

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Pajaro Valley Unified School District
Watsonville, 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 Pajaro Valley Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. 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 entity'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 entity'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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has resulted in a reclassification of refunding costs. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pajaro Valley Unified School District's basic financial statements. The other supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards which required by the U.S. Office of Management Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

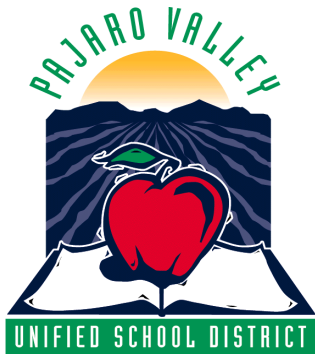
The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the Pajaro Valley Unified School 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 Pajaro Valley Unified School District's internal control over financial reporting and compliance.



Palo Alto, California
December 15, 2014



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

294 Green Valley Road, Watsonville, CA 95076
(831) 786-2100

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis section of the 2013-2014 Annual Financial Audit summarizes the District's financial performance during the 2013-2014 fiscal year ending June 30, 2014. The District's financial systems and reporting adhere to standards and requirements prescribed under the Governmental Accounting Standards Board (GASB), State Board of Education, federal law, and the California *Education Code*.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Pajaro Valley Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

- The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present major governmental activities in accordance with accrual accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables, and receivables.
- The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.
- The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The *Proprietary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.
- The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

The Pajaro Valley Unified School District is the primary governmental agency represented in this audit. The District also includes five charter schools established and overseen pursuant to the *Education Code*. They include Linscott Elementary, Watsonville School of the Arts, Pacific Coast Charter School, Alianza Charter School, and Academic Vocational Charter Institute. Financial information for the charter schools is included in the special revenue, charter school fund of the District. Separately issued financial statements for the charter schools are not prepared.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the District as a whole and its activities. These statements include all assets and liabilities using the accrual basis of accounting. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. These statements are one measure of the District's financial health and position. Over time, increases or decreases in the District's net position is one indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

Overall, these factors are subject to significant influences from state and federal education funding policies. As a result of current economic conditions, they have undergone dramatic fluctuations over the past five fiscal years. These changes have largely been unforeseen and unprecedented. Projections indicate this condition will continue over the next two fiscal years.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to all students, and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the instructional program, academic achievement among students, and the safety and condition of school facilities are important components in the evaluation of District effectiveness.

In the *Statement of Net Position* and the *Statement of Activities*, we include the District activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, other student services, and the on-going effort to improve and maintain buildings and sites. Property taxes, state education funding, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state law and by general obligation bond covenants. In addition, District leadership establishes many other funds to provide appropriate fiscal control and accountability to manage money for particular purposes. Specified funds will also provide legally required reporting demonstrating the District's compliance with state and federal education funding requirements and other legal/statutory guidelines.

Governmental Funds - Most of the District's basic services are reported in governmental funds. These focus on how money flows into and out of those funds and the balances left at year-end. Specific funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. The differences of results in the governmental fund financial statements compared to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, such as funds for associated student body activities, scholarships, and employee retiree benefits. The District's fiduciary activities are reported in the Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its general operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$103.9million and \$120.3 million for the fiscal years ended June 30, 2014 and 2013, respectively. Of this amount, \$0.9 million and \$12.9 million were unrestricted for fiscal years ending June 30, 2014 and 2013, respectively. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

TABLE 1

	Governmental Activities	
	2014	2013*
Current and other assets	\$ 152,870,134	\$ 167,150,657
Loan receivable	2,024,952	-
Capital assets	142,361,430	145,765,455
Total Assets	297,256,516	312,916,112
Deferred charge on refunding	2,623,810	2,950,814
Total Deferred Outflow of Resources	2,623,810	2,950,814
Current liabilities	21,712,074	26,980,025
Long-term debt	174,308,991	168,587,945
Total Liabilities	196,021,065	195,567,970
Net position		
Net investment in capital assets	62,453,586	78,997,262
Restricted	40,501,957	28,366,521
Unrestricted	903,718	12,935,173
Total Net Position	\$ 103,859,261	\$ 120,298,956

*Adjusted for the adoption of GASB Statement No. 65.

The \$0.9 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of its bills today including all of our non-capital liabilities (compensated absences as an example) we would have \$0.9 million left.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Changes in Net Position

The results of 2013-2014 general operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement and rearranges it slightly so you can see our total revenues and expenses for the year.

TABLE 2

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 983,043	\$ 956,824
Operating grants and contributions	68,616,014	76,390,419
General revenues:		
Federal and state sources	88,793,969	75,361,488
Property taxes	61,119,533	52,217,478
Other general revenues	6,632,334	2,665,859
Total Revenues	226,144,893	207,592,068
Expenses		
Instruction related	179,619,607	165,157,909
Student support services	30,136,227	27,964,677
Administration	5,023,617	4,816,506
Maintenance and operations	19,737,650	16,761,877
Other	8,067,487	6,054,089
Total Expenses	242,584,588	220,755,058
Change in Net Position	\$ (16,439,695)	\$ (13,162,990)

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2013-2014 was \$242.6 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only \$61.1 million. This is because \$69.6 million was paid by those benefiting from District programs or by other governments and organizations who subsidized certain programs with grants and contributions. The District paid for the remaining "public benefit" portion of its governmental activities with \$111.9 million in State and federal funds and with other revenues, such as interest and general entitlements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

In Table 3, we have presented the net cost of each of the District's largest functions - (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows members of the public to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3

	Net Cost of Services	
	2014	2013
Instruction and instruction related	\$ 126,523,092	\$ 110,713,429
Pupil services	16,997,815	12,286,580
General administration	3,394,511	3,314,781
Maintenance and operations	19,206,727	16,169,778
Other	6,863,386	923,247
Totals	\$ 172,985,531	\$ 143,407,815

GENERAL FUND HIGHLIGHTS

A district of this size and complexity will often see a three to five percent swing in its final ending balance between estimated and unaudited actuals. In addition, district revenues and expenditures are now influenced by changes in the state's Local Control Funding Formula (LCFF). In 2012-13, the ending balance decreased by less than one percent from the district's June estimates. For 2013-14, the district's ending balance increased by 2.8 percent and the unappropriated fund balance increased by 2.3 percent of expenditures at unaudited actuals. This was primarily due to increases in LCFF revenue adopted by the state and a small decrease in expenditures. District staff provided the Board of Trustees and public information highlighting projected and actual variances to the District's expenditures and revenues over the course of the fiscal year. This is a standard practice. This information can be found on the District's website (www.pvUSD.net) in the Business Services section.

In 2013-14, the district initiated an historic transition from a 40-year old state funding model to the new state Local Control Funding Formula (LCFF). Accompanying the LCFF is the requirement that all local education agencies enact a Local Control Accountability Plan (LCAP) according to specific input and adoption requirements. As required by law, the district's budget and its LCAP are to be aligned and updated annually. The district's first year LCAP was adopted as part of its 2014-15 Budget.

The 2013-14 fiscal year signified another transition. It was the second year of a projected multi-year fiscal recovery. After five very challenging years, the end of the *Great Recession* and the passage of Proposition 30 have resulted in a stabilization and gradual improvement in the district's fiscal outlook. Implementation of the LCFF has resulted in approximately \$22 million in new state revenue in 2013-14 and 2014-15. Out-year projections indicate continued improvement in revenues over the three-year forecast period.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

With this welcome news, the district responded in bold fashion. In 2013-14, the district's Board of Trustees enacted more than \$13.2 million in district-wide reinvestments. These included additional counselors, a phased in return of K-3 class size reduction, high school custodians, and high school activity directors. Our proudest accomplishment was the enactment of a seven percent salary increase along with an enhanced, up-to-date health care benefit package for all employees. The salary increase was one of the largest of any school district in California. These enhancements will go a long way to ensuring that the district can attract and retain the highest quality educators for our students.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014 and 2013, the District had \$142.4 million and \$145.8 million, net of depreciation in a broad range of capital assets including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of just under \$3.4 million, or 2.3 percent, from last year.

TABLE 4

	Governmental Activities	
	2014	2013
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	6,277,875	1,420,824
Buildings and improvements	264,315,420	261,363,024
Equipment	5,613,474	5,369,122
Accumulated depreciation	(150,900,483)	(139,442,659)
Totals	\$ 142,361,430	\$ 145,765,455

This year's additions to capital assets of \$8.1 million (excluding depreciation) are primarily from site improvement and Measure L projects at various sites. Projects were started using the District's Measure L general obligation bond funds and approximately \$3.1 million of the additions to capital assets were Measure L projects. Measure L was enacted by District voters in November 2012.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Long-Term Debt

At the end of this year, the District had \$137.8 million in bonds outstanding. The District’s long-term debt is summarized below.

TABLE 5

	Governmental Activities	
	2014	2013
General obligation bonds	\$ 137,835,042	\$ 139,165,939
Bond premium	5,404,190	5,688,550
Accumulated vacation - net	2,546,375	2,281,404
Supplemental employees retirement plan	2,935,966	5,031,986
Capital leases	702,702	931,435
Other post employment benefits	27,884,717	20,280,740
Totals	\$ 177,308,991	\$ 173,380,054

The State limits the amount of general obligation debt school districts can issue to 2.5 percent of the assessed value of all taxable property within a district’s legal boundaries.

