

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2015**

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, 2015, 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 Standards*, issued by the Comptroller General of the United States; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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, each major fund and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2015, 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 Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 required supplementary information, such as management's discussion and analysis, budgetary comparison, other postemployment benefit information, the District's proportionate share of the net pension liability and the District's pension contribution, 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, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are 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 December 15, 2015, 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, 2015



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 2014-2015 Annual Financial Audit summarizes the District's financial performance during the 2014-2015 fiscal year ending June 30, 2015. 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, 2015

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, 2015

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, 2015**

THE DISTRICT AS A WHOLE

Net Position

The District’s net position was -\$81.1 million and -\$54.0 million for the fiscal years ended June 30, 2015 and 2014, respectively. Of this amount, -\$157.6 million and -\$156.9 million were unrestricted for fiscal years ending June 30, 2015 and 2014, 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	
	2015	2014*
Current and other assets	\$ 129,499,613	\$ 152,870,134
Loan receivable	1,878,915	2,024,952
Capital assets	141,954,423	142,361,430
Total Assets	273,332,951	297,256,516
Deferred charge on refunding	2,296,806	2,623,810
Current year pension contribution	12,581,266	9,968,558
Total Deferred Outflow of Resources	14,878,072	12,592,368
Current liabilities	27,374,275	21,712,074
Long-term debt	169,342,098	174,308,991
Aggregate net pension liability	135,891,024	167,819,013
Total Liabilities	332,607,397	363,840,078
Difference between actual and expected rate of investment return	36,692,145	-
Total Deferred Inflows of Resources	36,692,145	-
Net investment in capital assets	55,551,652	62,453,586
Restricted	20,979,189	40,501,957
Unrestricted	(157,619,360)	(156,946,737)
Total Net Position	\$ (81,088,519)	\$ (53,991,194)

*Adjusted for the adoption of GASB Statement No. 68.

The -\$157.6 million in unrestricted net position of governmental activities represents the accumulated results of all past years’ operations.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Changes in Net Position

The results of 2014-2015 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	
	2015	2014*
Revenues		
Program revenues:		
Charges for services	\$ 723,335	\$ 983,043
Operating grants and contributions	69,382,234	68,616,014
General revenues:		
Federal and state sources	102,513,325	88,793,969
Property taxes	63,367,431	61,119,533
Other general revenues	5,389,164	6,632,334
Total Revenues	241,375,489	226,144,893
Expenses		
Instruction related	193,279,515	179,619,607
Student support services	33,820,063	30,136,227
Administration	12,636,048	5,023,617
Maintenance and operations	21,042,314	19,737,650
Other	7,694,872	8,067,487
Total Expenses	268,472,812	242,584,588
Change in Net Position	\$ (27,097,323)	\$ (16,439,695)

*Not adjusted for the adoption of GASB Statement No. 68.

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2014-2015 was \$268.5 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only \$63.4 million. This is because \$70.1 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 \$135 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, 2015

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	
	2015	2014
Instruction and instruction related	\$ 142,454,411	\$ 126,523,092
Pupil services	20,128,138	16,997,815
General administration	10,645,340	3,394,511
Maintenance and operations	18,834,162	19,206,727
Other	6,305,192	6,863,386
Totals	\$ 198,367,243	\$ 172,985,531

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 2013-14, the ending balance increased by 2.8 percent from the district's June estimates. For 2014-15, the district's ending balance increased by 4.0 percent. This was primarily due to increases in LCFF revenue adopted by the state and a 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.

2014-15 fiscal year was the second year of working with the newly implemented Local Control Funding Formula (LCFF) and Local Control Accountability Plan (LCAP). The district engaged the various stakeholder groups to provide specific input and implementation requirements for the LCAP. The district continued to align the budget and its LCAP as required by law. The district's current year LCAP was adopted as part of its 2015-16 Budget.

As part of the LCAP the district brought in additional counselors, coaches to assist teachers in specific content areas, and continued to phase in the K-3 class-size reduction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015 and 2014, the District had \$142.0 million and \$142.4 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 \$0.4 million, or 0.3 percent, from last year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

TABLE 4

	Governmental Activities	
	2015	2014
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	11,556,908	6,277,875
Buildings and improvements	269,666,201	264,315,420
Equipment	5,837,139	5,613,474
Accumulated depreciation	(162,160,969)	(150,900,483)
Totals	\$ 141,954,423	\$ 142,361,430

This year’s additions to capital assets of \$10.8 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 \$9.7 million of the additions to capital assets were Measure L projects. Measure L was enacted by District voters in November 2012.

