

PACIFIC ELEMENTARY SCHOOL DISTRICT

COUNTY OF SANTA CRUZ  
DAVENPORT, CALIFORNIA

ANNUAL FINANCIAL REPORT  
JUNE 30, 2017

ROBERTSON & ASSOCIATES, CPAs  
A Professional Corporation

PACIFIC ELEMENTARY SCHOOL DISTRICT  
ORGANIZATION  
JUNE 30, 2017

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

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Gwyan Rhabyt	President	November, 2020
Mr. Don Croll	Clerk	November, 2018
Ms. Leanne Salandro	Trustee	November, 2018

**ADMINISTRATION**

<u>Name</u>	<u>Title</u>	<u>Tenure</u>
Mr. Eric Gross	Superintendent	2 Years
Ms. Elizabeth Andrews	Business Manager	2 Years

**ADDRESS OF DISTRICT OFFICE**

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2017

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PACIFIC ELEMENTARY SCHOOL DISTRICT  
JUNE 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pacific Elementary School District  
Davenport, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Elementary School District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Elementary School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of contributions and, on pages 4 through 15 and 51 through 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements and the District's introductory section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying supplementary information as listed in the table of contents are required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis, and are not a required part of the basic financial statements.

This information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and accompanying supplementary information as listed in the table of contents as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Robertson & Associates, CPAs*

Lakeport, California  
January 22, 2018

**Pacific Elementary School District  
Management's Discussion and Analysis  
June 30, 2017**

**INTRODUCTION**

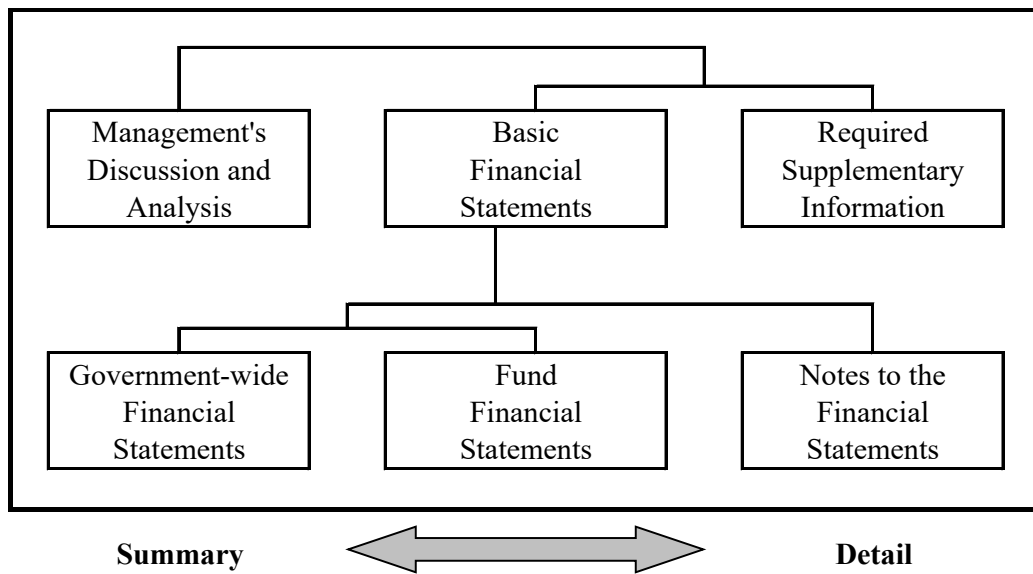
Our discussion and analysis of Pacific Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2017. It should be read in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- ❑ Total net position was \$595,630 at June 30, 2017. This was a decrease of \$56,518 from the prior year.
- ❑ Overall revenues, were \$1,617,856, overall expenses were \$1,674,374.

**OVERVIEW OF FINANCIAL STATEMENTS**

**Components of the Financials Section**





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

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the District’s overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - **Governmental fund** statements tell how general government services were financed in the short term as well as what remains for future spending.
  - **Proprietary fund** statements provide both short and long-term information about the District’s Cafeteria Enterprise Fund (only presented for June 30, 2016 information, the District closed this fund in the prior year).

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

### **Government-Wide Statements**

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

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

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively. The net position of the District has decreased by 8.6% in the past year. Although total revenue increased slightly 4%, expenditures increased by more 6.6%. Total reportable liabilities changes also affects net position.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities. The District’s average daily attendance has decreased by 8.7 ADA in the past year. The District used the prior year’s guarantee ADA for LCFF funding which stabilized apportionment revenue. Prop. 39 revenue was received at the end of the year and the corresponding expenditures under Prop. 39 occurred after the year end. Special Education personnel increased to include 2 classified aides and a .60 FTE Special Education teacher.

- 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 two types of funds:

- 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.
- Proprietary funds – One type of proprietary fund, the enterprise fund, reports the business-type activities, but provides more detail and additional information, such as cash flows. Internal service funds (the other type of proprietary fund) reports activities that provide supplies and services for the other programs and activities of the District. Proprietary funds are reported in the same way as the government-wide statements.
  - The District's enterprise fund currently consists of food services. The Food Service fund reports activities that provide cafeteria and catering services for the staff and special activities outside of the normal operation of the District (only presented for June 30, 2016 information, the District closed this fund in the prior year).

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 \$1,302,197 as compared to the prior year's ending fund balance of \$1,380,348. The District's proprietary fund closed in June 30, 2016.

## FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

### Net Position

The District's combined net position was \$595,630 at June 30, 2017.

	Governmental Activities		Net Change
	2017	2016	
<b>ASSETS</b>			
Cash and Equivalents	\$ 1,253,106	\$ 1,747,989	\$ (494,883)
Other Current Assets	169,500	59,001	110,499
Capital Assets, Net of Accumulated Depreciation	1,390,580	1,263,721	126,859
<b>TOTAL ASSETS</b>	<b>\$ 2,813,186</b>	<b>\$ 3,070,711</b>	<b>\$ (257,525)</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow of Resources - Pensions	\$ 275,979	\$ 185,667	\$ 90,312
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 275,979</b>	<b>\$ 185,667</b>	<b>\$ 90,312</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 133,207	\$ 439,440	\$ (306,233)
Long-Term Liabilities	1,942,203	1,944,776	(2,573)
<b>TOTAL LIABILITIES</b>	<b>\$ 2,075,410</b>	<b>\$ 2,384,216</b>	<b>\$ (308,806)</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources Pensions	\$ 418,125	\$ 220,014	\$ 198,111
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 418,125</b>	<b>\$ 220,014</b>	<b>\$ 198,111</b>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	\$ 562,109	\$ 435,250	\$ 126,859
Restricted	381,550	471,937	(90,387)
Unrestricted	(348,029)	(255,039)	(92,990)
<b>TOTAL NET POSITION</b>	<b>\$ 595,630</b>	<b>\$ 652,148</b>	<b>\$ (56,518)</b>

## Changes in Net Position

	Governmental Activities		Net Change
	2017	2016	
REVENUES			
Program Revenues:			
Charges for Services	\$ 86,835	\$ 97,049	\$ (10,214)
Operating Grants and Contributions	409,594	345,879	63,715
General Revenues:			
Property Taxes	276,334	232,748	43,586
Unrestricted Federal and State Aid	740,843	786,791	(45,948)
Miscellaneous and Other Local	104,250	87,697	16,553
TOTAL REVENUES	<u>1,617,856</u>	<u>1,550,164</u>	<u>67,692</u>
EXPENSES			
Instruction	1,022,279	908,955	113,324
Instruction-Related Services	206,268	200,238	6,030
Pupil Services	150,408	131,093	19,315
General Administration	116,813	131,764	(14,951)
Plant Services	88,968	107,019	(18,051)
Community Services	35,498	35,375	123
Transfers Between Agencies	102	264	(162)
Interest on Long-Term Debt	54,038	51,635	2,403
Business-Type Activities:			
Food Services	-	3,067	(3,067)
TOTAL EXPENSES	<u>1,674,374</u>	<u>1,569,410</u>	<u>104,964</u>
INCREASE (DECREASE) IN NET POSITION	(56,518)	(19,246)	(37,272)
NET POSITION - BEGINNING	<u>652,148</u>	<u>671,394</u>	<u>(19,246)</u>
NET POSITION - ENDING	<u>\$ 595,630</u>	<u>\$ 652,148</u>	<u>\$ (56,518)</u>