Other financial obligations include compensated absences payable, certificates of participation, capital leases and other long-term debt. We present more detailed information regarding the District’s long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2013-2014 ARE NOTED BELOW:

Over the course of the recession, the Board of Trustees exercised sound and proactive fiscal policy. The board responded decisively by enacting three fiscal stabilization plans that included significant personnel and programmatic reductions. These courageous actions helped to maintain the district’s fiscal solvency and protect core instructional programs during the worst of the crisis. As a result, the district fared much better than compared to other public sector agencies. The district maintained strong reserves, allowing it to begin making reinvestments to its instructional and operational programs earlier, and with more earnest, than many other school districts in the region.

The 2013-14 fiscal year saw a significant increase in state education funding associated with improved state fiscal health and the passage of the LCFF funding reform. The district received approximately \$7 million in new state LCFF revenue with projected revenue increases over the eight year implementation of LCFF (see next section for additional detail).

In response, the district’s Board of Trustee implemented an ambitious reinvestment plan to restore and reinvest benefits and vital services district-wide. This was one of the largest reinvestment packages enacted by a school district in the state. These items were identified based on input received from parents, students, staff, and community members. This represented the district’s first phase of program and personnel reinvestments after six years of reductions and fiscal austerity. Additional phases are outlined in the district’s 2014-15 LCAP (see next section).

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

The table below outlines the items and estimated costs of district's 2013-14 reinvestment plan. These are ongoing expenditures and were built into the district's 2014-15 budget. Restoration of K-3 class-size reduction (CSR) will be phased in annually over four years pursuant to a 24:1 maximum student-to-teacher ratio. First grade was implemented in 2013-14. Kindergarten CSR will be implemented in 2014-15, with second and third grades implemented in consecutive years thereafter. This approach will provide the district time to address facility needs at specific school sites prior to full K-3 CSR implementation.

2013-14 Reinvestment Plan

ITEM	TOTAL VALUE
Salary increase – 7% for all employees	\$ 7,200,000
Class size reduction 24:1 First grade	1,360,000
K-3 intervention teachers at all elementary schools	1,912,000
Additional FT counselor at each middle school (6)	194,914
Restore activities directors (1 per HS)	184,776
Restore athletic coach stipends at high schools	609,297
Restore Office Assist III's to FT at elementary Sites	550,062
Custodians - one additional at each high school	175,500
Classification study implementation year 1	1,062,631
TOTAL	<u>\$ 3,249,180</u>

FISCAL OUTLOOK FOR 2014-15

The district's fiscal outlook is much improved going into 2014-15. But even with projected revenue increases, the district's overall fiscal recovery will take time. The long-term effects of the recession will require several years to overcome. The district will not be able to restore everything all at once. Under the LCFF, district revenues are projected to grow incrementally over an eight-year period. It is important to note that revenues will only return to levels near where it was funded by the state in 2007-08.

District revenues will indeed increase annually, but overall state investment in public education will continue to remain below nationwide averages. The state ranked 49th in per pupil expenditures in the nation in 2011-12 (most recent data comparison). On top of that, it will take eight years to reach complete target entitlements under the LCFF. Meanwhile, other states will continue to fund their public education systems at a higher per-capita amount than California. New LCFF funding is certainly welcome, but it does not address the overall adequacy of the state's investment in public education.

In addition, the District will need to address its structural imbalance between revenues and expenditures. Due to State budget reductions and no COLAs, the District has been deficit spending the past three fiscal years. The District's reserves have bridged this funding gap. Future revenue increases associated with the LCFF should be sufficient to successfully address deficit spending. However, this will require a portion of new revenues to be dedicated to deficit reduction over the next couple of years. Reinvestments in positions and personnel will need to be balanced against the need to bring the District's fiscal position back into balance

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The annual financial report is designed to provide District citizens, taxpayers, investors and creditors with a general overview of the District's finances and accountability for the public funds it administers under law. For additional information and/or questions about this report or other District financial activities, please contact:

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities
ASSETS	
Deposits and investments	\$ 124,641,234
Receivables	26,691,233
Prepaid expenses	1,300,991
Stores inventories	236,676
Current portion of loan receivable	146,037
Noncurrent portion of loan receivable	1,878,915
Capital assets not depreciated	23,333,023
Capital assets, net of accumulated depreciation	119,028,407
Total Assets	297,256,516
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,623,810
Total Deferred Outflows of Resources	2,623,810
LIABILITIES	
Accounts payable	6,470,373
Interest payable	1,968,198
Unearned revenue	1,949,867
Claim liabilities	11,323,636
Current portion of long-term obligations	8,784,384
Noncurrent portion of long-term obligations	165,524,607
Total Liabilities	196,021,065
NET POSITION	
Net investment in capital assets	62,453,586
Restricted for:	
Debt service	7,136,324
Capital projects	1,482,837
Food program	4,081,722
Child development program	38,129
Charter schools	2,246,826
Self-Insurance	16,430,352
Educational programs	9,085,767
Unrestricted	903,718
Total Net Position	\$ 103,859,261

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 138,439,714	\$ 96,187	\$ 38,500,552	\$ (99,842,975)
Instruction-related activities:				
Supervision of instruction	20,312,451	23,620	13,613,165	(6,675,666)
Instructional library, media, and technology	4,546,256	4,210	776,765	(3,765,281)
School site administration	16,321,186	459	81,557	(16,239,170)
Pupil services:				
Home-to-school transportation	6,574,044	118,890	8,707	(6,446,447)
Food services	9,752,217	665,591	9,281,287	194,661
All other pupil services	13,809,966	7,587	3,056,350	(10,746,029)
Administration:				
Data processing	1,914,865	90	2,578	(1,912,197)
All other administration	3,108,752	22,258	1,604,180	(1,482,314)
Plant services	19,737,650	5,839	525,084	(19,206,727)
Ancillary services	1,490,177	665	91,962	(1,397,550)
Community services	16,002	8	236	(15,758)
Interest on long-term obligations	5,877,837	-	-	(5,877,837)
Other outgo	683,471	37,639	1,073,591	427,759
Total Governmental Activities	\$ 242,584,588	\$ 983,043	\$ 68,616,014	(172,985,531)
General revenues and subventions:				
Property taxes, levied for general purposes				52,495,775
Property taxes, levied for debt service				8,248,471
Taxes levied for other specific purposes				375,287
Federal and State aid not restricted to specific purposes				88,793,969
Interest and investment earnings				124,181
Transfers				170,060
Miscellaneous				6,338,093
Subtotal, General Revenues				156,545,836
Change in Net Position				(16,439,695)
Net Position - Beginning				120,298,956
Net Position - Ending				\$ 103,859,261

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund
ASSETS				
Deposits and investments	\$ 12,868,018	\$ 2,260,719	\$ 3,662,702	\$ 62,762,058
Receivables	23,271,563	1,177,628	1,458,505	-
Due from other funds	4,342,915	652,491	127,927	15,849
Prepaid expenses	1,300,991	-	-	-
Stores inventories	157,468	-	79,208	-
Total Assets	\$ 41,940,955	\$ 4,090,838	\$ 5,328,342	\$ 62,777,907
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,564,766	\$ 79,460	\$ 111,226	\$ 1,367,627
Due to other funds	288,210	1,764,552	1,135,394	-
Unearned revenue	1,379,091	-	-	-
Total Liabilities	5,232,067	1,844,012	1,246,620	1,367,627
Fund Balances:				
Nonspendable	1,578,459	-	79,208	-
Restricted	9,085,767	2,246,826	4,002,514	61,410,280
Committed	-	-	-	-
Assigned	3,108,507	-	-	-
Unassigned	22,936,155	-	-	-
Total Fund Balances	36,708,888	2,246,826	4,081,722	61,410,280
Total Liabilities and Fund Balances	\$ 41,940,955	\$ 4,090,838	\$ 5,328,342	\$ 62,777,907

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 12,401,343	\$ 93,954,840
783,387	26,691,083
347,191	5,486,373
-	1,300,991
-	236,676
\$ 13,531,921	\$ 127,669,963

\$ 606,674	\$ 5,729,753
106,281	3,294,437
570,776	1,949,867
1,283,731	10,974,057

-	1,657,667
10,625,488	87,370,875
1,622,702	1,622,702
-	3,108,507
-	22,936,155
12,248,190	116,695,906

\$ 13,531,921	\$ 127,669,963
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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance - Governmental Funds		\$ 116,695,906
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 293,261,913	
Accumulated depreciation is	<u>(150,900,483)</u>	
Net Capital Assets		142,361,430
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(1,968,198)
An internal service fund is used by the District's management to charge the costs of the self insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		16,430,352
Long-term loan receivable is not received during the current year and, therefore are not reported as receivable in the government funds.		2,024,952
Deferred charges on refunding related to the loss on refunding of debt which is classified as a deferred outflow of resources and expensed over the life of the debt on the government-wide financial statements, but were recorded as an expenditure in the governmental fund statements when the debt was issued.		2,623,810
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	137,835,042	
Unamortized bond premium	5,404,190	
Capital leases payable	702,702	
Compensated absences (vacations)	2,546,374	
Supplemental employee retirement plan	2,935,966	
OPEB obligations	<u>24,884,717</u>	
Total Long-Term Liabilities		(174,308,991)
Total Net Position - Governmental Activities		<u>\$ 103,859,261</u>