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	
	2015	2014*
General obligation bonds	\$ 132,204,928	\$ 137,835,042
Bond premium	5,119,830	5,404,190
Accumulated vacation - net	2,825,256	2,546,375
Supplemental employees retirement plan	922,287	2,935,966
Capital leases	2,280,557	702,702
Other post employment benefits	31,886,318	24,884,717
Net pension liability	135,891,024	167,819,013
Totals	\$ 311,130,200	\$ 342,128,004

*Adjusted for the adoption of GASB Statement No. 68.

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, capital leases, and other long-term debt. We present more detailed information regarding the District’s long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

As a result of the pension reform within the State of California, in 2014-15 the state required the District to record \$102.7 million and \$33.2 million as the District’s portion of the State Teachers Retirement System liability and California Public Employees Retirement System, respectively.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2014-2015 ARE NOTED BELOW:

During the 2014-15 fiscal year, as a result of the implementation of the LCFF and LCAP, the District experienced the following accomplishments:

- Visual and Performing Arts was introduced to the elementary schools through providing release time teachers and purchased musical instruments and art supplies
- The afterschool program was integrated with the curriculum department in order to support the daily activities in the classroom
- Brought in additional coaches to assist teachers in specific content areas
- Continued to phase in the K-3 class-size reduction
- Hired a Director of Equity, Categorical Program, and Accountability to coordinate English Language development assessment to identify areas of improvement
- Hired additional counselors to help students with social and emotional issues
- Hired additional parent liaisons at the district level to support continued parent outreach

FISCAL OUTLOOK FOR 2015-16

In considering the District Budget for the 2015-2016 year, the District Board and management used the following criteria:

The key assumptions in our forecast are:

1. Projection of LCFF revenue based on the FCMAT/BASC calculator
2. The District's ADA has been projected at the same level as prior year
3. Employee benefits will be increased by 1.48%
4. STRS and PERS (employee retirement systems) rates are increasing 1.85% and 0.076%, respectively

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, 2015

	Governmental Activities
ASSETS	
Deposits and investments	\$ 115,507,970
Receivables	13,621,440
Prepaid expenses	100,000
Stores inventories	270,203
Current portion of loan receivable	196,128
Noncurrent portion of loan receivable	1,682,787
Capital assets not depreciated	28,612,052
Capital assets, net of accumulated depreciation	113,342,371
Total Assets	273,332,951
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,296,806
Current year pension contribution	12,581,266
Total Deferred Outflows of Resources	14,878,072
LIABILITIES	
Accounts payable	8,682,392
Interest payable	1,893,830
Unearned revenue	2,373,059
Claim liabilities	8,527,916
Current portion of long-term obligations	5,897,078
Noncurrent portion of long-term obligations other than pensions	169,342,098
Aggregate net pension liability	135,891,024
Total Liabilities	332,607,397
DEFERRED INFLOWS OF RESOURCES	
Difference between actual and expected rate of investment return	36,692,145
Total Deferred Inflows of Resources	36,692,145
NET POSITION	
Net investment in capital assets	55,551,652
Restricted for:	
Debt service	4,513,846
Capital projects	1,799,890
Food program	4,334,960
Child development program	17,366
Charter schools	1,871,443
Self-Insurance	122,913
Educational programs	8,318,771
Unrestricted	(157,619,360)
Total Net Position	\$ (81,088,519)