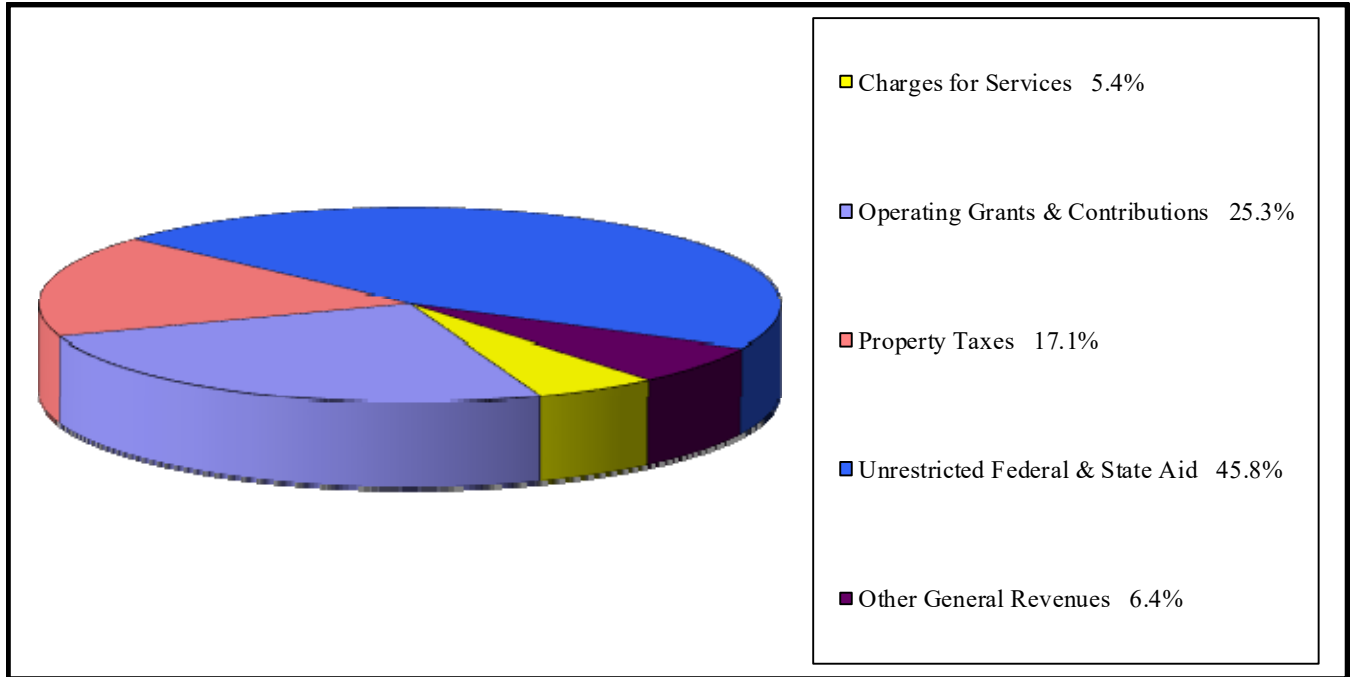
## Governmental Activities

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

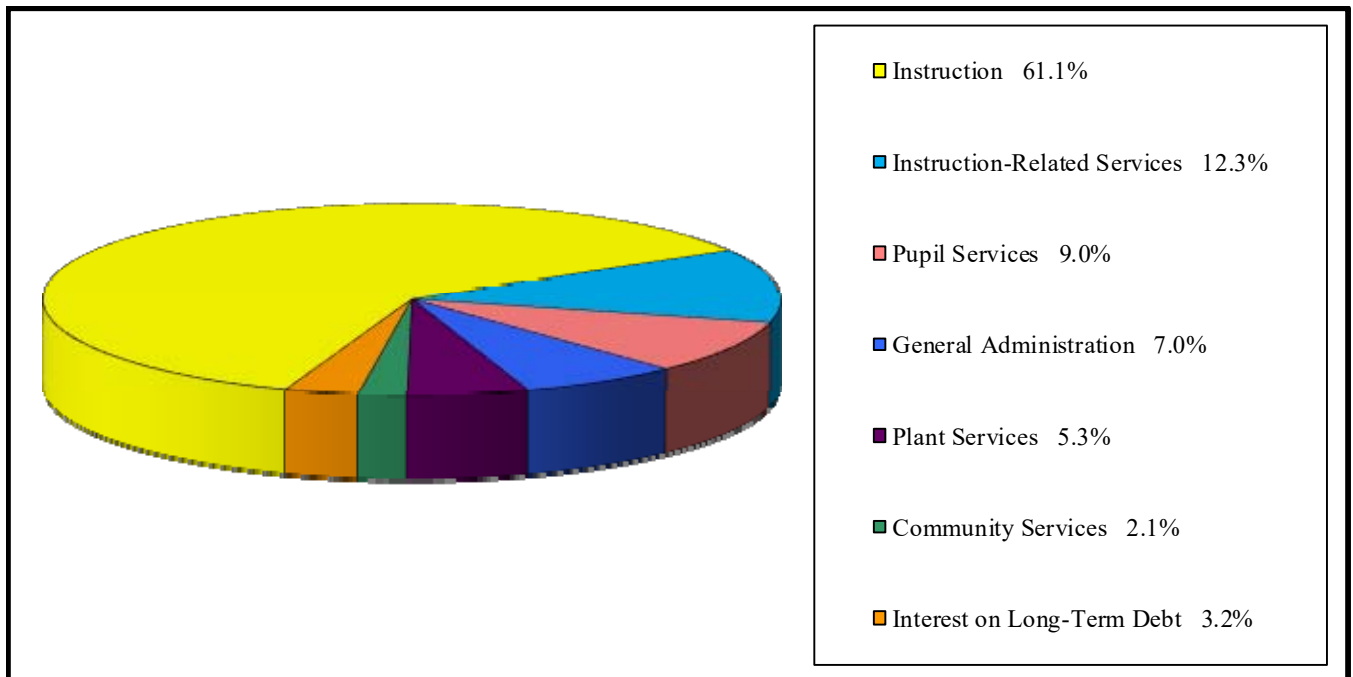
### Net Cost of Services

	Net Cost of Services		Net Change
	2017	2016	
NET COST OF SERVICES			
Instruction	\$ 824,446	\$ 725,642	\$ 98,804
Instruction-Related Services	194,897	187,692	7,205
Pupil Services	61,012	57,890	3,122
General Administration	110,513	128,850	(18,337)
Plant Services	(42,034)	36,576	(78,610)
Facility Acquisition and Construction	(60,151)	(98,599)	38,448
Community Services	35,498	35,375	123
Transfers Between Agencies	102	264	(162)
Interest on Long-Term Debt	54,038	51,635	2,403
Other Outgo	(376)	(144)	(232)
Business-Type Activities:			
Business Type Expenses	-	1,301	(1,301)
TOTAL NET COSTS OF SERVICES	<u>\$ 1,177,945</u>	<u>\$ 1,126,482</u>	<u>\$ 52,764</u>

### 2016/2017 Summary of Revenues for Governmental Activities



### 2016/2017 Summary of Expenses for Governmental Activities



## Fund Balance Comparison

The District currently maintains the following funds:

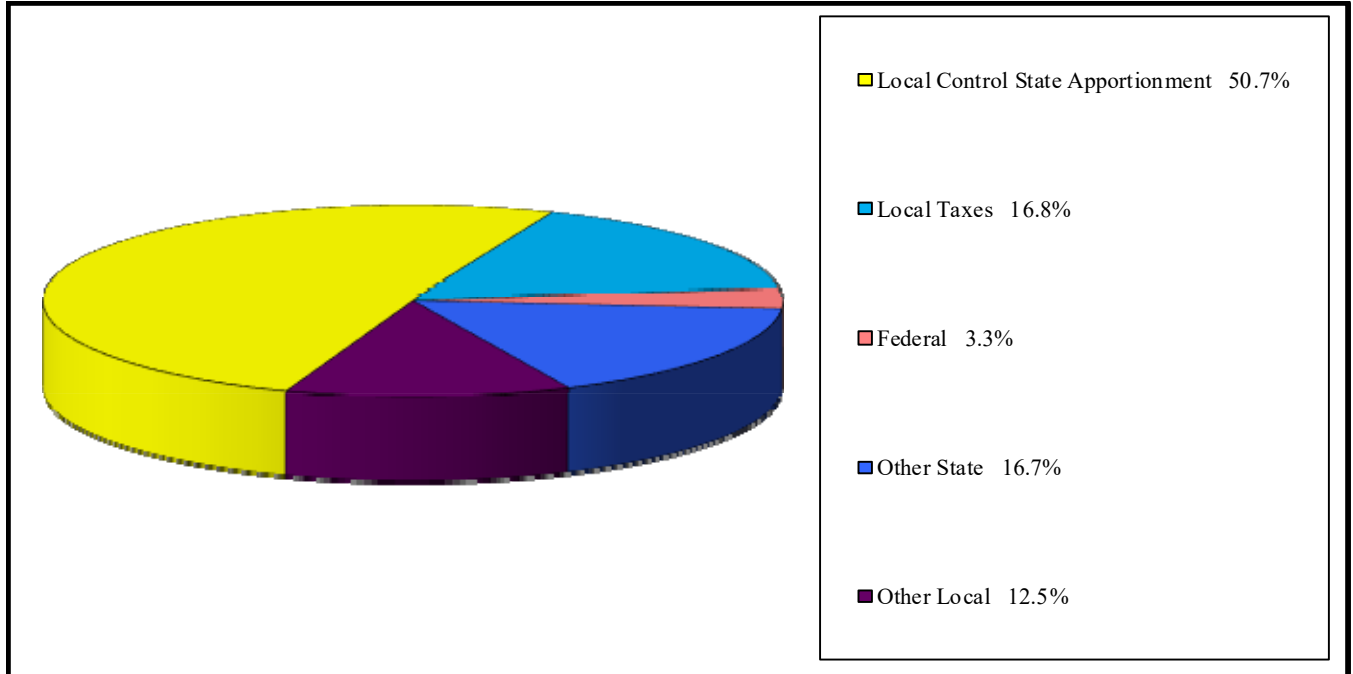
FUNDS	Ending Fund Balance		Net Change
	2017	2016	
Governmental:			
General	\$ 1,110,630	\$ 1,005,836	\$ 104,794
Child Development	27,241	27,656	(415)
Cafeteria Special Revenue	19,506	17,838	1,668
Deferred Maintenance	7,033	6,171	862
Building	109,077	299,539	(190,462)
Capital Facilities	2,335	2,315	20
Bond Interest and Redemption	26,375	20,993	5,382
Total Governmental	<u>1,302,197</u>	<u>1,380,348</u>	<u>(78,151)</u>
Proprietary:			
Enterprise:			
Cafeteria Enterprise	-	-	-
Total Proprietary	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNDS	<u>\$ 1,302,197</u>	<u>\$ 1,380,348</u>	<u>\$ (78,151)</u>