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

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund
REVENUES				
Local Control Funding Formula	\$ 125,985,092	\$ 10,124,806	\$ -	\$ -
Federal sources	24,537,230	-	8,854,769	-
Other state sources	31,070,624	946,079	678,232	-
Other local sources	2,331,803	167,157	700,604	240,742
Total Revenues	183,924,749	11,238,042	10,233,605	240,742
EXPENDITURES				
Instruction	116,339,183	7,240,083	-	-
Instruction-related activities:				
Supervision of instruction	16,428,877	159,921	-	-
Instructional library, media and technology	3,808,610	278,269	-	-
School site administration	10,757,299	3,743,006	-	-
Pupil services:				
Home-to-school transportation	6,126,007	-	-	-
Food services	16	-	9,086,804	-
All other pupil services	11,754,313	6,719	-	-
Administration:				
Data processing	1,784,363	-	-	-
All other administration	5,530,692	2,148	254,549	-
Plant services	14,919,812	289,070	2,726	106,160
Facility acquisition and construction	858,423	-	-	8,538,200
Ancillary services	1,388,268	350	-	-
Community services	14,911	-	-	-
Other outgo	2,708,423	-	-	-
Debt service				
Principal	228,733	-	-	-
Interest and other	26,401	-	-	-
Total Expenditures	192,674,331	11,719,566	9,344,079	8,644,360
Excess of Expenditures Over Revenues	(8,749,582)	(481,524)	889,526	(8,403,618)
Other Financing Sources (Uses)				
Transfers in	1,084	185,770	-	-
Transfers out	(1,678,245)	-	(1,084)	-
Net Financing Sources (Uses)	(1,677,161)	185,770	(1,084)	-
NET CHANGE IN FUND BALANCES	(10,426,743)	(295,754)	888,442	(8,403,618)
Fund Balance - Beginning	47,135,631	2,542,580	3,193,280	69,813,898
Fund Balance - Ending	\$ 36,708,888	\$ 2,246,826	\$ 4,081,722	\$ 61,410,280

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 136,109,898
7,107,419	40,499,418
2,935,743	35,630,678
10,381,097	13,821,403
<u>20,424,259</u>	<u>226,061,397</u>
7,659,892	131,239,158
2,339,313	18,928,111
149,539	4,236,418
708,554	15,208,859
-	6,126,007
762	9,087,582
1,107,753	12,868,785
-	1,784,363
320,247	6,107,636
1,431,985	16,749,753
420,051	9,816,674
-	1,388,618
-	14,911
-	2,708,423
2,510,000	2,738,733
3,841,303	3,867,704
<u>20,489,399</u>	<u>242,871,735</u>
<u>(65,140)</u>	<u>(16,810,338)</u>
1,492,475	1,679,329
-	(1,679,329)
<u>1,492,475</u>	<u>-</u>
1,427,335	(16,810,338)
10,820,855	133,506,244
<u>\$ 12,248,190</u>	<u>\$ 116,695,906</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds \$ (16,810,338)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	\$ (11,457,824)	
Capital outlays	<u>8,053,799</u>	
Net Expense Adjustment		(3,404,025)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$264,970 (264,970)

Payment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 228,733

Payment of the principal of general obligation bonds is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net position and does not affect the statement of activities. 2,510,000

Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. (788,386)

Accreted interest on capital appreciation bonds is not recorded in the governmental funds, but it increases the bond principals in the statement of net position and increases interest expense in the statement of activities. (1,179,103)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES, (Continued) FOR THE YEAR ENDED JUNE 30, 2014

Other postemployment benefit expenditures are recorded in the governmental funds to the extent of amounts actually funded. However, in the statement of activities, the expense is recorded for the full amount of the accrual-basis annual OPEB cost.		(4,603,977)
Amortization of premium and refunding costs are not recorded in the governmental funds, but they impact the statement of activities. The net amortization amount during the year is as follows:		
Premium on general obligation bonds	284,360	
Defeasance costs on general obligation bonds	<u>(327,004)</u>	
Net amortization		(42,644)
Supplemental employee retirement plan payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net position and does not affect the statement of activities.		2,096,020
Amount loans to charter school is recorded as expenditures in the governmental funds. However, the amount paid is not an expense in the statement of activities. Instead, it increases the loan receivable in the statement of net position.		2,024,952
An internal service fund is used by the District's management to charge the costs of the various insurance programs to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		<u>3,794,043</u>
Change in Net Position of Governmental Activities		<u><u>\$ (16,439,695)</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 30,686,394
Receivables	150
Due from other funds	97,376
Total Current Assets	<u>30,783,920</u>
LIABILITIES	
Current Liabilities	
Accounts payable	740,620
Due to other funds	2,289,312
Non-current Liabilities	
Claim liabilities	11,323,636
Total Current Liabilities	<u>14,353,568</u>
NET POSITION	
Restricted for insurance programs	16,430,352
Total Net Position	<u>\$ 16,430,352</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district contributions	\$ 44,894,237
Total Operating Revenues	<u>44,894,237</u>
OPERATING EXPENSES	
Payroll costs	209,473
Claims and insurance expense	40,974,217
Total Operating Expenses	<u>41,183,690</u>
Operating Income	<u>3,710,547</u>
NONOPERATING REVENUES	
Interest income	83,496
Total Nonoperating Revenues (Expenses)	<u>83,496</u>
Change in Net Position	3,794,043
Total Net Position - Beginning	12,636,309
Total Net Position - Ending	<u>\$ 16,430,352</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 45,840,741
Cash payments to employees for services	(209,473)
Cash payments for insurance claims	(43,473,745)
Net Cash Provided by Operating Activities	<u>2,157,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	83,496
Net increase in Cash and Cash Equivalents	<u>2,241,019</u>
Cash and Cash Equivalents - Beginning	28,445,375
Cash and Cash Equivalents - Ending	<u><u>\$ 30,686,394</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 3,710,547
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	1,043,880
Due from other funds	(97,376)
Accrued liabilities	(366,415)
Claims liabilities	(2,292,584)
Due to othe funds	159,471
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 2,157,523</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	<u>Retiree Benefits Trust</u>	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS			
Deposits and investments	\$ 4,309,145	\$ 2,214,857	\$ 566,989
Total Assets	<u>4,309,145</u>	<u>2,214,857</u>	<u>\$ 566,989</u>
LIABILITIES			
Accounts payable	120,541	170,013	\$ -
Due to student groups	-	-	566,989
Total Liabilities	<u>120,541</u>	<u>170,013</u>	<u>\$ 566,989</u>
NET POSITION			
Held in trust for scholarship and retiree benefits	4,188,604	2,044,844	
Total Net Position	<u>\$ 4,188,604</u>	<u>\$ 2,044,844</u>	

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2014

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 220,460
District contributions	4,058,132	-
Investment income	5,421	7,758
Net increase in fair market value of investments	295,362	-
Total Additions	<u>4,358,915</u>	<u>228,218</u>
DEDUCTIONS		
Benefit payments	3,698,341	-
Scholarships awarded	-	111,216
Total Deductions	<u>3,698,341</u>	<u>111,216</u>
Change in Net Position	660,574	117,002
Net Position - Beginning	<u>3,528,030</u>	<u>1,927,842</u>
Net Position - Ending	<u>\$ 4,188,604</u>	<u>\$ 2,044,844</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Pajaro Valley Unified School District was unified in 1964 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates sixteen elementary, six middle, three high school, one community day school, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Pajaro Valley Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units – Charter Schools

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to operate charter schools authorized by the District.

The District has approved Charters for Academic Vocational, Alianza Elementary, Linscott Elementary, Watsonville School of Arts, Pacific Coast and Ceiba Charter School pursuant to *Education Code* Section 47605. All Charter Schools, except Ceiba, are operated by the District and their financial activities are accounted for in the charter school special revenue fund. Ceiba Charter School is not a component unit of the District.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Joint Powers Agencies and Public Entity Risk Pools The District is associated with Schools Association For Excess Risk (SAFER), Protection Insurance Program for Schools (PIPS), and public entity risk pools Benefit Liability Excess Fund (BeLiEF) that provides insurance coverage to the District. These organizations do not meet the criteria for inclusion as component units, so they are not component units of the District for financial reporting purposes. The District also participates in the Henry J. Mello Center for the Performing Arts Administration Agency (the JPA), through a joint powers agreement with the City of Watsonville and the District. Each member's board appoints three directors. The JPA was established for the purpose of administering all functions necessary for the operation and maintenance of the Performing Arts Center (the Center). On August 2, 1994, the JPA entered into a management, operation and maintenance agreement with the Pajaro Valley Performing Arts Association (PVPAA), a tax exempt, nonprofit public benefit corporation. The agreement was for a period of ten years and has been reviewed and continued annually, whereby; PVPAA shall operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Charter Schools Fund This fund may be used by authorizing Districts to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local resources committed for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for resources committed for deferred maintenance purposes.

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other major capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626. Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has only one internal service fund which is Self-Insurance fund.