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, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 148,739,717	\$ 71,655	\$ 37,574,856	\$ (111,093,206)
Instruction-related activities:				
Supervision of instruction	21,854,103	13,795	12,332,693	(9,507,615)
Instructional library, media, and technology	4,688,078	1,251	479,686	(4,207,141)
School site administration	17,997,617	635	350,533	(17,646,449)
Pupil services:				
Home-to-school transportation	7,391,319	451	23,753	(7,367,115)
Food services	10,559,874	571,316	9,386,148	(602,410)
All other pupil services	15,868,870	5,174	3,705,083	(12,158,613)
Administration:				
Data processing	2,240,744	174	7,609	(2,232,961)
All other administration	10,395,304	23,734	1,959,191	(8,412,379)
Plant services	21,042,314	5,319	2,202,833	(18,834,162)
Ancillary services	1,723,534	205	67,440	(1,655,889)
Community services	26,232	8	369	(25,855)
Interest on long-term obligations	5,196,437	-	-	(5,196,437)
Other outgo	748,669	29,618	1,292,040	572,989
Total Governmental Activities	\$ 268,472,812	\$ 723,335	\$ 69,382,234	(198,367,243)
General revenues and subventions:				
Property taxes, levied for general purposes				54,792,913
Property taxes, levied for debt service				8,125,690
Taxes levied for other specific purposes				448,828
Federal and State aid not restricted to specific purposes				102,513,325
Interest and investment earnings				120,162
Miscellaneous				5,269,000
				Subtotal, General Revenues
				171,269,918
				Change in Net Position
				(27,097,325)
				Net Position - Beginning, as restated (Note 18)
				(53,991,194)
				Net Position - Ending
				\$ (81,088,519)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015**

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 25,744,858	\$ 52,282,991	\$ 15,510,289	\$ 93,538,138
Receivables	10,356,293	-	3,265,147	13,621,440
Due from other funds	15,191,334	-	-	15,191,334
Prepaid expenses	100,000	-	-	100,000
Stores inventories	168,020	-	102,183	270,203
Total Assets	\$ 51,560,505	\$ 52,282,991	\$ 18,877,619	\$ 122,721,115
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,419,641	\$ 1,374,886	\$ 774,512	\$ 8,569,039
Due to other funds	-	2,368	1,983,316	1,985,684
Unearned revenue	1,836,762	-	536,297	2,373,059
Total Liabilities	8,256,403	1,377,254	3,294,125	12,927,782
Fund Balances:				
Nonspendable	388,020	-	102,183	490,203
Restricted	8,318,771	50,905,737	14,329,152	73,553,660
Committed	17,580,000	-	1,152,159	18,732,159
Assigned	3,531,928	-	-	3,531,928
Unassigned	13,485,383	-	-	13,485,383
Total Fund Balances	43,304,102	50,905,737	15,583,494	109,793,333
Total Liabilities and Fund Balances	\$ 51,560,505	\$ 52,282,991	\$ 18,877,619	\$ 122,721,115

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

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

JUNE 30, 2015

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

Total Fund Balance - Governmental Funds **\$ 109,793,333**

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	\$ 304,115,392	
Accumulated depreciation is	<u>(162,160,969)</u>	
Net Capital Assets		141,954,423

Expenditures relating to contributions made to pension plans are expensed when paid, but are not recognized on the accrual basis in the governmental funds. However, in the government-wide financial statements, as required by GASB 68, they are deferred and expensed in the subsequent year.

12,581,266

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.

(1,893,830)

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.

122,913

The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.

(36,692,145)

Long-term loan receivable is not received during the current year and, therefore are not reported as receivable in the government funds.

1,878,915

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.