## General Fund

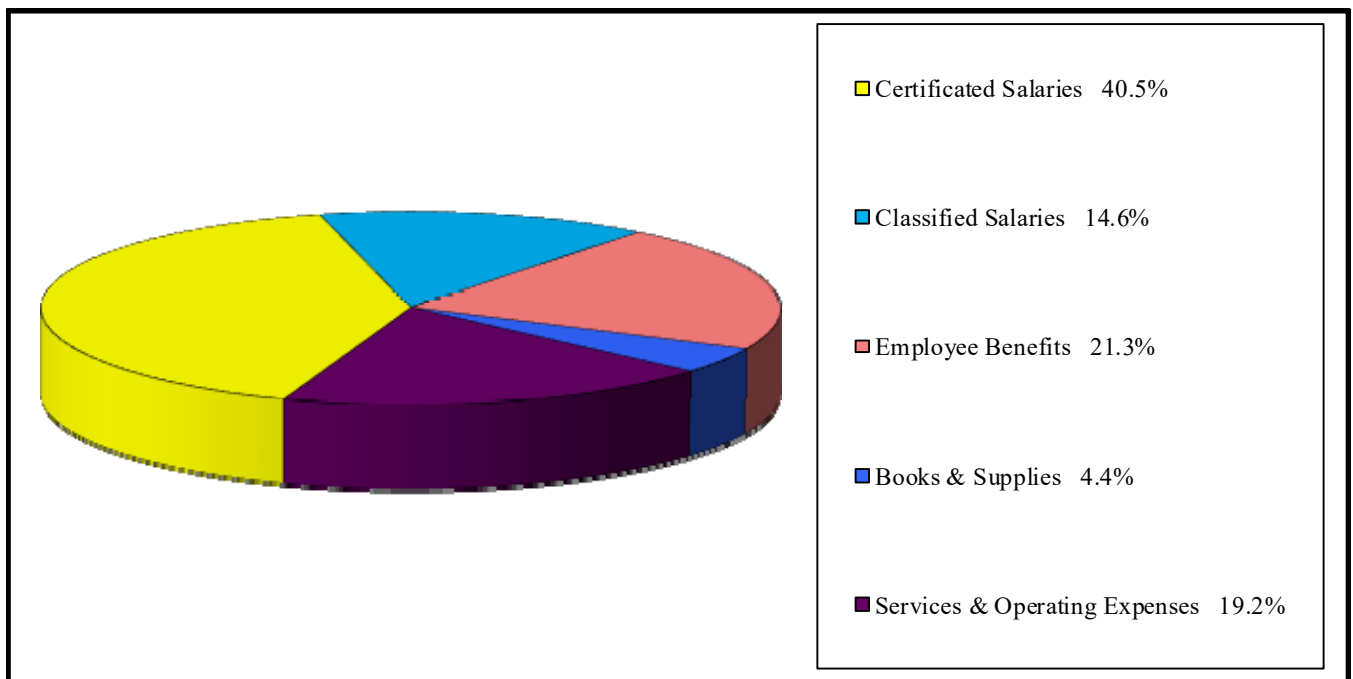
The General Fund had an overall increase in fund balance due to LCFF funding and the receipt of Prop 39 funds. The prior year's guaranteed ADA was used to calculate LCFF funding. With the changes in COLA and GAP funding, the District had an increase in State LCFF funding. Special Education personnel costs and services were increased from the prior year, but regular instructional aides' costs were reduced.

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

### 2016/2017 General Fund Revenues

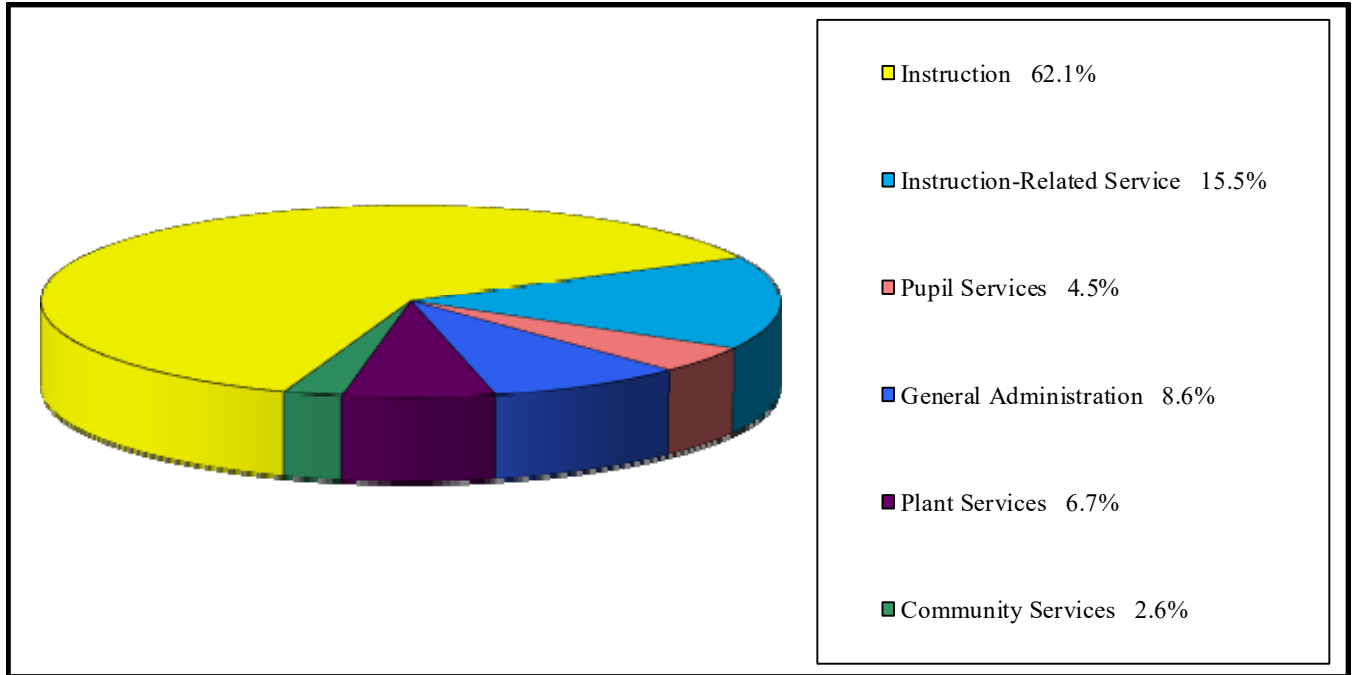


### 2016/2017 General Fund Expenditures by Object





## 2016/2017 General Fund Expenditures by Function



### Other Governmental Funds

Other governmental funds had the following activity and changes for the year ended June 30, 2017:

The Child Development Fund experienced no significant changes during the year.

The Cafeteria Special Revenue Fund had a slight increase due to the Friends of Food Lab program.

The Deferred Maintenance Fund has LCFF transfer and paid for various maintenance projects during the year.

The Building Fund made the final payments on the Multi-purpose building. There are still minor items waiting completion, but the majority of the expenditures have been completed.

The Capital Facilities Fund had no significant changes only an increased due to interest.

The Bond Interest and Redemption Fund had no substantial changes during the year. The first principal payment on the bond will begin in 2018.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2017, the District had \$1,390,580 invested, net of accumulated depreciation, in capital assets. Current year depreciation expense is \$65,217. The new Multi-purpose building was completed for the beginning of the 2016/17 school year. The construction in progress amount from 2016 was moved or added to the Building improvement asset.

	Governmental Activities		Net Change
	2017	2016	
<b>CAPITAL ASSETS</b>			
Construction In Progress	\$ -	\$ 958,528	\$ (958,528)
Land Improvements	115,548	115,548	-
Buildings And Improvements	2,021,696	871,092	1,150,604
Accumulated Depreciation	(746,664)	(681,447)	(65,217)
<b>NET CAPITAL ASSETS</b>	<u>\$ 1,390,580</u>	<u>\$ 1,263,721</u>	<u>\$ 126,859</u>

### Long-Term Debt

At June 30, 2017, the District had \$1,942,203 in long-term debt.

The General Obligation Bonds are held in the Bond Interest and Redemption Fund maintained by Santa Cruz County Treasurer. Changes are associated with the accrual and payment of interest. The premium on the bond was split out and reduced for 2016/17. The first principal payment on the bond is due in 2018. With the implementation of GASB 68, the District must reflect its amount of unfunded STRS/PERS liability with the State of California. Currently, the District's Net Pension Liability or their portion of the unfunded STRS/PERS liability is \$925,907 which is a decrease of \$21,018 from 2016.