Self-Insurance Fund Self-Insurance funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates workers' compensations, health, dental and vision programs that are accounted for in the Self-Insurance fund.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds are Retiree Benefits Trust and Private Purpose Scholarship Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function and excludes fiduciary activity. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their net position use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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. Generally, available is defined as collectible within 60 days. 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 for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in 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, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Prepaid Expenditures/Expenses

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures/expenses over the benefiting period.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$25,000 with the exception to federally funded equipment which has a threshold of \$2,000 for expenditures pertaining to Food Services and \$5,000 for all others. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified and certificated school members who retire after January 1, 1999. At retirement, each member will receive service credit for each day of unused sick leave per STRS and PERS regulations.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund 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 governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the effective interest method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount and premium of the debt is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. 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.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board, chief business officer and assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund insurance premium. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental columns of the statement of activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

As the result of implementing GASB Statement No. 65, the District has not needed to restate the beginning net position in the government-wide Statement of Net Position. The affect of this change in accounting principle means that the District no longer has to amortize bond issuance costs for future issuances.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No.68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 93,954,840
Proprietary fund	30,686,394
Fiduciary funds	7,090,991
Total Deposits and Investments	<u>\$ 131,732,225</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 3,150,480
Cash in revolving	120,000
Investments	128,461,745
Total Deposits and Investments	<u>\$ 131,732,225</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	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
Banker's 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% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Credit Risk

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 District's investments in the U.S. Government bonds are not required to be rated, nor have they been rated as of June 30, 2014. Pooled investments, such as the county pool and mutual funds were not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Cost	Fair Value	Maturity in Years
U.S. Government Bonds	\$ 19,900	\$ 24,506	3.88
Mutual Funds	2,592,718	2,592,718	0.00
County Pool	125,849,127	125,250,463	1.46
Total	\$ 128,461,745	\$ 127,867,687	

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 policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance of \$2,308,054 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Cafeteria Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government						
Categorical aid	\$ 5,284,880	\$ -	\$ 1,376,313	\$ 194,961	\$ 6,856,154	\$ -
State Government						
State principle apportionment	13,045,254	1,102,083	-	-	14,147,337	-
Categorical aid	3,545,188	-	82,192	460,618	4,087,998	-
Lottery	651,046	52,248	-	-	703,294	-
Other Local Sources	745,195	23,297	-	127,808	896,300	150
Total	\$ 23,271,563	\$ 1,177,628	\$ 1,458,505	\$ 783,387	\$ 26,691,083	\$ 150

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	1,420,824	6,364,757	1,507,702	6,277,879
Total Capital Assets Not Being Depreciated	<u>18,475,968</u>	<u>6,364,757</u>	<u>1,507,702</u>	<u>23,333,023</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	261,363,024	2,952,392	-	264,315,416
Furniture and Equipment	5,369,122	244,352	-	5,613,474
Total Capital Assets Being Depreciated	<u>266,732,146</u>	<u>3,196,744</u>	<u>-</u>	<u>269,928,890</u>
Less Accumulated Depreciation:				
Buildings and Improvements	135,818,796	11,179,980	-	146,998,776
Furniture and Equipment	3,623,863	277,844	-	3,901,707
Total Accumulated Depreciation	<u>139,442,659</u>	<u>11,457,824</u>	<u>-</u>	<u>150,900,483</u>
Capital Assets Being Depreciated, Net	<u>127,289,487</u>	<u>(8,261,080)</u>	<u>-</u>	<u>119,028,407</u>
Governmental Activities Capital Assets, Net	<u>\$ 145,765,455</u>	<u>\$ (1,896,323)</u>	<u>\$ 1,507,702</u>	<u>\$ 142,361,430</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 6,631,792
Supervision of Instruction	987,531
Instructional Library and Media	221,026
School Site Administration	793,488
Home to School Transpiration	319,611
Food Services	474,123
All Other Pupil Services	671,400
Ancillary Services	72,448
Community Services	778
All General Administration	318,652
Data Processing Services	93,095
Plant Services	873,880
Total Depreciation Expense	<u>\$ 11,457,824</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivables and payable balances arise from interfund transactions and are recorded by all funds affected in the period which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds, proprietary funds and fiduciary funds are as follows:

Due To	Due From						Total
	General Fund	Charter Fund	Cafeteria Fund	Building Fund	Non-Major Funds	Proprietary Funds	
General	\$ -	\$ -	\$ -	\$ 10,809	\$ 277,401	\$ -	\$ 288,210
Charter School	1,764,505	-	47	-	-	-	1,764,552
Cafeteria	1,135,394	-	-	-	-	-	1,135,394
Non-Major	837	500	7,568	-	-	97,376	106,281
Proprietary	1,442,179	651,991	120,312	5,040	69,790	-	2,289,312
Total	<u>\$ 4,342,915</u>	<u>\$ 652,491</u>	<u>\$ 127,927</u>	<u>\$ 15,849</u>	<u>\$ 347,191</u>	<u>\$ 97,376</u>	<u>\$ 5,583,749</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer Out	Transfer In			Total
	General Fund	Charter School Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 185,770	\$ 1,492,475	\$ 1,678,245
Cafeteria Fund	1,084	-	-	1,084
Total	<u>\$ 1,084</u>	<u>\$ 185,770</u>	<u>\$ 1,492,475</u>	<u>\$ 1,679,329</u>

General fund transferred to Charter fund for categorical flex commitment and contribution to Academic Vocational Charter Institute approved by the Board.	\$ 185,770
General fund transferred to Adult Education Fund for lottery commitment, CBET, categorical flex commitment and contribution to cover expenses for AB86 MOE requirement.	1,008,410
General fund transferred to Child Development fund for categorical flex commitment and contribution to help cover 7% salary and benefit increase for specific individuals.	484,065
Cafeteria fund transferred to General fund for vending machine sales to school site donations.	1,084
Total	<u>\$ 1,679,329</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 6 - DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of \$62,453,586 includes the effect of deferring the recognition of loss from advance refunding. The \$2,623,810 balance of the deferred outflows of resources at June 30, 2014 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The change in the District’s deferred outflow of resources during the year consisted of the following:

	Balance June 30, 2013	Accretion/ Additions	Deductions	Balance June 30, 2014
Deferred Outflows Resources				
Deferred charges on refunding	\$ (2,950,814)	\$ -	\$ (327,004)	\$ (2,623,810)

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund
Vendor payables	\$ 2,518,722	\$ 31,029	\$ 85,786	\$ 1,367,543
Salaries and benefits	1,046,044	48,431	20,221	-
Other	-	-	5,219	84
Total	<u>\$ 3,564,766</u>	<u>\$ 79,460</u>	<u>\$ 111,226</u>	<u>\$ 1,367,627</u>

	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 128,023	\$ 4,131,103	\$ 740,620	\$ 170,013
Salaries and benefits	443,524	1,558,220	-	-
Other	34,827	40,130	-	120,541
Total	<u>\$ 606,374</u>	<u>\$ 5,729,453</u>	<u>\$ 740,620</u>	<u>\$ 290,554</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 16,910	\$ 212,435	\$ 229,345
State categorical aid	51,263	123,828	175,091
Other local	1,310,918	234,513	1,545,431
Total	<u>\$ 1,379,091</u>	<u>\$ 570,776</u>	<u>\$ 1,949,867</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance June 30, 2013	Accretion/ Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 139,165,939	\$ 1,179,103	\$ 2,510,000	\$ 137,835,042	\$ 6,250,000
Bond premium	5,688,550	-	284,360	5,404,190	284,360
Accumulated vacation - net	2,281,404	264,970	-	2,546,374	-
Capital leases	931,435	-	228,733	702,702	236,345
Other postemployment benefits	20,280,740	4,603,977	-	24,884,717	-
Supplemental employees retirement benefits	5,031,986	-	2,096,020	2,935,966	2,013,679
Total	<u>\$ 173,380,054</u>	<u>\$ 6,048,050</u>	<u>\$ 5,119,113</u>	<u>\$ 174,308,991</u>	<u>\$ 8,784,384</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Regularly scheduled principal payments on the capital leases are paid by the General Fund, the Charter School Fund and the Adult Education Fund. Accumulated vacation and supplemental employee retirement benefits are paid by the funds for which the employees worked.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding June 30, 2013	Accreted	Redeemed	Outstanding June 30, 2014
2005	2023	3.00%-5.31%	\$ 40,215,000	\$ 6,610,000	\$ -	\$ 1,990,000	\$ 4,620,000
2005	2030	3.00%-5.31%	18,254,288	23,115,939	1,179,103	210,000	24,085,042
2013	2048	3.00%-5.00%	68,540,000	68,540,000	-	-	68,540,000
2013	2038	0.63%-5.12%	11,460,000	11,460,000	-	-	11,460,000
2013	2023	0.73%-3.19%	19,675,000	19,675,000	-	225,000	19,450,000
2013	2023	2.00%-4.00%	9,765,000	9,765,000	-	85,000	9,680,000
				<u>\$ 139,165,939</u>	<u>\$ 1,179,103</u>	<u>\$ 2,510,000</u>	<u>\$ 137,835,042</u>

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 6,250,000	\$ 4,589,486	\$ 10,839,486
2016	4,085,000	4,393,533	8,478,533
2017	4,530,000	4,261,465	8,791,465
2018	3,760,000	4,166,968	7,926,968
2019	4,030,000	4,079,470	8,109,470
2020-2024	20,901,513	22,506,073	43,407,586
2025-2029	12,192,776	37,073,407	49,266,183
2030-2034	8,029,998	20,926,752	28,956,750
2035-2039	13,225,000	13,750,542	26,975,542
2040-2044	23,410,000	9,230,938	32,640,938
2045-2048	28,535,000	2,553,294	31,088,294
Sub Total	<u>128,949,287</u>	<u>\$ 127,531,928</u>	<u>\$ 256,481,215</u>
Accretion to date	8,885,755		
Total general obligation bonds	<u>\$ 137,835,042</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$2,546,374.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Capital Leases

