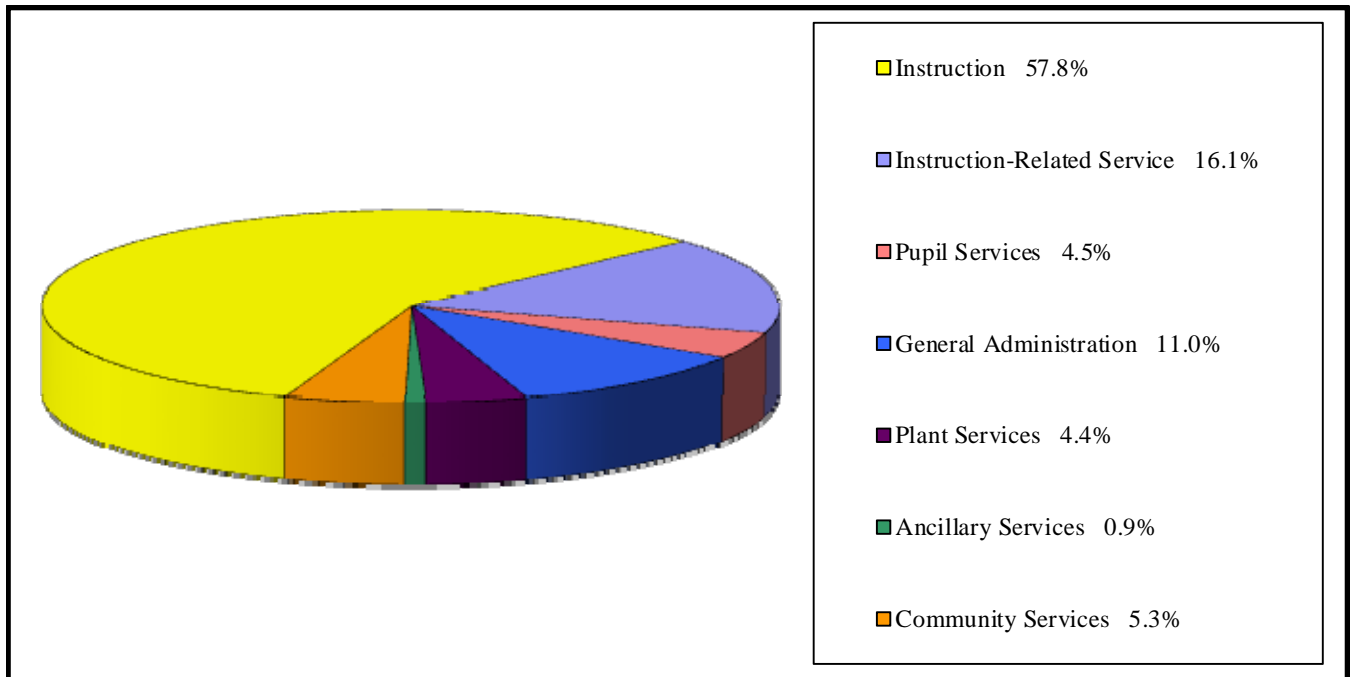
### 2011/2012 General Fund Revenues



### 2011/2012 General Fund Expenditures by Object



### 2011/2012 General Fund Expenditures by Function



## Other Governmental Funds

The Child Development Fund decreased. The State revenue was decreased to reflect the correct level (not prior year combined with current year as was the case last year).

The Cafeteria Fund experienced a slight decrease due to the reduction in local revenues.

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

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had \$397,752 invested, net of accumulated depreciation, in capital assets. The construction in progress; will stay until the final decision is made on the multipurpose room remodel. There were no changes in the District's investment in the capital assets other than the accumulation of current year depreciation in the amount of \$20,793.

	Governmental Activities		Percent Change
	2012	2011	
<b>CAPITAL ASSETS</b>			
Construction In Progress	\$ 10,988	\$ 10,988	0.0 %
Land Improvements	115,548	115,548	0.0 %
Buildings And Improvements	871,092	871,092	0.0 %
Accumulated Depreciation	(599,876)	(579,083)	3.6 %
<b>NET CAPITAL ASSETS</b>	<b>\$ 397,752</b>	<b>\$ 418,545</b>	<b>(5.0 %)</b>

### Long-Term Debt

The District had no long-term debt in the 2011/2012 school year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

The major change between the July 1<sup>st</sup> Adopted Budget and the Final Budget came from low estimates the state revenue and federal revenues. Also, the District decreased the expenditures for salaries and supplies and eliminated the \$40,000 transfer. Also, increases in Special Education costs occurred after the adoption of the July 1<sup>st</sup> budget. The District is working to keep expenditures within their budget and trying to maintain a healthy fund balance.