	Governmental Activities		Net Change
	2017	2016	
<b>LONG-TERM DEBT</b>			
General Obligation Bonds Payable	\$ 919,408	\$ 893,872	\$ 25,536
Premium On General Obligation Bonds	96,888	103,979	(7,091)
Net Pension Liability	925,907	946,925	(21,018)
<b>TOTAL LONG-TERM DEBT</b>	<u>\$ 1,942,203</u>	<u>\$ 1,944,776</u>	<u>\$ (2,573)</u>

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

- ❑ The July 1<sup>st</sup> budget did not include all the Prop. 39 Energy Grant revenue received which was an additional \$81,000.
- ❑ The District received additional donations and had more fund-raising activities than was planned in the July 1<sup>st</sup> budget.
- ❑ The District planned for higher Special Education classified aides cost at July 1<sup>st</sup>, these costs did not occur which saved \$18,945 in the budget.
- ❑ The July 1<sup>st</sup> budget did not include the Book adoption, nor the increase in Special Education services.

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 28, 2017. 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 Parent Club donated an extra one-time \$20,000 for new material/supplies and additional instructional programs.
- ❑ The District's Federal funds were decreased by 11%, but one time state revenue increased by 20%.

## **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 Gross, P.O. Box H, 50 Ocean Street, Davenport, CA 95017, phone 831-425-7002.

## FINANCIAL SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Cash and equivalents	\$ 1,253,106
Accounts receivable	156,807
Prepaid expenses	12,693
Capital assets:	
Depreciable, net of accumulated depreciation	1,390,580
Total Assets	\$ 2,813,186
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources - Pensions	\$ 275,979
Total Deferred Outflows of Resources	\$ 275,979
<b>LIABILITIES</b>	
Accounts payable	\$ 120,409
Interest payable	12,798
Long-term debt:	
Due within one year	139,583
Due after one year	1,802,620
Total Liabilities	\$ 2,075,410
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - Pensions	\$ 418,125
Total Deferred Inflows of Resources	\$ 418,125
<b>NET POSITION</b>	
Net Investment in capital assets	\$ 562,109
Restricted for:	
Capital projects	111,412
Debt service	26,375
Educational programs	217,224
Other purposes (expendable)	26,539
Unrestricted	(348,029)
Total Net Position	\$ 595,630

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position
				Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>				
Instruction	\$ 1,022,279	\$ 12,009	\$ 185,824	\$ (824,446)
Instruction-related services:				
Supervision of instruction	8,784	-	5,674	(3,110)
Instructional library, media and technology	14,662	-	-	(14,662)
School site administration	182,822	37	5,660	(177,125)
Pupil services:				
Food services	93,215	39,340	27,599	(26,276)
All other pupil services	57,193	5,503	16,954	(34,736)
General administration:				
Data processing	1,277	-	-	(1,277)
All other general administration	115,536	-	6,300	(109,236)
Plant services	88,968	131	130,871	42,034
Facility acquisition and construction	-	29,630	30,521	60,151
Community services	35,498	-	-	(35,498)
Transfers between agencies	102	-	-	(102)
Interest on long-term debt	54,038	-	-	(54,038)
Other outgo	-	185	191	376
<b>Total Governmental Activities</b>	<b>\$ 1,674,374</b>	<b>\$ 86,835</b>	<b>\$ 409,594</b>	<b>(1,177,945)</b>
<b>GENERAL REVENUES</b>				
Taxes and subventions:				
Property taxes levied for general purposes				235,450
Property taxes levied for debt service				40,884
Federal and state aid not restricted to specific purposes				740,843
Interest and investment earnings				9,587
Interagency revenues				2,096
Miscellaneous				92,567
<b>Total General Revenues</b>				<b>1,121,427</b>
Change in Net Position				(56,518)
Net Position - Beginning				652,148
Net Position - Ending				<b>\$ 595,630</b>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and equivalents	\$ 1,043,978	\$ 112,977	\$ 96,151	\$ 1,253,106
Accounts receivable	151,406	-	5,401	156,807
Prepaid expenditures	10,380	-	2,313	12,693
<b>Total Assets</b>	<b>\$ 1,205,764</b>	<b>\$ 112,977</b>	<b>\$ 103,865</b>	<b>\$ 1,422,606</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 95,134	\$ 3,900	\$ 21,375	\$ 120,409
<b>Total Liabilities</b>	<b>95,134</b>	<b>3,900</b>	<b>21,375</b>	<b>120,409</b>
<b>FUND BALANCES</b>				
Non spendable				
Prepaid expenditures	10,380	-	2,313	12,693
Restricted	189,983	109,077	74,994	374,054
Committed				
Other commitments	-	-	7,033	7,033
Assigned				
Other assignments	417,522	-	(1,850)	415,672
Unassigned				
Unassigned amount	492,745	-	-	492,745
<b>Total Fund Balance</b>	<b>1,110,630</b>	<b>109,077</b>	<b>82,490</b>	<b>1,302,197</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,205,764</b>	<b>\$ 112,977</b>	<b>\$ 103,865</b>	<b>\$ 1,422,606</b>

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2017

	Detail	Total
Total fund balances - governmental funds		\$ 1,302,197
Amounts reported for governmental activities in the Statement of Net Position differ from amounts reported in governmental funds as follows:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Historical cost of capital assets	\$ 2,137,244	
Accumulated depreciation	(746,664)	
		1,390,580
Interest on long-term debt is not reported in the governmental funds until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liabilities for the unmatured interest owing at the end of the period are included on the Statement of Net Position.		(12,798)
Contributions to pension plans made subsequent to the measurement date are reported as expenditures in governmental funds, however, these contributions are reported as deferred outflows of resources in the statement of net position.		132,492
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities, net of unamortized premiums, discounts, and deferred charges, are included in the Statement of Net Position.		
General obligation bonds payable	(919,408)	
Premium on general obligation bonds	(96,888)	
Net pension liability	(925,907)	
		(1,942,203)
The District's share of net differences between actual and expected experience are reported in the statement of net position as deferred outflows of resources.		26,602
The District's share of changes in assumptions are reported in the statement of net position as deferred inflows of resources.		(8,526)
The District's Change in employer's proportion and difference between the employer's contributions and the employer's proportionate share contributions are reported in the statement of net position as deferred inflows of resources.		(142,734)
The District's share of net differences between projected and actual earnings on plan investments are reported in the statement of net position as deferred inflows and deferred outflows of resources.		(149,980)
Total net position, governmental activities		\$ 595,630

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, 2017

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local control sources:				
State apportionments	\$ 695,615	\$ -	\$ -	\$ 695,615
Local sources	230,450	-	5,000	235,450
Federal	45,839	-	23,471	69,310
Other state	229,879	-	49,424	279,303
Other local	171,053	1,614	165,511	338,178
<b>Total Revenues</b>	<b>1,372,836</b>	<b>1,614</b>	<b>243,406</b>	<b>1,617,856</b>
<b>EXPENDITURES</b>				
Instruction	781,344	-	116,569	897,913
Instruction related services:				
Supervision of instruction	8,445	-	-	8,445
Instructional library, media, and technology	14,662	-	-	14,662
School site administration	172,632	-	242	172,874
Pupil services:				
Food services	-	-	87,417	87,417
All other pupil services	57,193	-	-	57,193
General administration:				
Data processing	1,277	-	-	1,277
All other general administration	107,063	-	-	107,063
Plant services	83,947	-	5,021	88,968
Facility acquisition and construction	-	192,076	-	192,076
Community services	32,424	-	-	32,424
Transfers between agencies	102	-	-	102
Interest on long-term debt	-	-	35,593	35,593
<b>Total Expenditures</b>	<b>1,259,089</b>	<b>192,076</b>	<b>244,842</b>	<b>1,696,007</b>
Excess (deficiency) of revenues over (under) expenditures	113,747	(190,462)	(1,436)	(78,151)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	-	10,153	10,153
Operating transfers out	(8,953)	-	(1,200)	(10,153)
<b>Total Other Financing Sources (Uses)</b>	<b>(8,953)</b>	<b>-</b>	<b>8,953</b>	<b>-</b>
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	104,794	(190,462)	7,517	(78,151)
Fund Balance - Beginning	1,005,836	299,539	74,973	1,380,348
Fund Balance - Ending	<u>\$ 1,110,630</u>	<u>\$ 109,077</u>	<u>\$ 82,490</u>	<u>\$ 1,302,197</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, 2017

	Detail	Total
Total change in fund balances - governmental funds		\$ (78,151)
<p>Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:</p>		
<p>Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay	\$ 192,076	
Depreciation expense	(65,217)	
		126,859
<p>Accreted interest on capital appreciation bonds is accrued as long-term debt in the government wide financials, increasing interest expense.</p>		
		(25,536)
<p>Repayment of the principal of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.</p>		
Premium on general obligation bonds		7,091
<p>Contributions to pension plans made subsequent to the measurement date are reported as expenditures in governmental funds, however, these contributions are reported as deferred outflows of resources in the statement of net position.</p>		
		132,492
<p>Changes in the net pension liability, deferred outflows of and deferred inflows of resources are reported as pension expenses in the statement of activities.</p>		
		(219,273)
Change in net position of governmental activities		\$ (56,518)

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**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.   Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The following is a summary of the upcoming Governmental Accounting Standards Board (GASB) Statements that may have an impact on the District's future reporting at the time of this report in order of implementation date.

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2017, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB. The statement also establishes requirements for reporting information about financial support provided by certain non-employer entities for OPEB that is provided to the employees of other entities. This statement is closely related in some areas to Statement No. 74.

This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for the year ended June 30, 2018 and will result in a significant increase in the District's liabilities.