The District's liabilities on lease agreements with options to purchase are summarized below:

	Porter Building	School Buses	Total
Balance, July 1, 2013	\$ 184,734	\$ 813,832	\$ 998,566
Payments	92,368	162,766	255,134
Balance, July 1, 2014	<u>\$ 92,366</u>	<u>\$ 651,066</u>	<u>\$ 743,432</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 255,134
2016	162,766
2017	162,766
2018	162,766
Total	<u>743,432</u>
Less: Amount Representing Interest	40,726
Present Value of Minimum Lease Payments	<u>\$ 702,706</u>

Supplemental Employees Retirement Plan (SERP)

The outstanding balances for the Supplemental Employee Retirement Plans as of June 30, 2014, are as follows:

Year Ending June 30,	2011 Plan	2012 Plan	Total
2015	\$ 1,091,392	\$ 922,287	\$ 2,013,679
2016	-	922,287	922,287
Subtotal	<u>\$ 1,091,392</u>	<u>\$ 1,844,574</u>	<u>\$ 2,935,966</u>

Defeased Debt

In 2005, The District defeased the 2002, Series A bond in the amount of \$39,995,542 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2014, the amount of trust fund account balance amounted to \$2,466,542, which is established to pay total value of the outstanding bonds on August 1, 2027 of \$4,075,000.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

In 2013, The District defeased part of the 2002, Series B bond in the amount of \$2,265,000 and \$24,635,000 of the 2005 GO Refunding bond by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2014, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$26,900,000 and \$28,763,295, respectively.

In 2013, The District defeased the remaining balance of the 2005 certificates of participation, Series in the amount of \$1,205,000 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2014, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$1,135,000 and \$1,200,107, respectively.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 120,000	\$ -	\$ -	\$ -	\$ -	\$ 120,000
Stores inventories	157,468	-	79,208	-	-	236,676
Prepaid expenditures	1,300,991	-	-	-	-	1,300,991
Total Nonspendable	1,578,459	-	79,208	-	-	1,657,667
Restricted						
Educational programs	9,082,371	2,246,826	4,002,514	-	38,129	15,369,840
Limited English Proficiency (LEP)	3,396	-	-	-	-	3,396
Capital projects	-	-	-	61,410,280	1,482,837	62,893,117
Debt services	-	-	-	-	9,104,522	9,104,522
Total Restricted	9,085,767	2,246,826	4,002,514	61,410,280	10,625,488	87,370,875
Committed						
Deferred maintenance	-	-	-	-	1,622,702	1,622,702
Total Committed	-	-	-	-	1,622,702	1,622,702
Assigned						
Encumbrances	3,108,507	-	-	-	-	3,108,507
Total Assigned	3,108,507	-	-	-	-	3,108,507
Unassigned						
Reserve for economic	5,687,597	-	-	-	-	5,687,597
Remaining unassigned	17,248,558	-	-	-	-	17,248,558
Total Unassigned	22,936,155	-	-	-	-	22,936,155
Total	\$ 36,708,888	\$ 2,246,826	\$ 4,081,722	\$ 61,410,280	\$ 12,248,190	\$ 116,695,906

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pajaro Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 275 retirees and beneficiaries currently receiving benefits and 1,672 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (PVFT), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, PVFT, CSEA and the unrepresented groups. For fiscal year 2013-2014, the District contributed \$4,353,494 to the plan, all of which was used for current premiums (approximately 100% percent of total premiums incurred by retirees plus one eligible dependent).

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 7,537,819
Interest on net OPEB asset/obligation	1,419,652
Annual OPEB cost (expense)	<u>8,957,471</u>
Contributions made	<u>(4,353,494)</u>
Increase in net OPEB obligation	4,603,977
Net OPEB obligation, beginning of year	<u>20,280,740</u>
Net OPEB obligation, end of year	<u><u>\$ 24,884,717</u></u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the most recent six years was as follows:

Year Ended June 30,	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2014	\$ 8,957,471	\$ 4,353,494	48.60%	\$ 24,884,717
2013	8,026,326	4,943,178	61.59%	20,280,740
2012	7,795,167	4,492,879	57.64%	17,197,592
2011	6,539,254	3,090,172	47.26%	13,895,304
2010	6,367,435	2,917,171	45.81%	10,446,222
2009	6,277,594	3,441,731	54.83%	6,995,958

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The following shows the funded status for the most recent actuarial valuation:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
May 1, 2013	\$ 2,208,592	\$ 60,161,152	\$ 57,952,560	3.67%	\$ 116,303,100	49.83%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2013, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare, dental, and vision cost trend rates were averaged at 4 percent. The UAAL is being amortized at a level percentage of payroll method on an open basis. The remaining open amortization period at May 1, 2013, was 30 years. The actuarial value of assets as of May 1, 2013 was \$2,208,592.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, the District contracted with Schools Association For Excess Risk for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District's workers' compensation activities are recorded in the Internal Service Fund. The purpose of the fund is to administer workers' compensation on a cost reimbursement basis. The program accounts for the risk financing activities of the District.

Coverage provided by the Schools Association for Excess Risk for Property and Liability and the Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation (Incidents prior to 7/1/2012)	\$ 500,000
Public Insurance Program for Schools	Workers' Compensation (Incidents after 7/1/2012)	1,000,000
Benefit Liability Excess Fund	Excess Medical	260,000
Schools Association For Excess Risk	Property	250,000,000
Schools Association For Excess Risk	Liability	25,000,000
Schools Association For Excess Risk	Excess Liability	24,000,000

Claims Liabilities

The District records an estimated liability for workers' compensation, health care, dental and vision. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

Liability Balance, July 1, 2012	\$ 14,673,134
Claims and changes in estimates	39,091,472
Claims payments	(40,148,386)
Liability Balance, June 30, 2013	<u>13,616,220</u>
Claims and changes in estimates	39,273,661
Claims payments	(41,566,245)
Liability Balance, June 30, 2014	<u>\$ 11,323,636</u>
Assets available to pay claims at June 30, 2014	<u><u>\$ 27,753,988</u></u>

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement 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).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$6,455,183, \$6,129,743 and \$6,154,839, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. At Pajaro Valley Unified School District, the district contributes the 7.0 percent on behalf of members within the program prior to July 1, 2012. New members are required to pay 6.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,555,378, \$3,106,257, and \$2,900,530, respectively, and equal 100 percent of the required contributions for each year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the APPLE Retirement Program as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 1.3 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$4,126,937, \$3,700,126 and \$3,664,078, respectively, for 2014, 2013 and 2012 (5.541, 5.176 and 4.855 percent of annual payroll for 2014, 2013, and 2012, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in the financial statements. These amounts have not been included in the actual or budgeted amounts reported in the General Fund Budgetary Comparison Schedule. On behalf payments have been excluded from the calculation of available reserves.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2014 the District had the following construction commitments.

Capital Project	Remaining Construction Commitment	Expected Date of Completion
WHS Classroom Addition	\$ 2,268,416	Aug 2015
EA Hall A Wing Modernization	1,086,356	Apr 2015
AHS Modernization	618,767	June 2017
PV High New Auditorium	596,592	Aug 2016
AHS Solar	542,596	Jan 2015
AJHS New Gymnasium	515,075	June 2017
WHS Solar	428,413	Dec 2014
EA Hall Relocatable Replacement	391,056	Nov 2015
EA Hall Track & Field Replacement	377,304	May 2015
Calabastas Modernization	276,769	Oct 2015
Bradley Modernization	270,804	June 2017
Valencia Modernization	269,525	June 2016
Rio Del Mar Modernization	267,758	Dec 2015
Freedom Modernization	247,274	Oct 2015
RHMS Solar	226,943	Dec 2015
RHMS Gym Modernization	160,998	Dec 2015
PMS Modernization	157,025	Aug 2015
Lakeview MS Modernization	120,104	Dec 2016
Alianza Fire Hydrant & Water Tank	104,287	Aug 2015
Cesar Chavez MS Modernization	102,462	Dec 2016
Hall District Modernization	44,113	Dec 2015
Radcliff Modernization	34,280	Oct 2015
Ann Soldo Modernization	25,531	Oct 2015
PV High Solar	25,341	Aug 2016
PV High Upper Fields	19,104	Aug 2016
HA Hyde Modernization	3,661	Dec 2016
MacQuiddy Modernization	2,417	Aug 2017
Ohlone Modernization	2,417	Jan 2018
Linscott Modernization	2,417	Jan 2017
Amesti Modernization	2,041	Oct 2015
	\$ 9,189,846	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 requires 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, 2014.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2014.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Association For Excess Risk (SAFER), Self Insured Schools of California (SISC), School Alliance for Workers' Compensation Excess II (SAWCXII), Public Insurance Program for Schools (PIPS), and Benefit Liability Excess Fund (BeLiEF) public entity risk pools (JPAs). The District pays an annual premium to the applicable entity for its property and liability coverage, excess workers' compensation and excess medical insurance. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

The JPA has a budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. During the year ended June 30, 2014, the District made payments of \$2,419,747 to PIPS for workers' compensation insurance, \$11,246,290 to SISC for medical and vision insurance and \$798,674 to SAFER for excess property and liability insurance.

NOTE 16 - SUBSEQUENT EVENT

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net position dated through December 15, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 17 - LOAN RECEIVABLE

In May 8, 2013, the District entered into a Release and Settlement agreement with Ceiba College Preparatory Academy (the Charter). The agreement includes a \$2 million renovation loan to the Charter school. The loan bears interest at 0.84%. The loan amount will be recovered over ten years, beginning July 1, 2014 and ending June 30, 2024. Quarterly payment of \$52,722 is due the first day of each quarter, commencing December 1, 2014.