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 21, 2012. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

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

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

- ❑ The continuing State Fiscal crisis will directly affect Pacific's revenue limit and categorical funding. With the passage of Prop. 30, the reserve for the "trigger cuts" will be taken out of the budget.
- ❑ The Parent Club has provided additional funding for positions that were eliminated at the July 1<sup>st</sup> 2012/13 adopted budget.
- ❑ During the November election, the District has passed a bond for \$830,000 to remodel; update buildings for earthquake safety and to repair the roof.

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

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



FINANCIAL SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,109,032
Accounts receivable	216,887
Capital assets:	
Non-depreciable	10,988
Depreciable, net of accumulated depreciation	386,764
Total Assets	\$ 1,723,671
<b>LIABILITIES</b>	
Accounts payable	\$ 13,762
Total Liabilities	\$ 13,762
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 397,752
Restricted for:	
Capital projects	23,200
Educational programs	36,433
Other purposes (expendable)	10,487
Unrestricted	1,242,037
Total Net Assets	\$ 1,709,909

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Assets
				Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 692,013	\$ -	\$ 119,199	\$ (572,814)
Instruction-related services:				
Supervision of instruction	4,581	-	49	(4,532)
Instructional library, media and technology	8,696	-	-	(8,696)
School site administration	149,361	-	1,299	(148,062)
Pupil services:				
Food services	60,022	26,355	22,615	(11,052)
All other pupil services	44,026	-	25,623	(18,403)
General administration:				
All other general administration	109,700	-	-	(109,700)
Plant services	56,371	-	1,202	(55,169)
Ancillary services	11,271	-	3,081	(8,190)
Community services	52,564	-	-	(52,564)
Transfers between agencies	103	-	-	(103)
Total Governmental Activities	<u>\$ 1,188,708</u>	<u>\$ 26,355</u>	<u>\$ 173,068</u>	<u>(989,285)</u>
<b>GENERAL REVENUES</b>				
Taxes and subventions:				
Property taxes levied for general purposes				136,623
Federal and state aid not restricted to specific purposes				618,454
Interest and investment earnings				6,056
Interagency revenues				1,740
Miscellaneous				117,432
Total General Revenues				<u>880,305</u>
Change in Net Assets				(108,980)
Net Assets - Beginning				<u>1,818,889</u>
Net Assets - Ending				<u>\$ 1,709,909</u>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,055,248	\$ 53,784	\$ 1,109,032
Accounts receivable	212,531	4,356	216,887
Total Assets	<u>\$ 1,267,779</u>	<u>\$ 58,140</u>	<u>\$ 1,325,919</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 12,452	\$ 1,310	\$ 13,762
Total Liabilities	<u>12,452</u>	<u>1,310</u>	<u>13,762</u>
Fund Balance:			
Non spendable			
Other non spendable assets	300	-	300
Restricted	13,290	56,207	69,497
Committed			
Other commitments	-	623	623
Assigned			
Other assignments	668,418	-	668,418
Unassigned			
Reserve for economic uncertainties	75,000	-	75,000
Unassigned amount	498,319	-	498,319
Total Fund Balance	<u>1,255,327</u>	<u>56,830</u>	<u>1,312,157</u>
Total Liabilities and Fund Balance	<u>\$ 1,267,779</u>	<u>\$ 58,140</u>	<u>\$ 1,325,919</u>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Detail	Total
Total fund balances - governmental funds		\$ 1,312,157
<p style="margin-left: 40px;">Amounts reported for governmental activities in the Statement of  Net Assets differ from amounts reported in governmental funds  as follows:</p> <p style="margin-left: 40px;">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	\$ 997,628	
Accumulated depreciation	(599,876)	
		397,752
Total net assets, governmental activities		\$ 1,709,909