Statement No. 81, Irrevocable Split-Interest Agreements

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement establishes guidance in order to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73

In March 2016, the GASB issued Statement No. 82 *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except in specific circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the Statement is effective for the employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

Statement No. 83, *Certain Asset Retirement Obligations*

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's), which is a legally enforceable liability associated with the retirement of a tangible capital asset.

This Statement is effective for periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement is effective for reporting periods beginning after December 15, 2018.

Statement No. 85, *Omnibus 2017*

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurements and application, pensions and other postemployment benefits.

This Statement is effective for periods beginning after June 15, 2017.

Statement No. 86, *Certain Debt Extinguishment Issues*

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement is to improve consistency in accounting and financial reporting for in substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for periods beginning after June 15, 2017.

Statement No. 87, *Leases*

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The District will analyze the impact of these new Statements prior to the effective dates listed above.

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, 2017

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

**E. Basis of Presentation**

**1. Government-Wide Financial Statements**

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

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

**2. Fund Financial Statements**

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

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

The District's accounts are organized into major and non-major governmental funds as follows:

**a. Major Governmental Funds**

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

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

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

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

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

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

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

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

c. Proprietary Funds

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

*Enterprise Funds* are used to account for services provided to users on a cost-recovery basis. The District maintains the following non-major enterprise fund:

The *Cafeteria Enterprise Fund* is used to account for revenues received and expenditures made to operate the District cafeterias.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

**F.   Basis of Accounting**

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

**1.   Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectable within the current period or with 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions are those in which the District receives value without directly giving equal value in return; include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**2.   Unearned Revenue**

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



PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

3. Expenses/Expenditures

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

G. Budgets and Budgetary Accounting

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

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

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Encumbrances

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

I. Assets, Liabilities, and Equity

1. Cash and Equivalents

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

2. Receivables

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

3. Prepaid Expenditures

The District has the option of reporting expenditures for prepaid items in governmental funds either when paid or during the benefiting period. The District has chosen to report the expenditure when paid and, therefore, no asset is reported.

4. Capital Assets

Capital assets are those purchased or acquired with an original cost of \$20,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis and an annual convention over the following estimated useful lives:

Land improvements	20
Buildings and improvements	20 - 50

5. Compensated Absences

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

6. Pensions

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

7. Accrued Liabilities and Long-Term Obligations

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

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

8. Deferred Outflows/Inflows of Resources

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

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

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

c. Committed Fund Balance

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

d. Assigned Fund Balance

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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

Constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority. The action may be delegated to another body or official.

e. Unassigned Fund Balance and Minimum Fund Balance Policy

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

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

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The Board intends to maintain a minimum fund balance of 10% of the District's General Fund annual operating expenditures. If a fund balance drops below 10%, it shall be recovered at a rate of 1% minimally, each year.

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

10. Local Control Funding Formula / Property Taxes

The District's local control funding formula revenue is received from a combination of local property taxes, state apportionments, and other local sources.

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

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

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

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

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

**J.   Investment Valuation**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Cash in County Treasury pools are measured at fair value using level 1 inputs. Fair market value adjustments have not been recorded as they are determined immaterial to the District.

**K.   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 AND EQUIVALENTS**

Cash and equivalents at June 30, 2017 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Equivalents	
Pooled Funds:	
Cash in county treasury	\$ 1,253,106
Total Cash and Equivalents	\$ 1,253,106

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 2.**     CASH AND EQUIVALENTS (Continued)

A. Cash in County Treasury

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

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

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

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

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

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.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 2. CASH AND EQUIVALENTS (Continued)**

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

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2017, the weighted average maturity of the investments contained in the Treasury investment pool was 319 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.

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2017, the District's bank balances were fully insured.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 2. CASH AND EQUIVALENTS (Continued)**

**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.

**G. Custodial Credit Risk – Investments**

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

**NOTE 3. INTERFUND TRANSACTIONS**

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

**A. Interfund Transfers**

Permanent reallocations of resources between funds of the reporting District are classified as interfund transfers. As of June 30, 2017, interfund transfers are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Cafeteria Fund	General Fund	\$ 1,000	Recreation Monies to Cafeteria Fund Per Budget
Cafeteria Fund	General Fund	7,953	Transfer old TIIB grant to Cafeteria fund.
Cafeteria Fund	Child Development Fund	1,200	Cover cost of Child Development breakfasts.
Total		<u>\$ 10,153</u>	



PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 4.     CAPITAL ASSETS**

The changes in capital assets for the year ended June 30, 2017, are shown below:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital Assets Not Being Depreciated:				
Construction in progress	\$ 958,528	\$ -	\$ (958,528)	\$ -
Total Capital Assets Not Being Depreciated	<u>958,528</u>	<u>-</u>	<u>(958,528)</u>	<u>-</u>
Capital Assets Being Depreciated:				
Land improvements	115,548	-	-	115,548
Buildings and improvements	871,092	1,150,604	-	2,021,696
Total Capital Assets Being Depreciated	<u>986,640</u>	<u>1,150,604</u>	<u>-</u>	<u>2,137,244</u>
Less Accumulated Depreciation for:				
Land improvements	(115,548)	-	-	(115,548)
Buildings and improvements	(565,899)	(65,217)	-	(631,116)
Total Accumulated Depreciation	<u>(681,447)</u>	<u>(65,217)</u>	<u>-</u>	<u>(746,664)</u>
Total Capital Assets Being Depreciated, Net	<u>305,193</u>	<u>1,085,387</u>	<u>-</u>	<u>1,390,580</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 1,263,721</u>	<u>\$ 1,085,387</u>	<u>\$ (958,528)</u>	<u>\$ 1,390,580</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 65,217</u>
Total Depreciation Expense	<u>\$ 65,217</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 5. GENERAL OBLIGATION BONDS**

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

The outstanding bonded debt of the District as of June 30, 2017 is as follows:

General Obligation Bonds	Date of Issuance	Interest Rate %	Maturity Date August 1	Amount of Original Issue	Outstanding Principal and Accreted Interest June 30, 2016	Current Year Additions	Accreted Interest Current Year	Redeemed Current Year	Balance June 30, 2017
2012 Current Interest	2013	5.25	2052	\$ 585,000	\$ 585,000	\$ -	\$ -	\$ -	\$ 585,000
2012 Capital Appreciation	2013	8.00 - 12.00	2047	1,635,000	308,872	-	25,536	-	334,408
Totals					<u>\$ 893,872</u>	<u>\$ -</u>	<u>\$ 25,536</u>	<u>\$ -</u>	<u>\$ 919,408</u>

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

For the Year Ended June 30:	Principal and Accreted Interest	Future Interest	Total
2018	\$ -	\$ 30,714	\$ 30,714
2019	17,573	33,141	50,714
2020	-	30,714	30,714
2021	-	30,714	30,714
2022	-	30,714	30,714
2023 - 2027	42,774	180,796	223,570
2028 - 2032	54,181	229,389	283,570
2033 - 2037	61,858	311,712	373,570
2038 - 2042	59,691	408,879	468,570
2043 - 2047	56,757	536,813	593,570
2048 - 2052	576,574	499,362	1,075,936
2053	50,000	1,313	51,313
Totals	<u>\$ 919,408</u>	<u>\$ 2,324,260</u>	<u>\$ 3,243,668</u>

The District has sold its bonds at a total net premium of \$124,661. The premiums are being amortized using the straight-line method over the life of the related bond issue as a reduction in annual interest expense. Amortization of \$7,091 was recognized during the 2016-17 fiscal year.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS**

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

**A. California State Teachers' Retirement System**

**1. Plan Description and Provisions**

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalSTRS website.

**2. Benefits Provided**

The plan provides retirement, disability, and survivor benefits to beneficiaries. Beneficiaries of a retired member who elected an option receive a continuing lifetime benefit upon the member's death.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

<u>Hire Date</u>	<u>After January 1, 2013</u>	<u>On or Before December 31, 2012</u>
Benefit Formula	2% @ age 62	2% @ age 60
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Payable upon retirement	Payable upon retirement
Retirement Age	Age 50 with at least 30 years service or age 55 with at least 5 years service	Age 55 with at least 5 years service
Monthly Benefits as a % of Eligible Compensation	Variable based on age factor 2.0% at age 62 to 2.4% maximum	Variable based on age factor 2.0% at age 60 to 2.4% maximum
Required Employee Contribution Rates	9.21%	10.25%
Required Employer Contribution Rates	12.58%	12.58%

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 6.**     PENSION PLANS (Continued)

3. Contributions

Active plan members are required to contribute 9.21% 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 CalSTRS Teachers' Retirement Board.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	\$	44,946
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4. Discount Rate

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

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

	Asset Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global Equity	54.80%	5.58%	6.30%
Private Equity	8.70%	9.54%	9.30%
Real Estate	13.90%	2.98%	5.20%
Inflation Sensitive	1.00%	0.00%	3.80%
Absolute Return	1.80%	0.00%	2.90%
Fixed Income	16.90%	5.59%	0.30%
Liquidity (Cash)	2.90%	1.26%	-1.00%
Total	<u>100%</u>		

5. On Behalf Payment

The State of California makes contributions to STRS on behalf of the District. Under accounting principles generally accepted in the United States of America, these amounts have been recorded as revenue in the government-wide financial statements. For the year ended June 30, 2017 the District has recorded \$43,145 of State on behalf payments as revenue.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS (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, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**2. Benefits Provided**