The loan matures through 2025 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Maturity</u>	<u>Total</u>
2015	\$ 146,037	\$ 12,128	\$ 158,165
2016	196,128	47,060	243,188
2017	197,821	13,067	210,888
2018	199,489	11,401	210,890
2019	201,169	9,719	210,888
2020-2024	1,031,534	22,910	1,054,444
2025	52,774	-	52,774
Total Loan Receivable	<u>\$ 2,024,952</u>	<u>\$ 116,285</u>	<u>\$ 2,141,237</u>

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variances- Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Local control funding formula	\$ 95,445,791	\$ 105,457,583	\$ 125,985,092	\$ 20,527,509
Federal sources	22,401,276	29,595,116	24,537,230	(5,057,886)
Other state sources	47,782,232	45,967,321	27,365,872	(18,601,449)
Other local sources	3,634,826	2,888,549	2,331,803	(556,746)
Total Revenues ¹	169,264,125	183,908,569	180,219,997	(3,688,572)
EXPENDITURES				
Certificated salaries	70,485,491	77,324,524	75,084,421	2,240,103
Classified salaries	26,467,445	29,092,227	27,661,130	1,431,097
Employee benefits	53,428,859	55,437,421	52,735,438	2,701,983
Books and supplies	7,030,160	15,384,471	10,137,384	5,247,087
Services and operating expenditures	17,645,366	25,460,027	20,217,686	5,242,341
Other outgo	57,000	2,420,519	2,131,481	289,038
Capital outlay	-	718,846	746,905	(28,059)
Debt service - principal	222,915	222,915	228,733	(5,818)
Debt service - interest	25,086	25,086	26,401	(1,315)
Total Expenditures ¹	175,362,322	206,086,036	188,969,579	17,116,457
Deficiency of Revenues Over				
Expenditures	(6,098,197)	(22,177,467)	(8,749,582)	13,427,885
Other Financing Sources (Uses)				
Transfers in	-	-	1,084	1,084
Transfers out	-	-	(1,678,245)	(1,678,245)
Net Financing Sources (Uses)	-	-	(1,677,161)	(1,677,161)
NET CHANGE IN FUND BALANCES				
Fund Balance - Beginning	47,135,631	47,135,631	47,135,631	-
Fund Balance - Ending	\$ 41,037,434	\$ 24,958,164	\$ 36,708,888	\$ 11,750,724

¹ On behalf payments of \$3,704,752 in the General Fund are excluded from the actual revenues and expenditures, but have been included in the basic financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CHARTER SCHOOL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES¹				
Local control funding formula	\$ 7,985,834	\$ 9,731,956	\$ 10,124,806	\$ 392,850
Other state sources	1,852,137	1,098,252	701,028	(397,224)
Other local sources	122,030	122,030	167,157	45,127
Total Revenues	9,960,001	10,952,238	10,992,991	40,753
EXPENDITURES¹				
Certificated salaries	4,655,603	5,053,434	4,966,455	86,979
Classified salaries	633,846	659,072	722,050	(62,978)
Employee benefits	2,533,654	2,657,865	2,538,389	119,476
Books and supplies	208,145	2,607,134	510,803	2,096,331
Services and operating expenditures	2,447,890	2,307,486	2,736,818	(429,332)
Other outgo	1,479	1,479	-	1,479
Total Expenditures	10,480,617	13,286,470	11,474,515	1,811,955
Deficiency of Revenues Over Expenditures	(520,616)	(2,334,232)	(481,524)	1,852,708
Other Financing Sources				
Transfers in	240,596	277,679	185,770	(91,909)
NET CHANGE IN FUND BALANCES	(280,020)	(2,056,553)	(295,754)	1,760,799
Fund Balance - Beginning	2,542,580	2,542,580	2,542,580	-
Fund Balance - Ending	\$ 2,262,560	\$ 486,027	\$ 2,246,826	\$ 1,760,799

¹ On behalf payments of \$245,051 in the Charter Fund are excluded from the actual revenues and expenditures, but have been included in the basic financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Federal sources	\$ 8,023,066	\$ 7,976,116	\$ 8,854,769	\$ 878,653
Other state sources	630,000	630,000	678,232	48,232
Other local sources	756,000	759,000	700,604	(58,396)
Total Revenues	<u>9,409,066</u>	<u>9,365,116</u>	<u>10,233,605</u>	<u>868,489</u>
EXPENDITURES				
Classified salaries	2,280,380	2,324,366	2,297,060	27,306
Employee benefits	2,780,116	2,748,330	2,672,971	75,359
Books and supplies	4,340,121	4,311,625	4,123,190	188,435
Services and operating expenditures	50,307	23,194	250,858	(227,664)
Other outgo	256,278	254,999	-	254,999
Total Expenditures	<u>9,707,202</u>	<u>9,662,514</u>	<u>9,344,079</u>	<u>318,435</u>
Deficiency of Revenues Over Expenditures	(298,136)	(297,398)	888,442	1,185,840
Fund Balance - Beginning	<u>3,193,280</u>	<u>3,193,280</u>	<u>3,193,280</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,895,144</u>	<u>\$ 2,895,882</u>	<u>\$ 4,081,722</u>	<u>\$ 1,185,840</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b - a] / c)</u>
May 1, 2013	\$ 2,208,592	\$ 60,161,152	\$ 57,952,560	3.67%	\$ 116,303,100	49.83%
April 1, 2011	1,913,997	64,844,554	62,930,557	2.95%	90,439,263	69.58%
March 1, 2009	1,650,064	65,626,212	63,976,148	2.51%	113,529,631	56.35%

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education & ESL	84.002A	14508	\$ 118,744
Priority 5, Adult Secondary Education	84.002	13978	40,803
English Literacy & Civics Education	84.002A	14109	52,186
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	4,709,025
Title I-Migrant Education (Regular and Summer Program)	84.011	14326	4,096,679
Title I-Even Start Migrant Education	84.214	14768	273,271
Title I-School Site Improvements	84.377	14971	2,868,275
Title I - ARRA, School Site Improvements	84.388	15020	276,567
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330B	14831	41,292
Title II-Teacher Quality	84.367	14341	802,375
Title II-Mathematics and Science Partnerships	84.366	14512	654,452
Title III-Limited English Proficiency Student	84.365	10084	1,152,515
Title IV-21st Century Community Centers Learning	84.287	14349	3,687,283
Alcohol Abuse Reduction Grant	84.184A	1	
Individuals with Disability Act:			
Basic Local Assistance Entitlement	84.027	13379	3,336,972
Mental Health Allocation Plan, Part B, Section 611 Private Schools	84.027	14468	220,652
Preschool Grants	84.173	13430	174,326
Preschool Local Entitlement	84.027A	13682	350,214
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	225,506
California Preschool Instructional Network	84.173	14530	160,609
Subtotal			<u>23,488,269</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued)
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Child Development Act:			
Federal Child Care Center Base	93.596	13609	526,288
Head Start	93.600	10016	6,369,398
Medi-Cal Billing Option	93.778	10013	695,664
Subtotal			<u>7,591,350</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
National School Lunch Act:			
National School Lunch Program	10.555	13396	5,284,856
National School Breakfast	10.553	13390	984
Meal Supplements	10.553	13390	473,178
Especially Needy Breakfast	10.553	13526	2,537,384
Child and Adult Care Food Program	10.558	23165	193,596
Fresh Fruits and Vegetables	10.582	14968	364,772
Commodity grants at fair market value	10.555	13396	584,532
Subtotal			<u>9,439,302</u>
Total Expenditures of Federal Awards			<u>\$ 40,518,921</u>

¹ Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

The Pajaro Valley Unified School District was established in 1964 and consists of an area comprising approximately 150 square miles. The District operates sixteen elementary, six middle, three high schools, one community day school, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Kim De Serpa	President	2014
Dr. Lupe Rivas	Vice President	2016
Leslie De Rose	Member	2014
Karen Osmundson	Member	2016
Jeff Ursino	Member	2014
Willie Yahiro	Member	2014
Maria Orozco	Member	2016

ADMINISTRATION

Dorma Baker	Superintendent
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See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE -DISTRICT
FOR THE YEAR ENDED JUNE 30, 2014**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,012.24	6,022.23
Fourth through sixth	4,194.94	4,196.98
Seventh and eighth	2,487.17	2,485.75
Ninth through twelfth	4,710.94	4,662.97
Total Regular ADA	<u>17,405.29</u>	<u>17,367.93</u>
Extended Year Special Education		
Transitional kindergarten through third	6.64	6.64
Fourth through sixth	5.41	5.41
Seventh and eighth	3.21	3.21
Ninth through twelfth	11.66	11.66
Total Extended Year Special Education	<u>26.92</u>	<u>26.92</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.19	0.47
Fourth through sixth	1.09	1.09
Seventh and eighth	4.33	4.87
Ninth through twelfth	7.34	7.51
Total Special Education, Nonpublic, Nonsectarian Schools	<u>12.95</u>	<u>13.94</u>
Community Day School		
Seventh and eighth	6.99	6.79
Ninth through twelfth	33.41	34.44
Total Community Day School	<u>40.40</u>	<u>41.23</u>
Total ADA	<u><u>17,485.56</u></u>	<u><u>17,450.02</u></u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