2,296,806

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION (Continued)**

JUNE 30, 2015

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	(132,204,928)	
Unamortized bond premium	(5,119,830)	
Capital leases payable	(2,280,557)	
Compensated absences (vacations)	(2,825,256)	
Supplemental employee retirement plan	(922,287)	
OPEB obligations	(31,886,318)	
Net pension liability	<u>(135,891,024)</u>	
Total Long-Term Liabilities		(311,130,200)
Total Net Position - Governmental Activities		<u><u>\$ (81,088,519)</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Control Funding Formula	\$ 140,356,152	\$ -	\$ 12,979,931	\$ 153,336,083
Federal sources	21,675,092	-	15,992,400	37,667,492
Other state sources	29,454,110	-	5,360,774	34,814,884
Other local sources	3,507,507	263,361	10,506,854	14,277,722
Total Revenues	<u>194,992,861</u>	<u>263,361</u>	<u>44,839,959</u>	<u>240,096,181</u>
EXPENDITURES				
Instruction	122,467,914	-	15,930,895	138,398,809
Instruction-related activities:				
Supervision of instruction	17,480,180	-	2,572,648	20,052,828
Instructional library, media and technology	3,767,301	-	519,532	4,286,833
School site administration	11,444,337	-	5,057,170	16,501,507
Pupil services:				
Home-to-school transportation	6,748,749	-	-	6,748,749
Food services	-	-	9,720,847	9,720,847
All other pupil services	13,323,292	-	1,233,821	14,557,113
Administration:				
Data processing	2,082,487	-	-	2,082,487
All other administration	8,497,522	-	804,265	9,301,787
Plant services	16,494,721	892,339	1,926,191	19,313,251
Facility acquisition and construction	849,390	9,875,565	170,018	10,894,973
Ancillary services	1,557,521	-	30,924	1,588,445
Community services	24,380	-	-	24,380
Other outgo	602,632	-	-	602,632
Debt service				
Principal	689,894	-	6,250,000	6,939,894
Interest and other	18,789	-	4,589,486	4,608,275
Total Expenditures	<u>206,049,109</u>	<u>10,767,904</u>	<u>48,805,797</u>	<u>265,622,810</u>
Excess of Expenditures Over Revenues	<u>(11,056,248)</u>	<u>(10,504,543)</u>	<u>(3,965,838)</u>	<u>(25,526,629)</u>
Other Financing Sources (Uses)				
Transfers in	16,356,307	-	972,594	17,328,901
Other sources	2,267,749	-	-	2,267,749
Transfers out	(972,594)	-	-	(972,594)
Net Financing Sources (Uses)	<u>17,651,462</u>	<u>-</u>	<u>972,594</u>	<u>18,624,056</u>
NET CHANGE IN FUND BALANCES	6,595,214	(10,504,543)	(2,993,244)	(6,902,573)
Fund Balance - Beginning	36,708,888	61,410,280	18,576,738	116,695,906
Fund Balance - Ending	<u>\$ 43,304,102</u>	<u>\$ 50,905,737</u>	<u>\$ 15,583,494</u>	<u>\$ 109,793,333</u>

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 FOR THE YEAR ENDED JUNE 30, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (6,902,573)
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	\$ (11,260,486)	
Capital outlays	<u>10,853,479</u>	
Net Expense Adjustment		(407,007)

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 \$278,882. (278,882)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability during the year. (2,151,448)

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. 689,894

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. 6,250,000

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. 74,368

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, 2015**

Accreted interest on capital appreciation bonds is not recorded in the governmental funds, but it increases the bond principal in the statement of net position and increases interest expense in the statement of activities.		(619,886)
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.		(7,001,601)
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)
Equipment acquired under the terms of a capital lease is recognized as revenues in the governmental funds but is recognized as liabilities in the government-wide statements.		(2,267,749)
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.		2,013,679
Amounts loaned to charter schools are 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.		(146,037)
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 expenses of the internal service fund is reported with governmental activities.		<u>(16,307,439)</u>
Change in Net Position of Governmental Activities		<u><u>\$ (27,097,325)</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, 2015**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 21,969,832
Total Current Assets	<u>21,969,832</u>
LIABILITIES	
Current Liabilities	
Accounts payable	113,353
Due to other funds	13,205,650
Non-current Liabilities	
Claim liabilities	<u>8,527,916</u>
Total Current Liabilities	<u>21,846,919</u>
NET POSITION	
Restricted for insurance programs	<u>122,913</u>
Total Net Position	<u><u>\$ 122,913</u></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, 2015**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
In-district contributions	\$ 5,181,769
Total Operating Revenues	<u>5,181,769</u>
OPERATING EXPENSES	
Claims and insurance expense	5,218,956
Total Operating Expenses	<u>5,218,956</u>
Operating deficit	<u>(37,187)</u>
NONOPERATING REVENUES	
Interest income	86,055
Transfers out	(16,356,307)
Total Nonoperating Expenses	<u>(16,270,252)</u>
Change in Net Position	(16,307,439)
Total Net Position - Beginning	<u>16,430,352</u>
Total Net Position - Ending	<u>\$ 122,913</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, 2015**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 5,181,919
Cash received from assessments made to other funds	97,376
Cash payments for insurance claims	2,274,395
Net Cash Provided by Operating Activities	<u>7,553,690</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Transfers out	(16,356,307)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	86,055
Net Decrease in Cash and Cash Equivalents	<u>(8,716,562)</u>
Cash and Cash Equivalents - Beginning	30,686,394
Cash and Cash Equivalents - Ending	<u>\$ 21,969,832</u>
 RECONCILIATION OF OPERATING DEFICIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating deficit	\$ (37,187)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	150
Due from other funds	97,376
Accrued liabilities	(627,267)
Claims liabilities	(2,795,720)
Due to other funds	10,916,338
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,553,690</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, 2015**