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. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

<u>Hire Date</u>	<u>After January 1, 2013</u>	<u>On or Before December 31, 2012</u>
Benefit Formula	2% @ age 62	2% @ age or 55
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly	Monthly
Retirement Age	Age 52 with at least 5 years service	Age 50 with at least 5 years service
	Variable based on age factor	Variable based on age factor
Monthly Benefits as a % of Eligible Compensation	2.0% at age 62 to 2.4% maximum	2.0% at age 55 to 2.5% maximum
Required Employee Contribution Rates	6.00%	7.00%
Required Employer Contribution Rates	11.85%	11.85%

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 6.**     PENSION PLANS (Continued)

3. Contributions

Active plan members are required to contribute 6.00% 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.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	\$	19,688
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4. Discount Rate

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

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

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

	Asset Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Entity	51.90%	4.54%	5.71%
Private Equity	9.00%	0.86%	6.95%
Global Fixed Income	20.30%	7.10%	2.43%
Real Assets	10.80%	-0.10%	5.11%
Liquidity	1.50%	1.70%	-1.05%
Inflation	6.00%	NA	3.36%
Absolute Return Strategies	0.10%	3.30%	
Total Plan Level	0.40%	NA	
Total	100%		

(a) an expected inflation of 2.50% used for this period

(b) an expected inflation of 3.00% used for this period

**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.



PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

**D. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

**1. Pension Liability**

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

CalSTRS	\$	649,406
CalPERS		276,501
Total District net pension liability		925,907
State's proportionate share of the CalSTRS net pension liability associated with the District		369,695
Total	\$	1,295,602

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

	CalSTRS	CalPERS
Proportion - June 30, 2015	0.0011%	0.0014%
Proportion - June 30, 2016	0.0008%	0.0014%
Change - Increase (Decrease)	-0.0003%	0.0000%

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

2. Pension Expenses and Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the District recognized pension expense of \$187,224. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 132,492	\$ -
Differences between actual and expected experience	26,602	-
Changes in assumptions	-	(8,526)
Change in employer's proportion and difference between the employer's contributions and the employer's proportionate share contributions	46,675	(189,409)
Net differences between projected and actual earnings on plan investments	70,210	(220,190)
Total	\$ 275,979	\$ (418,125)

The \$132,492 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

<u>For the Year Ended June 30:</u>	
2018	\$ (72,168)
2019	(72,166)
2020	(25,849)
2021	(23,560)
2022	(15,460)
Thereafter	(65,435)
Totals	\$ (274,638)

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

3. Actuarial Assumptions.

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<u>CalSTRS</u>	<u>CalPERS</u>
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Measurement Period	July 1, 2006 to June 30, 2010	July 1, 2015 to June 30, 2016
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.60%	7.65%
Inflation Rate	3.00%	2.75%
Payroll Growth	3.75%	Varies by Entry Age and Service
Investment Rate of Return	7.60%	7.50%
Experience Study / Period Upon Which Actualial Experience Survey Assumptions Were Based	2006-2010	1997-2011
Mortality Rate	RP 2000 Series Tables (Custom CalSTRS rates)	Derived using CalPERS' Membership Data for all Funds
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level DB, Not applicable for DBS/CBB	2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 6. PENSION PLANS (Continued)**

4. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	CalSTRS		CalPERS	
1% Decrease		6.60%		6.65%
Net Pension Liability	\$	934,641	\$	412,541
Current Discount Rate		7.60%		7.65%
Net Pension Liability	\$	649,406	\$	276,501
1% Increase		8.60%		8.65%
Net Pension Liability	\$	412,506	\$	163,221

5. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued financial reports.

**NOTE 7. GENERAL LONG-TERM DEBT – SCHEDULE OF CHANGES**

A schedule of changes in long-term debt for the year ended June 30, 2017 is shown below:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within One Year
General obligation bonds payable	\$ 893,872	\$ 25,536	\$ -	\$ 919,408	\$ -
Premium on general obligation bonds	103,979	-	7,091	96,888	7,091
Net pension liability	946,925	-	21,018	925,907	132,492
Totals	\$ 1,944,776	\$ 25,536	\$ 28,109	\$ 1,942,203	\$ 139,583

General obligation bonds issued for governmental activity purposes are liquidated by the Bond Interest and Redemption Fund. The net pension liability is liquidated from the funds for which the related employees are compensated.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 8.     RESTRICTED NET POSITION**

The government-wide statement of net position reports \$381,550 of restricted net position, of which \$26,375 is restricted by enabling legislation.

**NOTE 9.     STUDENT ORGANIZATIONS**

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

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

**NOTE 10.    PACIFIC SCHOOL FOUNDATION**

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

During the year ended June 30, 2017, PSF provided support in the amount of \$36,474 to the District. PSF donations covered salary and benefits for Classroom Aides; Instructors for Visual and Performing Arts and costs for the Life Lab program. This was a slight increase from the prior year.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 11. JOINT POWERS AGREEMENTS**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2017, 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) arrange for and provide property and liability insurance coverage for its member agencies.
- The Santa Cruz - San Benito County Schools Insurance Group (SC-SBCSIG) is an insurance purchasing pool, the intent of which is to achieve the benefits of a reduced premium for the member agencies by virtue of its grouping and representation with other participants in the SC-SBCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SC-SBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity-pooling fund" arrangement insures that each participant shares equally in the overall performance of the SC-SBCSIG.
- The Self-Insured Schools of California (SISC) SISC III arranges for and provides medical insurance coverage for its member school districts.
- The Santa Cruz County School Health Insurance Group (HIG) arranges for and provides dental and vision insurance coverage for its member school districts.

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

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

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

**NOTE 12.**     STATE TEACHERS' RETIREMENT SYSTEM EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2016/2017, pursuant to California Education Code, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

**NOTE 13.**     COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

B. Litigation

As of June 30, 2017 the District is not currently involved in any litigation.

C. Commitments

As of June 30, 2017 the District had no material commitments outstanding.

**NOTE 14.**     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 January 22, 2018 and concluded that no subsequent event(s) have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION



PACIFIC ELEMENTARY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Local control sources:				
State apportionments	\$ 742,381	\$ 714,878	\$ 695,615	\$ (19,263)
Local sources	166,532	213,970	230,450	16,480
Federal	40,465	47,239	45,839	(1,400)
Other state	137,342	94,166	229,879	135,713
Other local	122,777	151,079	171,053	19,974
<b>Total Revenues</b>	<b>1,209,497</b>	<b>1,221,332</b>	<b>1,372,836</b>	<b>151,504</b>
<b>EXPENDITURES</b>				
Certificated salaries	473,810	510,016	509,884	132
Classified salaries	191,322	206,193	183,570	22,623
Employee benefits	279,644	279,980	268,471	11,509
Books and supplies	33,847	58,005	55,562	2,443
Services and other operating expenditures	183,394	250,710	241,500	9,210
Capital outlay	25,349	-	-	-
Other outgo	250	250	102	148
<b>Total Expenditures</b>	<b>1,187,616</b>	<b>1,305,154</b>	<b>1,259,089</b>	<b>46,065</b>
Excess (deficiency) of revenues over expenditures before other financing Sources (uses)	21,881	(83,822)	113,747	197,569
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(7,073)	(8,953)	(8,953)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(7,073)</b>	<b>(8,953)</b>	<b>(8,953)</b>	<b>-</b>
<b>Net Increase (Decrease) in Fund Balance</b>	<b>14,808</b>	<b>(92,775)</b>	<b>104,794</b>	<b>197,569</b>
Fund Balance - Beginning	1,005,836	1,005,836	1,005,836	-
<b>Fund Balance - Ending</b>	<b>\$ 1,020,644</b>	<b>\$ 913,061</b>	<b>\$ 1,110,630</b>	<b>\$ 197,569</b>

See accompanying notes to required supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>CalSTRS</b>			
District's proportion of the net pension liability	0.0010%	0.0011%	0.0008%
District's proportionate share of the net pension liability	\$ 584,370	\$ 740,564	\$ 649,406
State's proportionate share of the net pension liability associated with the District	352,871	391,642	369,695
Total	<u>\$ 937,241</u>	<u>\$ 1,132,206</u>	<u>\$ 1,019,101</u>
District's covered employee payroll	\$ 449,758	\$ 456,036	\$ 418,882
District's proportionate Share of the net pension liability as a percentage of covered-employee payroll	130%	162%	155%
Plan's fiduciary net position	\$ 190,474,000,000	\$ 191,822,000,000	\$ 189,113,000,000
Plan fiduciary net position as a percentage of the total pension liability	77%	77%	70%
<b>CalPERS</b>			
District's proportion of the net pension liability	0.0014%	0.0014%	0.0014%
District's proportionate share of the net pension liability	\$ 158,934	\$ 206,361	\$ 276,501
District's covered employee payroll	\$ 150,673	\$ 160,578	\$ 166,186
District's proportionate Share of the net pension liability as a percentage of covered-employee payroll	105%	129%	166%
Plan's fiduciary net position	\$ 56,940,364,500	\$ 56,911,065,643	\$ 55,912,964,588
Plan fiduciary net position as a percentage of the total pension liability	83%	84%	74%

See accompanying notes to required supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>CalSTRS</b>			
Contractually required contribution (actuarially determined)	\$ 36,812	\$ 45,005	\$ 40,516
Contributions in relation to the actuarially determined contributions	<u>37,105</u>	<u>40,496</u>	<u>44,946</u>
Contribution deficiency (excess)	<u>\$ (293)</u>	<u>\$ 4,509</u>	<u>\$ (4,430)</u>
Covered-employee payroll	\$ 449,758	\$ 456,036	\$ 418,882
Contributions as a percentage of covered-employee payroll	8.25%	8.88%	10.73%
<b>CalPERS</b>			
Contractually required contribution (actuarially determined)	\$ 17,200	\$ 18,873	\$ 19,571
Contributions in relation to the actuarially determined contributions	<u>17,237</u>	<u>18,900</u>	<u>19,688</u>
Contribution deficiency (excess)	<u>\$ (37)</u>	<u>\$ (27)</u>	<u>\$ (117)</u>
Covered-employee payroll	\$ 150,673	\$ 160,578	\$ 166,186
Contributions as a percentage of covered-employee payroll	11.44%	11.77%	11.85%

See accompanying notes to required supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017

**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.

**B. Schedule of the District's Proportionate Share of the Net Pension Liability**

The Schedule of the District's Share of the Net Pension Liability presents multi-year trend information which compares, over time, the District's proportionate share of the net pension liability as a percent of covered-employee payroll. This Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented.