CHARTER SCHOOLS	Academic/ Vocational	Alianza	Linscott	Watsonville	Pacific Coast	Total
Second Period Report						
Classroom-Based						
Transitional Kindergarten through third	-	309.82	124.28	161.24	-	595.34
Fourth through sixth	-	205.82	87.00	93.96	-	386.78
Seventh and eighth	-	103.47	56.01	-	-	-
Ninth through twelfth	72.49	-	-	-	-	72.49
Total Classroom-Based	72.49	619.11	267.29	255.20	-	1,054.61
Non Classroom-Based						
Transitional Kindergarten through third	-	-	-	-	32.71	32.71
Fourth through sixth	-	-	-	-	30.12	30.12
Seventh and eighth	-	-	-	-	26.78	26.78
Ninth through twelfth	-	-	-	-	188.56	188.56
Total Non Classroom-Based	-	-	-	-	278.17	278.17
Total Charter School	72.49	619.11	267.29	255.20	278.17	1,332.78
Annual Report						
Classroom-Based						
Transitional Kindergarten through third	-	308.72	124.37	161.20	-	594.29
Fourth through sixth	-	205.36	87.16	93.60	-	386.12
Seventh and eighth	-	103.38	55.76	-	-	159.14
Ninth through twelfth	71.18	-	-	-	-	71.18
Total Classroom-Based	71.18	617.46	267.29	254.80	-	1,210.73
Non Classroom-Based						
Transitional Kindergarten through third	-	-	-	-	32.94	32.94
Fourth through sixth	-	-	-	-	30.32	30.32
Seventh and eighth	-	-	-	-	27.33	27.33
Ninth through twelfth	-	-	-	-	188.70	188.70
Total Non Classroom-Based	-	-	-	-	279.29	279.29
Total Charter School	71.18	617.46	267.29	254.80	279.29	1,490.02

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Grade Level</u>	<u>1986-87 Actual Minutes</u>	<u>Reduced 1986-87 Actual Minutes</u>	<u>2013-14 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	36,000	180	In compliance
Grades 1 - 3					
Grade 1	50,400	49,000	50,653	180	In compliance
Grade 2	50,400	49,000	50,653	180	In compliance
Grade 3	50,400	49,000	50,653	180	In compliance
Grades 4 - 6					
Grade 4	54,000	52,500	54,058	180	In compliance
Grade 5	54,000	52,500	54,058	180	In compliance
Grade 6	54,000	52,500	54,058	180	In compliance
Grades 7 - 8					
Grade 7	54,000	52,500	55,902	180	In compliance
Grade 8	54,000	52,500	55,902	180	In compliance
Grades 9 - 12					
Grade 9	64,800	63,000	65,094	180	In compliance
Grade 10	64,800	63,000	65,094	180	In compliance
Grade 11	64,800	63,000	65,094	180	In compliance
Grade 12	64,800	63,000	65,094	180	In compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

Grade Level	Education Code Section 46201.2 Required Minutes	2013-2014 Actual Minutes	Status
Academic Vocational Charter Institute			
Grade 9	62,949	65,615	In Compliance
Grade 10	62,949	65,615	In Compliance
Grade 11	62,949	65,615	In Compliance
Grade 12	62,949	65,615	In Compliance
Alianza Elementary Charter School			
Kindergarten	34,971	36,225	In Compliance
Grade 1	48,960	56,050	In Compliance
Grade 2	48,960	56,050	In Compliance
Grade 3	48,960	56,050	In Compliance
Grade 4	52,457	54,260	In Compliance
Grade 5	52,457	54,260	In Compliance
Grade 6	52,457	54,260	In Compliance
Grade 7	52,457	54,260	In Compliance
Grade 8	52,457	54,260	In Compliance
Linscott Elementary Charter School			
Kindergarten	34,971	40,500	In Compliance
Grade 1	48,960	52,290	In Compliance
Grade 2	48,960	52,290	In Compliance
Grade 3	48,960	52,290	In Compliance
Grade 4	52,457	54,255	In Compliance
Grade 5	52,457	54,255	In Compliance
Grade 6	52,457	54,255	In Compliance
Grade 7	52,457	54,255	In Compliance
Grade 8	52,457	54,255	In Compliance
Watsonville Charter School of Arts			
Kindergarten	34,971	39,560	In Compliance
Grade 1	48,960	52,060	In Compliance
Grade 2	48,960	52,060	In Compliance
Grade 3	48,960	52,060	In Compliance
Grade 4	52,457	55,040	In Compliance
Grade 5	52,457	55,240	In Compliance
Grade 6	52,457	55,040	In Compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Charter Fund	Internal Service Fund
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE			
Balance, June 30, 2014, Unaudited Actuals	\$ 38,576,402	\$ 2,154,541	\$ 15,836,989
Increase in:			
Cash in county treasury	-	-	593,363
Accounts receivable	-	92,285	-
Decrease in:			
Accounts receivable	(1,867,514)	-	-
Balance, June 30, 2014, Audited Financial Statements	<u>\$ 36,708,888</u>	<u>\$ 2,246,826</u>	<u>\$ 16,430,352</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND				
Revenues	\$ 188,193,594	\$ 180,219,997	\$ 167,468,396	\$ 172,845,394
Other sources	-	1,084	7,039,362	517,020
Total Revenues and Other Sources	<u>188,193,594</u>	<u>180,221,081</u>	<u>174,507,758</u>	<u>173,362,414</u>
Expenditures	202,004,598	188,969,579	171,369,041	166,307,000
Other uses and transfers out	2,256,445	1,678,245	651,792	753,103
Total Expenditures and Other Uses	<u>204,261,043</u>	<u>190,647,824</u>	<u>172,020,833</u>	<u>167,060,103</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (16,067,449)</u>	<u>\$ (10,426,743)</u>	<u>\$ 2,486,925</u>	<u>\$ 6,302,311</u>
ENDING FUND BALANCE	<u>\$ 20,641,439</u>	<u>\$ 36,708,888</u>	<u>\$ 47,135,631</u>	<u>\$ 44,648,706</u>
AVAILABLE RESERVES ²	<u>\$ 11,304,469</u>	<u>\$ 22,936,155</u>	<u>\$ 32,380,792</u>	<u>\$ 34,128,004</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>5.53%</u>	<u>12.03%</u>	<u>18.82%</u>	<u>20.43%</u>
LONG-TERM OBLIGATIONS	<u>\$ 165,524,607</u>	<u>\$ 174,308,991</u>	<u>\$ 170,429,240</u>	<u>\$ 88,591,198</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	<u>17,426</u>	<u>17,486</u>	<u>17,241</u>	<u>17,199</u>

The General Fund balance has decreased by \$7,939,818 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$16,067,449. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred its first operating deficit in three years and anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by \$85,717,793 over the past two years.

Average daily attendance has increased by 287 over the past two years. A decline of 60 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On-behalf payments of \$3,704,752, \$3,700,126, and \$3,664,078, in the General Fund have been excluded from the revenues and expenditures for fiscal years ending June 30, 2014, 2013, and 2012, respectively.

⁴ Excludes Adult Education, Charter Schools ADA and the district funded county programs.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Academic Vocational Charter Institute	Yes
Alianza Elementary Charter School	Yes
Linscott Elementary Charter School	Yes
Pacific Coast Charter School	Yes
Watsonville Charter School of Arts	Yes
Ceiba College Preparatory Academy	No

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**CHARTER SCHOOLS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Linscott Elementary</u>	<u>Watsonville School of Arts</u>	<u>Pacific Coast Charter School</u>	<u>Alianza Elementary</u>	<u>Academic Vocational</u>	<u>Total</u>
Fund balance, beginning	\$ 596,624	\$ 151,704	\$ 975,432	\$ 815,307	\$ 3,513	\$ 2,542,580
Revenues ¹	1,831,846	1,924,576	1,990,880	4,702,709	728,751	11,178,762
Expenditures ¹	(1,899,953)	(2,012,917)	(1,916,105)	(4,949,950)	(695,591)	(11,474,516)
Fund balance, ending	<u>\$ 528,517</u>	<u>\$ 63,363</u>	<u>\$ 1,050,207</u>	<u>\$ 568,066</u>	<u>\$ 36,673</u>	<u>\$ 2,246,826</u>

¹ On behalf payments of \$245,051 in the Charter Fund are excluded from the actual revenues and expenditures, but have been included in the basic financial statements.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FIRST 5 MONTEREY GRANT
SCHEDULE OF GRANT REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Grantor/Program</u>	<u>Revenue</u>	<u>Expenditures</u>
First 5 Monterey	<u>\$ 95,934</u>	<u>\$ 95,934</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 8,075	\$ 129,091	\$ 1,676,376
Receivables	214,850	568,537	-
Due from other funds	12,854	334,337	-
Total Assets	\$ 235,779	\$ 1,031,965	\$ 1,676,376
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 98,191	\$ 455,204	\$ 53,129
Due to other funds	97,876	7,568	545
Unearned revenue	39,712	531,064	-
Total Liabilities	235,779	993,836	53,674
Fund Balances:			
Restricted	-	38,129	-
Committed	-	-	1,622,702
Total Fund Balances	-	38,129	1,622,702
Total Liabilities and Fund Balances	\$ 235,779	\$ 1,031,965	\$ 1,676,376

See accompanying note to supplementary information.

Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 1,483,279	\$ 9,104,522	\$ 12,401,343
-	-	783,387
-	-	347,191
<u>\$ 1,483,279</u>	<u>\$ 9,104,522</u>	<u>\$ 13,531,921</u>
\$ 150	\$ -	\$ 606,674
292	-	106,281
-	-	570,776
<u>442</u>	<u>-</u>	<u>1,283,731</u>
1,482,837	9,104,522	10,625,488
-	-	1,622,702
<u>1,482,837</u>	<u>9,104,522</u>	<u>12,248,190</u>
<u>\$ 1,483,279</u>	<u>\$ 9,104,522</u>	<u>\$ 13,531,921</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ 211,733	\$ 6,895,686	\$ -
Other State sources	105,978	2,764,926	-
Other local sources	430,298	442,974	32,151
Total Revenues	748,009	10,103,586	32,151
EXPENDITURES			
Current			
Instruction	1,136,391	6,523,501	-
Instruction-related activities:			
Supervision of instruction	282,529	2,056,784	-
Instructional library, media, and technology	50,342	99,197	-
School site administration	624,242	84,312	-
Pupil services:			
Food services	-	762	-
All other pupil services	68,432	1,039,321	-
Administration:			
All other administration	40,707	279,540	-
Plant services	58,701	453,131	499,670
Facility acquisition and construction	-	24,270	265,267
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	2,261,344	10,560,818	764,937
Excess (Deficiency) of Revenues Over Expenditures	(1,513,335)	(457,232)	(732,786)
Other Financing Sources (Uses)			
Transfers in	1,008,410	484,065	-
NET CHANGE IN FUND BALANCES	(504,925)	26,833	(732,786)
Fund Balance - Beginning	504,925	11,296	2,355,488
Fund Balance - Ending	\$ -	\$ 38,129	\$ 1,622,702

See accompanying note to supplementary information

Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 7,107,419
-	64,839	2,935,743
847,345	8,628,329	10,381,097
<u>847,345</u>	<u>8,693,168</u>	<u>20,424,259</u>
-	-	7,659,892
-	-	2,339,313
-	-	149,539
-	-	708,554
-	-	762
-	-	1,107,753
-	-	320,247
420,483	-	1,431,985
130,514	-	420,051
-	2,510,000	2,510,000
-	3,841,303	3,841,303
<u>550,997</u>	<u>6,351,303</u>	<u>20,489,399</u>
296,348	2,341,865	(65,140)
-	-	1,492,475
<u>296,348</u>	<u>2,341,865</u>	<u>1,427,335</u>
1,186,489	6,762,657	10,820,855
<u>\$ 1,482,837</u>	<u>\$ 9,104,522</u>	<u>\$ 12,248,190</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that had been recorded as revenues in the fiscal year ended June 30, 2013 then spent during the fiscal year ended June 30, 2014. The unspent balances are reported as legally restricted ending fund balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 40,499,418
Add: Fair Market Value of Commodities not recorded in the financial statements	10.555	584,532
Less: Revenues for Medi-Cal Billing in excess of amounts paid	93.778	(565,029)
Total Schedule of Expenditures of Federal Awards		<u>\$ 40,518,921</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries, schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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 school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirement, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

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.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

Charter School Statement of Changes in Fund Balances

The charter school schedule of changes in fund balances provides information about the changes in fund balance in each of the five charter schools operated by the District.

First 5 Monterey Grant Schedule of Revenues and Expenditures

The First 5 Monterey grant schedule of revenues and expenditures provides information about the current year revenues and expenses of the grant program operated by the District.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Pajaro Valley Unified School District
Watsonville, 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 Pajaro Valley Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pajaro Valley Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pajaro Valley Unified School 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pajaro Valley Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pajaro Valley Unified School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of This Report

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



Palo Alto, California
December 15, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on Compliance for Each Major Federal Program

We have audited Pajaro Valley Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pajaro Valley Unified School District's (the District) major Federal programs for the year ended June 30, 2014. Pajaro Valley Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pajaro Valley Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Pajaro Valley Unified School 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Pajaro Valley Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Pajaro Valley Unified School 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 its major Federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pajaro Valley Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pajaro Valley Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California
December 15, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on State Compliance

We have audited Pajaro Valley Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Pajaro Valley Unified School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Pajaro Valley Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Pajaro Valley Unified School 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 opinions. Our audit does not provide a legal determination of Pajaro Valley Unified School District's compliance with those requirements.

Basis for Qualified Opinion [After School Education and Safety Program & Instructional Materials]

As described in the accompanying schedule of findings and questioned costs, Pajaro Valley Unified School District did not comply with requirements regarding After School Education and Safety program (2014-001) and Instructional Materials (2014-002) Compliance with such requirements is necessary, in our opinion, for Pajaro Valley Unified School District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Pajaro Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Programs

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

Other Matters

We noted certain matters that we reported to management of Pajaro Valley Unified School District in a separate letter dated December 15, 2014.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Yes
Determination of Funding for Non Classroom-Based Instruction	3	Yes
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for the California Clean Energy Jobs Act because funds received by the District were not used during the year.

Wassinek, Trine, Day & Co., LLP

Palo Alto, California
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies)?	<u>None reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133, Section .510(a)	<u>No</u>
Identification of major federal programs:	

84.010	Title I-Basic Grants Low-Income and Neglected
84.287	Title IV-21st Century Community Centers Learning
10.553 & 10.555	National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,215,568</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	
Unmodified for all programs except for the following programs which were qualified.	
	<u>Name of Program:</u>
	<u>After School Education and Safety</u>
	<u>Instructional Materials</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance
70000	Instructional Materials

2014-001 **Code: 40000 After School Education and Safety**

Criteria or Specific Requirements

Local Educational Agencies that offer after school education and safety (ASES) programs must adhere to *California Education Code* Section 8483 which requires all students that participate in the after school program for a full day, or if any pupil attended less than the full day, the attendance was consistent with the established early release policy.

Condition

After school attendance sign-out sheets do not indicate a reason for the early release according to the District's early release policy for every student that signs out before 6:00PM.

Questioned Costs

\$81,800

Context

Per examination of sign out sheets for the ASES program Auditors noted students listed that did not attend for a full day and did not indicate a reason that was consistent with the District's early release policy. From the Auditor's examination 147, or about 2% of the total students participating in the program, did not indicate a reason for leaving the program early.

Effect

The lack of any indication as to why the students were released early prohibits management from verifying that students are following the requirements of the program.

Cause

School site personnel were unaware of this requirement.

Recommendation

We recommend that the District provides regular and updated training and information to school site personnel in-charge of the after school education and safety programs regarding the requirements and importance of attendance reporting and the respective early release requirements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

Corrective Action Plan

- To ensure consistency, the Extended Learning department will develop a program-wide Sign Out sheet that will be used at all after school sites
- Training with after school Site Supervisors will be conducted at least twice per year to review program regulations, including Early Release policy and procedures
- Training with after school Office Assistants will also be conducted at least twice per year to review program requirements, which includes Early Release procedures and protocols
- Extended Learning department staff will audit sign-out sheets when conducting site visits

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

2014-002 **Code: 70000 Instructional Materials**

Criteria or Specific Requirements

The District's governing board prior to making a determination through a resolution as to the sufficiency of textbooks or other instructional materials, must hold a the public hearing or hearings required by *Education Code* Section 60119 on or before the end of the eighth week from the first day pupils attended school for that year.

Condition

The District held the public hearing designated for discussion and determination of the sufficiency of instructional materials on October 23, 2013. To be in compliance with this requirement the District needed to hold the public hearing on or before October 11, 2013.

Questioned Costs

Not Applicable.

Context

Per examination of Board Resolution 13-14-03, the Auditors noted that the public hearing regarding the sufficiency of instructional materials was held during the tenth week from the first day of school.

Effect

Holding the public hearing after the required time can affect the District's ability to provide sufficient instructional materials during the school year when they needed.

Cause

Responsible District employees were unavailable during this time to prepare and present to the Board such information on the sufficiency of instructional materials due to a medical emergency.

Recommendation

We recommend that the District cross-train personnel so that these responsibilities can be carried out in lieu of any unforeseeable event.

Corrective Action Plan

The staff member responsible for this report was injured and hospitalized just prior to the scheduled public hearing. In the future, there will be a second staff member assigned as a back-up in case of emergencies.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Financial Statement Findings

2013-1 Code 30000

Internal Controls

Finding

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility includes verifying the completeness of cash receipts collected at school sites for the sale of meals. The District implemented a new point-of-sale system at the beginning of the school year and had not established procedures to reconcile cash collections to sales reports.

Recommendation

Develop and implement procedures to reconcile cash receipts for the sale of school meals to point-of-sale system reports.

Current Status

Implemented.

2013-2 Code 3000

Internal Controls – Associated Student Body

Finding

During our visit at Cesar Chavez Middle School, we noted weaknesses in internal controls.

- No revenue potential forms were prepared.
- Ticket logs were not used to track the sales of tickets at school events.

During our visit to Aptos High School, we noted weaknesses in internal controls.

- No revenue potential forms were prepared.

Student approval was not documented for purchases made by the Athletics Club.

Recommendation

We recommended that the ASB prepare revenue potential/sales analysis for fund raising events. We also recommend that the ASB prepare and maintain documents that support all purchases, ticket logs for ticket sales, and documents that provide evidence of student authorization for all disbursements of ASB funds.

Current Status

Implemented.

Federal Awards Findings

None reported.

State Awards Findings

None reported.