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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Revenue limit sources:			
State apportionments	\$ 502,853	\$ -	\$ 502,853
Local sources	136,623	-	136,623
Federal	45,621	20,734	66,355
Other state	112,111	38,101	150,212
Other local	141,518	82,167	223,685
<b>Total Revenues</b>	<b>938,726</b>	<b>141,002</b>	<b>1,079,728</b>
<b>EXPENDITURES</b>			
Instruction	576,510	94,710	671,220
Instruction related services:			
Supervision of instruction	4,581	-	4,581
Instructional library, media, and technology	8,696	-	8,696
School site administration	147,648	1,713	149,361
Pupil services:			
Food services	505	59,517	60,022
All other pupil services	44,026	-	44,026
General administration:			
All other general administration	109,685	15	109,700
Plant services	43,974	12,397	56,371
Ancillary services	9,141	2,130	11,271
Community services	52,564	-	52,564
Transfers between agencies	103	-	103
<b>Total Expenditures</b>	<b>997,433</b>	<b>170,482</b>	<b>1,167,915</b>
Excess (deficiency) of revenues over (under) expenditures	(58,707)	(29,480)	(88,187)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	-	11,300	11,300
Operating transfers out	(10,100)	(1,200)	(11,300)
<b>Total Other Financing Sources (Uses)</b>	<b>(10,100)</b>	<b>10,100</b>	<b>-</b>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(68,807)	(19,380)	(88,187)
Fund Balance - Beginning	1,324,134	76,210	1,400,344
Fund Balance - Ending	<u>\$ 1,255,327</u>	<u>\$ 56,830</u>	<u>\$ 1,312,157</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, 2012

Total change in fund balances - governmental funds	\$ (88,187)
Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:	
Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Depreciation expense	<u>(20,793)</u>
Change in net assets of governmental activities	<u><u>\$ (108,980)</u></u>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**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.

**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:



PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

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

Statement Number	Title	Effective for Periods beginning after:	Description
GASB 62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	December 15, 2011	This Statement incorporates FASB, APB, and ARB pronouncements, not conflicting with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature.
GASB 63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	December 15, 2011	This Statement incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.
GASB 61	The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34	June 15, 2012	This Statement provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances.
GASB 65	Items Previously Reported as Assets and Liabilities	December 15, 2012	<p>This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.</p> <p>This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.</p>
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>

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, 2012

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

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

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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**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).

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,

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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. Deferred Revenue

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

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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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 Cash Equivalents

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

2. Receivables

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

3. Prepaid Expenditures

The District has the option of reporting expenditures for prepaid items in governmental funds either when paid or during the benefiting period. The District has chosen to report the expenditure when paid 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	25 - 50

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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. 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:

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

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.

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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

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. Additionally, the assignment need not be made before the end of the fiscal year, but rather may be made any time prior to the issuance of the financial statements.

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.

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

The 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

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

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.

7. Property Taxes

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

J. Estimates

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

**NOTE 2.     CASH**

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Cash Equivalents	
Pooled Funds:	
Cash in county treasury	\$ 1,108,448
Deposits:	
Cash on hand and in banks	584
Total Cash and Cash Equivalents	\$ 1,109,032

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.



PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

**NOTE 2.**     CASH (Continued)

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

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

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

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 2.**     CASH (Continued)

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, 2012, the weighted average maturity of the investments contained in the Treasury investment pool was 399 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.

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institutions. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Through December 31, 2012 all noninterest-bearing cash balances held in banks are fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. This unlimited coverage is separate from, and in addition to, the insurance coverage provided for other accounts held at an FDIC-insured bank. As of June 30, 2012, the District's interest-bearing bank balance was 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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

**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**

Interfund transfers consist of nonreciprocal operating movements of net assets from funds receiving revenue to funds through which the resources are to be expended. As of June 30, 2012, interfund transfers are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Deferred Maintenance Fund	General Fund	\$ 4,000	District transferred for deferred maintenance projects.
Cafeteria Fund	General Fund	1,000	From REC program for Snacks.
Cafeteria Fund	General Fund	5,100	Food Service under Old TIIBG.
Cafeteria Fund	Child Development Fund	<u>1,200</u>	Preschool Program for Breakfast meals.
Total		<u><u>\$ 11,300</u></u>	

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 4.     CAPITAL ASSETS**

The changes in capital assets for the year ended June 30, 2012, are shown below:

	Balance July 1, 2011	Additions	Decreases	Balance June 30, 2012
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 10,988	\$ -	\$ -	\$ 10,988
Total Capital Assets Not Being Depreciated	<u>10,988</u>	<u>-</u>	<u>-</u>	<u>10,988</u>
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	(463,535)	(20,793)	-	(484,328)
Total Accumulated Depreciation	<u>(579,083)</u>	<u>(20,793)</u>	<u>-</u>	<u>(599,876)</u>
Total Capital Assets Being Depreciated, Net	<u>407,557</u>	<u>(20,793)</u>	<u>-</u>	<u>386,764</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 418,545</u>	<u>\$ (20,793)</u>	<u>\$ -</u>	<u>\$ 397,752</u>

Depreciation expense was charged to governmental activities as follows:

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

**NOTE 5.     RESTRICTED NET ASSETS**

The government-wide statement of net assets reports \$70,120 of restricted net assets, of which none is restricted by enabling legislation.

**NOTE 6.     STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS**

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 7.     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.

**NOTE 8.     PACIFIC SCHOOL FOUNDATION**

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

Through the years PSF has augmented the school's resources with a number of generous gifts, including the portable stage, sports equipment and classroom supplies. During the year ended June 30, 2012, PSF provided support in the amount of \$21,171 to the District. PSF support covered salary and benefit costs of the Librarian and Chorus Director. They also provided funds for the Instrumental Music Program and classroom supplies.

**NOTE 9.     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, 2012, 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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 9.     JOINT POWERS AGREEMENTS** (Continued)

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

**NOTE 10.   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 2011/2012 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, 2012, 2011, and 2010 were \$35,769, \$35,044, and \$35,326 respectively, and equal 100% of the required contributions for each year.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 10. EMPLOYEE RETIREMENT SYSTEMS** (Continued)

**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 2011/2012 was 10.923% 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, 2012, 2011, and 2010 were \$20,569, \$20,783 and \$20,192 respectively and equal 100% of the required contributions for each year.

**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, 2012. 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 11. CONTINGENT LIABILITIES**

As of June 30, 2012, there are no known uninsured material contingent liabilities pending for the District.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 12.    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 30, 2012 and concluded that the following subsequent event has occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

On November 6, 2012 the voters of the District approved Measure M authorizing the District to issue \$830,000 in General Obligation Bond payable. The Measure required a 55% supermajority to pass. The Bond funds will be used to improve the quality of education; replace deteriorating roofs; increase student access to computers and modern technology; replace aging portable classroom for pre-school children; and renovate the multi-purpose building for school and community use.



REQUIRED SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Revenue limit sources:				
State apportionments	\$ 505,255	\$ 505,813	\$ 502,853	\$ (2,960)
Local sources	140,061	137,484	136,623	(861)
Federal	38,009	39,784	45,621	5,837
Other state	101,854	110,372	112,111	1,739
Other local	126,961	128,740	141,518	12,778
Total Revenues	<u>912,140</u>	<u>922,193</u>	<u>938,726</u>	<u>16,533</u>
<b>EXPENDITURES</b>				
Certificated salaries	438,696	449,340	443,562	5,778
Classified salaries	252,988	222,389	206,685	15,704
Employee benefits	230,725	206,131	196,192	9,939
Books and supplies	32,464	39,395	33,728	5,667
Services and other operating expenditures	124,950	127,239	117,163	10,076
Other outgo	256	256	103	153
Total Expenditures	<u>1,080,079</u>	<u>1,044,750</u>	<u>997,433</u>	<u>47,317</u>
Excess (deficiency) of revenues over expenditures before other financing Sources (uses)	<u>(167,939)</u>	<u>(122,557)</u>	<u>(58,707)</u>	<u>63,850</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(20,997)</u>	<u>(15,540)</u>	<u>(10,100)</u>	<u>5,440</u>
Total Other Financing Sources (Uses)	<u>(20,997)</u>	<u>(15,540)</u>	<u>(10,100)</u>	<u>5,440</u>
Net Increase (Decrease) in Fund Balance	(188,936)	(138,097)	(68,807)	69,290
Fund Balance - Beginning	1,324,134	1,324,134	1,324,134	-
Fund Balance - Ending	<u><u>\$ 1,135,198</u></u>	<u><u>\$ 1,186,037</u></u>	<u><u>\$ 1,255,327</u></u>	<u><u>\$ 69,290</u></u>