**1. Changes in Benefits Terms:**

**a. California State Teachers' Retirement System (CalSTRS)**

The California Pension Employees' Pension Reform Act of 2013 (PEPRA) resulted in a new benefit formula, CalSTRS 2% at 62, for members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. Significant changes compared to the CalSTRS 2% at 60 benefit formula include rising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120 percent of the Social Security wage base, annually adjusted for changes in the Consumer Price Index.

**b. California Public Employees' Retirement System (CalPERS)**

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017

**NOTE 1.**     PURPOSE OF REQUIRED SUPPLEMENTARY INFORMATION (Continued)

2. Changes in Assumptions:

a. CalSTRS

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. There were no changes in major assumptions.

b. CalPERS

For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The discount rate was changed from 7.50 percent (net of administrative expense in 2015) to 7.65 percent as of the June 30, 2016 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

C. Schedule of the District's Plan Contributions

The Schedule of the District's Plan Contributions presents multi-year trend information which compares, over time, required contributions and actual contributions as a percent of covered-employee payroll. This Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented, as the current year information from the plan was not available. The excess or deficiency of contributions in relation to the actuarially determined contributions has not been recorded as deferred inflows or outflows as they have been determined immaterial.

**NOTE 2.**     EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2017, there were no excess expenditures over appropriations.

SUPPLEMENTARY INFORMATION SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT  
COMBINING BALANCE SHEET  
JUNE 30, 2017

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Other Governmental Funds
<b>ASSETS</b>						
Cash and equivalents	\$ 43,257	\$ 17,151	\$ 7,033	\$ 2,335	\$ 26,375	\$ 96,151
Accounts receivable	990	4,411	-	-	-	5,401
Prepaid expenditures	1,850	463	-	-	-	2,313
<b>Total Assets</b>	<b>\$ 46,097</b>	<b>\$ 22,025</b>	<b>\$ 7,033</b>	<b>\$ 2,335</b>	<b>\$ 26,375</b>	<b>\$ 103,865</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 18,856	\$ 2,519	\$ -	\$ -	\$ -	\$ 21,375
<b>Total Liabilities</b>	<b>18,856</b>	<b>2,519</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,375</b>
<b>Fund Balance:</b>						
<b>Non spendable</b>						
Prepaid expenditures	1,850	463	-	-	-	2,313
Restricted	27,241	19,043	-	2,335	26,375	74,994
Other commitments	-	-	7,033	-	-	7,033
<b>Total Fund Balance</b>	<b>27,241</b>	<b>19,506</b>	<b>7,033</b>	<b>2,335</b>	<b>26,375</b>	<b>82,490</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 46,097</b>	<b>\$ 22,025</b>	<b>\$ 7,033</b>	<b>\$ 2,335</b>	<b>\$ 26,375</b>	<b>\$ 103,865</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, 2017

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Other Governmental Funds
<b>REVENUES</b>						
Local control sources:						
Local sources	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ 5,000
Federal	-	23,471	-	-	-	23,471
Other state	47,738	1,498	-	-	188	49,424
Other local	70,704	53,963	37	20	40,787	165,511
<b>Total Revenues</b>	<b>118,442</b>	<b>78,932</b>	<b>5,037</b>	<b>20</b>	<b>40,975</b>	<b>243,406</b>
<b>EXPENDITURES</b>						
Classified salaries	69,934	35,032	-	-	-	104,966
Employee benefits	40,972	12,816	-	-	-	53,788
Books and supplies	5,663	37,439	-	-	-	43,102
Services and other operating expenditures	1,088	2,130	4,175	-	-	7,393
Interest	-	-	-	-	35,593	35,593
<b>Total Expenditures</b>	<b>117,657</b>	<b>87,417</b>	<b>4,175</b>	<b>-</b>	<b>35,593</b>	<b>244,842</b>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	785	(8,485)	862	20	5,382	(1,436)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	10,153	-	-	-	10,153
Transfers out	(1,200)	-	-	-	-	(1,200)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,200)</b>	<b>10,153</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,953</b>
<b>Net Increase (Decrease) in Fund Balance</b>	<b>(415)</b>	<b>1,668</b>	<b>862</b>	<b>20</b>	<b>5,382</b>	<b>7,517</b>
Fund Balance - Beginning	27,656	17,838	6,171	2,315	20,993	74,973
Fund Balance - Ending	\$ 27,241	\$ 19,506	\$ 7,033	\$ 2,335	\$ 26,375	\$ 82,490

See accompanying notes to supplementary information.



PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2017

	Second Period Report			Annual Report		
	Original	Audit Adjustment	Revised	Original	Audit Adjustment	Revised
Grades TK / K-3:						
Regular Average Daily Attendance	63.14	(1.00)	62.14	63.30	(1.00)	62.30
Grades TK / K-3 Totals	<u>63.14</u>	<u>(1.00)</u>	<u>62.14</u>	<u>63.30</u>	<u>(1.00)</u>	<u>62.30</u>
Grades 4 - 6:						
Regular Average Daily Attendance	38.27	-	38.27	38.80	-	38.80
Grades 4 - 6 Totals	<u>38.27</u>	<u>-</u>	<u>38.27</u>	<u>38.80</u>	<u>-</u>	<u>38.80</u>
Total ADA	<u><u>101.41</u></u>	<u><u>(1.00)</u></u>	<u><u>100.41</u></u>	<u><u>102.10</u></u>	<u><u>(1.00)</u></u>	<u><u>101.10</u></u>

The Attendance Accounting for Independent Study finding referenced 2017-001 has been revised and reflected in the Original P-2 and Annual columns, therefor no additional revision is necessary.

The Kindergarten Continuance finding referenced 2017-002 has not been revised and is reflected in the Audit Adjustment columns above, therefor an additional revision is necessary.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME  
 FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	Minutes Requirement	2016/2017 Actual Minutes	Number of Days Traditional Calendar <sup>1</sup>	Status
Kindergarten	36,000	43,200	180	In Compliance
Grade one	50,400	52,000	180	In Compliance
Grade two	50,400	52,000	180	In Compliance
Grade three	50,400	51,316	180	In Compliance
Grade four	54,000	55,550	180	In Compliance
Grade five	54,000	55,550	180	In Compliance
Grade six	54,000	55,550	180	In Compliance

<sup>1</sup> The District did not utilize a multitrack calendar during the 2016/2017 year.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

General Fund:	(Budgeted) *			
	2017/2018	2016/2017	2015/2016	2014/2015
Revenues and Other Financing Sources	\$ 1,281,407	\$ 1,372,836	\$ 1,292,605	\$ 1,060,534
Expenditures	1,230,043	1,259,089	1,175,223	1,063,191
Other Uses and Transfers Out	10,500	8,953	7,073	349,500
Total Outgo	1,240,543	1,268,042	1,182,296	1,412,691
Change in Fund Balance	40,864	104,794	110,309	(352,157)
Ending Fund Balance	\$ 1,151,494	\$ 1,110,630	\$ 1,005,836	\$ 895,527
Available Reserves <sup>1</sup>	\$ 533,337	\$ 492,745	\$ 523,846	\$ 532,660
Reserve for Economic Uncertainties	\$ -	\$ -	\$ 75,000	\$ 75,000
Unassigned Fund Balance	\$ 533,337	\$ 492,745	\$ 448,846	\$ 457,660
Available Reserves as a percentage of Total Outgo	43.0%	38.9%	44.3%	37.7%
Total Long-Term Debt	\$ 1,802,620	\$ 1,942,203	\$ 1,944,776	\$ 1,724,678
Average Daily Attendance at P-2	114	101	110	102

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 increased by \$215,103 over the past two years. The District has incurred an operating deficit in one of the past three years. The 2017/2018 General Fund budget projects a increase of \$40,864 (3.7%).

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

Total long-term debt has increased by \$217,525 over the past two years.

Average daily attendance has decreased by 1 ADA over the past two years. The ADA is anticipated to increase 13 ADA during the fiscal year 2017/2018.

\* The 2017/2018 budget is included for analytical purposes only and has not been subjected to audit.

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

PACIFIC ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND  
BUDGET REPORT (SACS) WITH AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects *
June 30, 2017 Annual Financial and Budget Report (SACS) Fund Balance	\$ 893,667	\$ 216,963
Adjustments and Reclassifications:		
Reclassification for financial statement presentation	216,963	(216,963)
June 30, 2017 Audited Financial Statement Fund Balance	\$ 1,110,630	\$ -

\* 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.

	Long-Term Debt
June 30, 2017 Annual Financial and Budget Report (SACS) Long-Term Debt	\$ 1,845,315
Adjustments and Reclassifications:	
Long-Term Debt:	
Premium on general obligation bonds	96,888
June 30, 2017 Audited Financial Statement Balance	\$ 1,942,203

See accompanying notes to supplementary information.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017

**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**

This schedule presents information on the amount of instructional time and number of days offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46208. The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day, and has not met its local control funding formula target.

**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, 2017. The District has not authorized any Charter Schools; therefore this schedule has not been included for 2016/2017.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pacific Elementary School District  
Davenport, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Elementary School District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 22, 2018.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying findings and responses that we consider to be significant deficiencies, as items 2017-001, 2017-002 and 2017-003.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying findings and responses, as items 2017-001, 2017-002 and 2017-003.

## **District's Response to Findings**

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

## **Purpose of this Report**

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

*Robertson & Associates, CPAs*

Lakeport, California  
January 22, 2018



Board of Trustees  
Pacific Elementary School District  
Davenport, California

## **Compliance**

We have audited Pacific Elementary School District (District)'s compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a material effect on each of the District's state programs for the year ended June 30, 2017.

## **Management's Responsibility**

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

## **Auditor's Responsibility**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct 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 Performed
<b>Local Education Agencies Other Than Charter Schools:</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, See Below
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, See Below
Mental Health Expenditures	Yes
<b>School Districts, County Office of Education and Charter Schools</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	No, See Below
<b>Charter Schools</b>	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study For Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

The term "Not Applicable" used above is to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform testing for Ratios of Administrative Employees to Teachers because the District has one or fewer administrators.

We did not perform testing for Transportation Maintenance of Effort because there were no expenditures in 2012/2013.

We did not perform testing for Immunizations because the District was not listed on the California Department of Public Health (CDPH) list of schools that would require testing.

### **Basis for Qualified Opinion on State**

As described in the accompanying schedule of findings and responses, the District did not comply with compliance requirements regarding Attendance, Kindergarten Continuance and Instructional Materials as described items 2017-001, 2017-002 and 2017- 003. Compliance with such requirements is necessary, in our opinion, for Pacific Elementary School District to comply with state laws and regulations applicable to that program.

### **Qualified Opinion on State Programs**

In our opinion, except for the noncompliance with Attendance, Kindergarten Continuance and Instructional Materials identified in the schedule of findings and responses, as items 2017-001, 2017-002 and 2017- 003, Pacific Elementary School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2017.

### **Unmodified Opinion on Each of the other State Programs**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the state compliance programs identified in the table above for the year ended June 30, 2017.

### **District's Response to Findings**

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

*Robinson & Associates, CPAs*

Lakeport, California  
January 22, 2018

## FINDINGS AND RESPONSES SECTION

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017

**Financial Statement Findings**

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

**Federal Award Findings and Questioned Costs**

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

**State Award Findings and Questioned Costs**

**2017-001      Attendance Accounting for Independent Study / State Code 10000 Attendance**

Criteria

Education Code 46300, 51747 to 51748, *Title 5, CCR* Sections 11700 to 11703 requires that independent study pupils, while enrolled in a district or county office of education's school, must comply with all statutory and regulatory conditions of apportionment.

Condition

The District is recording the long-term independence Study on a negative based attendance. The District is recording absences and recording independent study credit, therefore not following the board approved independent study codes for recording long-term independent study complete or incomplete.

These days cannot be recorded as unexcused or excused absences because the pupil is not absent, but on independent study – the days are either apportionment or non-apportionment days. The attendance recorded for these independent study days remain as non-apportionment days until the student work is evaluated by the supervising teacher, at which point the attendance record is changed to reflect independent study apportionment for each ADA credit given by the supervising teacher. Non-credited days are to remain as independent study non-apportionment, not unexcused.

It was also noted that there was one pupil placed on independent study for short-term disabilities (i.e. broken arm, surgery, physical therapy).

After the District did a full review and revision it is noted that supervising teacher has evaluated and granted 100% IS credit for all pupils for the year.

Effect

The District is out of compliance with state regulations.

Cause

The District staff was unaware of the all the laws and regulations for reporting independent study attendance.

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-001      Attendance Accounting for Independent Study / State Code 10000 Attendance**  
(Continued)

Questioned Cost

The Attendance Accounting for Independent Study has been revised and reflected in the Original P-2 and Annual columns on the Schedule of Average Daily Attendance, therefore no additional revision is necessary. The estimated questioned cost if the District had not revised are stated below:

<b>Second Period Report</b>	Grade Span		Total
	Grade K-3	Grade 4-6	
Overstated / (Understated) ADA	0.42	0.14	
Base Grant per ADA	\$ 7,083	\$ 7,189	
Questioned Cost by Grade Span	<u>\$ 2,975</u>	<u>\$ 1,006</u>	<u>\$ 3,981</u>

<b>Annual Report</b>	Grade Span		Total
	Grade K-3	Grade 4-6	
Overstated / (Understated) ADA	0.52	0.24	
Base Grant per ADA	\$ 7,083	\$ 7,189	
Questioned Cost by Grade Span	<u>\$ 3,683</u>	<u>\$ 1,725</u>	<u>\$ 5,409</u>

Recommendation

The District should review the compliance requirements for independent study attendance accounting. In addition, the District should also review the independence study Board policies and guidelines to claim ADA

District Response and Action Plan

The District will review and if needed modify Board Policies regarding Independent Studies. The District and Auditor have spoken to the Attendance Software Vendor and have modified the coding for IS apportionment days to reflect positive attendance method for apportionment. In FYE 17/18, the District sent the registrar/attendance personnel to two CASBO sponsored Attendance workshops (Attendance Accounting for Site Personnel and the Independence Study workshop).

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-002      Kindergarten Continuance / State Code 40000 State Compliance**

Criteria

Kindergarten continuance is defined as more than one school year in kindergarten. EC Section 48011 requires a child who has completed a year of kindergarten to be promoted to first grade, unless the parent or guardian and the district agree that the child may continue in kindergarten not more than one additional school year.

Condition

The District had one student that was retained in the current year. The District had on file a kindergarten continuance form but was missing the required date of the parent / guardian signature line.

Effect

Loss of apportionment.

Cause

The form indicates there should be a date for the parent / guardian and which was inadvertently was left off.

Questioned Cost

The Kindergarten Continuance apportionment has not been revised and is reflected in the Audit Adjustment columns on the Schedule of Average Daily Attendance, therefor an additional revision is necessary. The questioned cost is calculated as follows:

<b>Second Period Report</b>	<u>Grade Span</u>	
	<u>Grade K-3</u>	<u>Total</u>
(Overstated) / Understated ADA	<u>(1.00)</u>	
Base Grant per ADA	<u>\$ 7,083</u>	
Questioned Cost by Grade Span	<u>\$ (7,083)</u>	<u>\$ (7,083)</u>

<b>Annual Report</b>	<u>Grade Span</u>	
	<u>Grade K-3</u>	<u>Total</u>
(Overstated) / Understated ADA	<u>(1.00)</u>	
Base Grant per ADA	<u>\$ 7,083</u>	
Questioned Cost by Grade Span	<u>\$ (7,083)</u>	<u>\$ (7,083)</u>

PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-002      Kindergarten Continuance / State Code 40000 State Compliance** (Continued)

Recommendation

The District should take steps to ensure that kindergarten continuance forms are accurate and completed with dates and signatures. The District should revise the P-2 and Annual reports of attendance to the State to reflect a reduction in kindergarten ADA of 1.0 and 1.0, respectively.

District Response and Action Plan

The District will amend 2016/17 P-2 and Annual Attendance reports to reflect 1 ADA less in grade K-3. The District will review any Kindergarten continuance forms to ensure they are completed accurately.



PACIFIC ELEMENTARY SCHOOL DISTRICT  
FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-003      Instructional Materials / State Code 70000 Instructional Materials**

Criteria

Education Code §60119(b) states - the hearing shall be held at a time that will encourage the attendance of teachers and parents and guardians of pupils who attend the schools in the district and shall not take place during or immediately following school hours.

Condition

The District's governing board held the required public hearing at 9 AM, which is during school hours and, therefore, doesn't allow for the attendance of teachers and parents and guardians of pupils.

Effect

The District is out of compliance with State requirements which could jeopardize program funding.

Cause

The District did not follow all Instructional Materials requirements.

Recommendation

The District's governing board should hold the public hearing at a time that will encourage the attendance of teachers and parents and guardians of pupils to attend.

District Response and Action Plan

The District will be sure to have the Public Hearings during the appropriate times (not during regular school hours and times not immediately following regular school hours).

PACIFIC ELEMENTARY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017

Finding/Recommendation	Current Status	District Explanation, If Not Implemented
<p>2016-001    The attendance clerk inadvertently left the short-term independent study code as pending when the P-2 was filed. Therefor the attendance was under reported by .54 for P-2. The Annual report was reported correctly.</p> <p>The District should review attendance monthly to verify that the short-term independent study has been accounted for correctly. The District has revised the P-2.</p>	<p>Partially Implemented</p>	<p>See recommendation 2017-001.</p>