See accompanying notes to required supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012

**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, 2012, there were no excess expenditures over appropriations.

SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT  
COMBINING BALANCE SHEET  
JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 24,168	\$ 5,509	\$ 623	\$ 284	\$ 23,200	\$ 53,784
Accounts receivable	-	4,356	-	-	-	4,356
<b>Total Assets</b>	<b>\$ 24,168</b>	<b>\$ 9,865</b>	<b>\$ 623</b>	<b>\$ 284</b>	<b>\$ 23,200</b>	<b>\$ 58,140</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 1,025	\$ 285	\$ -	\$ -	\$ -	\$ 1,310
<b>Total Liabilities</b>	<b>1,025</b>	<b>285</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,310</b>
<b>Fund Balance:</b>						
Restricted	23,143	9,580	-	284	23,200	56,207
Committed						
Other commitments	-	-	623	-	-	623
<b>Total Fund Balance</b>	<b>23,143</b>	<b>9,580</b>	<b>623</b>	<b>284</b>	<b>23,200</b>	<b>56,830</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 24,168</b>	<b>\$ 9,865</b>	<b>\$ 623</b>	<b>\$ 284</b>	<b>\$ 23,200</b>	<b>\$ 58,140</b>

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, 2012

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Student Body Fund	Capital Facilities Fund	Total Other Governmental Funds
<b>REVENUES</b>						
Federal	\$ -	\$ 20,734	\$ -	\$ -	\$ -	\$ 20,734
Other state	30,415	1,646	6,040	-	-	38,101
Other local	52,042	27,465	2	1,795	863	82,167
<b>Total Revenues</b>	<b>82,457</b>	<b>49,845</b>	<b>6,042</b>	<b>1,795</b>	<b>863</b>	<b>141,002</b>
<b>EXPENDITURES</b>						
Classified salaries	63,817	18,586	-	-	-	82,403
Employee benefits	34,099	8,778	-	-	-	42,877
Books and supplies	501	32,153	-	2,130	-	34,784
Services and other operating expenditures	785	-	9,618	-	15	10,418
<b>Total Expenditures</b>	<b>99,202</b>	<b>59,517</b>	<b>9,618</b>	<b>2,130</b>	<b>15</b>	<b>170,482</b>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(16,745)	(9,672)	(3,576)	(335)	848	(29,480)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	7,300	4,000	-	-	11,300
Transfers out	(1,200)	-	-	-	-	(1,200)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,200)</b>	<b>7,300</b>	<b>4,000</b>	<b>-</b>	<b>-</b>	<b>10,100</b>
<b>Net Increase (Decrease) in Fund Balance</b>	<b>(17,945)</b>	<b>(2,372)</b>	<b>424</b>	<b>(335)</b>	<b>848</b>	<b>(19,380)</b>
Fund Balance - Beginning	41,088	11,952	199	619	22,352	76,210
<b>Fund Balance - Ending</b>	<b>\$ 23,143</b>	<b>\$ 9,580</b>	<b>\$ 623</b>	<b>\$ 284</b>	<b>\$ 23,200</b>	<b>\$ 56,830</b>

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 FOR THE YEAR ENDED JUNE 30, 2012

	Second Period Report	Annual Report
Elementary:		
Kindergarten	19	19
Grades one through three	38	38
Grades four through six	46	46
Average Daily Attendance Totals	103	103

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME  
 FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1986/1987 Minutes Requirement	1986/1987 Minutes Reduced	1982/1983 Actual Minutes	1982/1983 Minutes Reduced	2011/2012 Actual Minutes	Number of Days Traditional Calendar <sup>1</sup>	Status
Kindergarten	36,000	35,000	31,500	30,625	40,050	180	In Compliance
Grade one	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade two	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade three	50,400	49,000	47,250	45,938	51,240	180	In Compliance
Grade four	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade five	54,000	52,500	52,500	51,042	55,325	180	In Compliance
Grade six	54,000	52,500	52,500	51,042	55,325	180	In Compliance

<sup>1</sup> The District did not utilize a multitrack calendar during the 2011/2012 year.



PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012

General Fund:	(Budgeted) *			
	2012/2013	2011/2012	2010/2011	2009/2010
Revenues and Other Financing Sources	\$ 900,734	\$ 938,726	\$ 1,000,780	\$ 914,043
Expenditures	979,598	997,433	1,008,157	994,948
Other Uses and Transfers Out	9,417	10,100	19,518	16,199
Total Outgo	989,015	1,007,533	1,027,675	1,011,147
Change in Fund Balance	(88,281)	(68,807)	(26,895)	(97,104)
Ending Fund Balance	\$ 1,167,046	\$ 1,255,327	\$ 1,324,134	\$ 1,351,029
Available Reserves <sup>1</sup>	\$ 448,478	\$ 573,319	\$ 647,654	\$ 678,006
Reserve for Economic Uncertainties	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Unassigned Fund Balance	\$ 373,478	\$ 498,319	\$ 572,654	\$ 603,006
Available Reserves as a percentage of Total Outgo	45.3%	56.9%	63.0%	67.1%
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -
Average Daily Attendance at P-2	103	103	103	99

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 \$95,702 over the past two years. The District has incurred an operating deficit in three of the past three years. The year 2012/2013 General Fund budget projects a decrease of \$88,281 (-7.0%).

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).

The District has no long-term debt.

Average daily attendance has increased by 4 ADA over the past two years. The ADA is anticipated to remain stable during the fiscal year 2012/2013.

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

\* The 2012/2013 budget is included for analytical purposes only and has not been subjected to audit.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND  
BUDGET REPORT (SACS) WITH AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects *
June 30, 2012 Annual Financial and Budget Report (SACS) Fund Balance	\$ 688,117	\$ 567,210
Adjustments and Reclassifications:		
Reclassification for financial statement presentation	567,210	(567,210)
June 30, 2012 Audited Financial Statement Fund Balance	\$ 1,255,327	\$ -

\* This audit reclassification is made for financial presentation purposes only, pursuant to GASB 54 which, when applied, does not recognize this fund as a special revenue fund type. Therefore, the fund balance is consolidated with the General Fund. However, the District is permitted under current State law to account for this fund as a special revenue fund type for interim reporting and budgeting purposes.

	Capital Assets
June 30, 2012 Annual Financial and Budget Report (SACS) Capital Assets	\$ 397,752
Adjustments and Reclassifications:	
Capital Assets:	
Land	(115,548)
Land Improvements	115,548
June 30, 2012 Audited Financial Statement Balance	\$ 397,752

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012

**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, for fiscal years 2009/2010 through 2012/2013, the minimum instructional time is reduced by the equivalent of 5 instructional days.

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

D. Schedule of Financial Trends and Analysis

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

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

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

F. Schedule of Charter School

This schedule represents a complete listing of all charter schools authorized by the District and indicates whether their financial activities and balances have been included in the District's annual audited financial statements for the year ended June 30, 2012. The District has not authorized any Charter Schools, therefore this schedule has not been included for 2011/2012.

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**

Board of Trustees  
Pacific Elementary School District  
Davenport, California

We have audited 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting as item 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

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

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

*Robertson & Associates, CPAs*

Lakeport, California  
November 30, 2012

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Pacific Elementary School District  
Davenport, California

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 2011-12*, 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, 2012. Compliance with the applicable compliance requirements is the responsibility of the District's management. 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 2011-12*. 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	Yes
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes

Description	Procedures in the Audit Guide	Procedures Performed
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Not applicable
School Districts and Charter Schools:		
Class Size Reduction (including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter Schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012.

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

*Robertson & Associates, CPAs*

Lakeport, California  
November 30, 2012



## FINDINGS AND RESPONSES SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2012

**Financial Statement Findings**

**2012-1 Deficit Spending / State Code 30000**

Condition

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.

Effect

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

Cause

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

Criteria

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

Recommendation

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

District Response and Corrective Action Plan

The District made more personnel cuts for the 2012/2013 budget. No cost of living was given and applications for more educational grants were made.

**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, 2012

Finding/Recommendation	Current Status	District Explanation, If Not Implemented
2011-1 The District's General Fund has incurred deficit spending in four of the last four fiscal years. The General Fund available reserves are significantly higher than the State recommended reserves for a district of this size. The District should continue to closely monitor its budget and available reserves.	Repeated	See Recommendation 2012-1.