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 4,713,893	\$ 2,304,341	\$ 360,617
Accounts receivable	-	1,500	-
Total Assets	<u>4,713,893</u>	<u>2,305,841</u>	<u>\$ 360,617</u>
LIABILITIES			
Accounts payable	51,705	251,684	\$ -
Due to student groups	-	-	360,617
Total Liabilities	<u>51,705</u>	<u>251,684</u>	<u>\$ 360,617</u>
NET POSITION			
Held in trust for scholarship and retiree benefits	4,662,188	2,054,157	
Total Net Position	<u>\$ 4,662,188</u>	<u>\$ 2,054,157</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, 2015**

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 206,782
District contributions	3,770,427	-
Investment income	8,832	10,171
Total Additions	<u>3,779,259</u>	<u>216,953</u>
DEDUCTIONS		
Benefit payments	3,305,675	-
Scholarships awarded	-	207,640
Total Deductions	<u>3,305,675</u>	<u>207,640</u>
Change in Net Position	473,584	9,313
Net Position - Beginning	4,188,604	2,044,844
Net Position - Ending	<u>\$ 4,662,188</u>	<u>\$ 2,054,157</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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), Self Insured Schools of California (SISC) for medical and vision insurance, 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.

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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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).

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 obligations.

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 Fund 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, 2015

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, 2015

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

JUNE 30, 2015

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, 2015, 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

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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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized amount on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability.

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2015, 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.

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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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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.

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

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.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$157,850,455. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 93,538,138
Proprietary fund	21,969,832
Fiduciary funds	7,378,851
Total Deposits and Investments	<u><u>\$ 122,886,821</u></u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 1,652,905
Cash in revolving	55,000
Investments	121,178,916
Total Deposits and Investments	<u><u>\$ 122,886,821</u></u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015. 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.

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	\$ 23,028	1.88
Mutual Funds	2,602,771	2,602,771	N/A
County Pool	118,556,245	118,463,178	1.00
Total	\$ 121,178,916	\$ 121,088,977	

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, 2015, the District's bank balance of \$990,825 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government				
Categorical aid	\$ 5,446,057	\$ 2,212,055	\$ 7,658,112	\$ -
State Government				
State principal apportionment	1,363,633	133,530	1,497,163	-
Categorical aid	864,805	643,614	1,508,419	-
Lottery	1,654,969	133,833	1,788,802	-
Other Local Sources	1,026,829	142,115	1,168,944	1,500
Total	<u>\$ 10,356,293</u>	<u>\$ 3,265,147</u>	<u>\$ 13,621,440</u>	<u>\$ 1,500</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	6,277,879	9,770,814	4,491,785	11,556,908
Total Capital Assets Not Being Depreciated	<u>23,333,023</u>	<u>9,770,814</u>	<u>4,491,785</u>	<u>28,612,052</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	264,315,416	5,350,785	-	269,666,201
Furniture and Equipment	5,613,474	223,665	-	5,837,139
Total Capital Assets Being Depreciated	<u>269,928,890</u>	<u>5,574,450</u>	<u>-</u>	<u>275,503,340</u>
Less Accumulated Depreciation:				
Buildings and Improvements	146,998,776	10,952,643	-	157,951,419
Furniture and Equipment	3,901,707	307,843	-	4,209,550
Total Accumulated Depreciation	<u>150,900,483</u>	<u>11,260,486</u>	<u>-</u>	<u>162,160,969</u>
Capital Assets Being Depreciated, Net Governmental Activities	<u>119,028,407</u>	<u>(5,686,036)</u>	<u>-</u>	<u>113,342,371</u>
Capital Assets, Net	<u>\$ 142,361,430</u>	<u>\$ 4,084,778</u>	<u>\$ 4,491,785</u>	<u>\$ 141,954,423</u>

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

Governmental Activities	
Instruction	\$ 6,485,133
Supervision of instruction	939,642
Instructional library and media	200,874
School site administration	773,233
Home to school transpiration	316,235
Food services	455,502
All other pupil services	682,122
Ancillary services	74,432
Community services	1,142
All general administration	329,603
Data processing services	97,582
Plant services	904,986
Total Depreciation Expense	<u>\$ 11,260,486</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, between major and non-major governmental funds, proprietary funds and fiduciary funds are as follows:

Due To	Due From General Fund
Building Fund	\$ 2,368
Non-Major Governmental Funds	1,983,316
Proprietary Fund	13,205,650
Total	<u>\$ 15,191,334</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

Transfer Out	Transfer In		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 972,594	\$ 972,594
Proprietary Fund	16,356,307	-	16,356,307
Total	<u>\$ 16,356,307</u>	<u>\$ 972,594</u>	<u>\$ 17,328,901</u>

The General Fund transferred to the Cafeteria Fund to support the District's cafeteria operations including providing assistance to student outstanding accounts.	\$ 4,904
The General Fund transferred to the Adult Education Fund to support its program.	331,425
The General Fund transferred to the Charter School Fund to support the schools' operations.	272,249
The Self-Insurance Fund transferred to the General Fund an operating surplus from the District's insurance program.	16,356,307
The General Fund transferred to the Child Development Fund to support the child development program.	364,016
Total	<u>\$ 17,328,901</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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. The \$2,296,806 balance of the deferred outflows of resources at June 30, 2015 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. The District's current year pension contribution of \$10,574,391 was made after the pension liability measurement date, June 30, 2014. Therefore, the recognition of current year payment is deferred and will be recognized as a pension expense in fiscal year 2015-16 (see Note 13 for more information on pension expense). In addition, adjustment of changes in proportionate share of \$2,006,875 will be amortized over a closed-three year period.

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

	Balance June 30, 2014	Accretion/ Additions	Deductions	Balance June 30, 2015
Deferred charges on refunding	\$ 2,623,810	\$ -	\$ 327,004	\$ 2,296,806
Current year District's pension contribution	9,968,558	12,581,266	9,968,558	12,581,266
Total	<u>\$ 12,592,368</u>	<u>\$ 12,581,266</u>	<u>\$ 10,295,562</u>	<u>\$ 14,878,072</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 1,606,593	\$ 1,374,886	\$ 277,236	\$ 3,258,715	\$ 113,353	\$ 251,684
Salaries and benefits	4,813,048	-	497,276	5,310,324	-	-
Other	-	-	-	-	-	51,705
Total	<u>\$ 6,419,641</u>	<u>\$ 1,374,886</u>	<u>\$ 774,512</u>	<u>\$ 8,569,039</u>	<u>\$ 113,353</u>	<u>\$ 303,389</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 389,273	\$ 176,849	\$ 566,122
State categorical aid	58,781	-	58,781
Other local	1,388,708	359,448	1,748,156
Total	<u>\$ 1,836,762</u>	<u>\$ 536,297</u>	<u>\$ 2,373,059</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, 2014	Accretion/ Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 137,835,042	\$ 619,886	\$ 6,250,000	\$ 132,204,928	\$ 4,085,000
Bond premium	5,404,190	-	284,360	5,119,830	284,360
Accumulated vacation - net	2,546,374	278,882	-	2,825,256	-
Capital leases	702,702	2,267,749	689,894	2,280,557	605,431
Other postemployment benefits	24,884,717	10,772,028	3,770,427	31,886,318	-
Supplemental employees retirement benefits	2,935,966	-	2,013,679	922,287	922,287
Net pension liability	167,819,013	-	31,927,989	135,891,024	-
Total	<u>\$ 342,128,004</u>	<u>\$ 13,938,545</u>	<u>\$ 44,936,349</u>	<u>\$ 311,130,200</u>	<u>\$ 5,897,078</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. Accumulated vacation, supplemental employee retirement benefits, and net pension liability are paid by the funds for which the employees worked.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding June 30, 2014	Accreted	Redeemed	Outstanding June 30, 2015
2005	2023	3.00%-5.31%	\$ 40,215,000	\$ 4,620,000	\$ -	\$ 2,200,000	\$ 2,420,000
2005	2030	3.00%-5.31%	18,254,288	24,085,042	619,886	245,000	24,459,928
2013	2048	3.00%-5.00%	68,540,000	68,540,000	-	3,330,000	65,210,000
2013	2038	0.63%-5.12%	11,460,000	11,460,000	-	15,000	11,445,000
2013	2023	0.73%-3.19%	19,675,000	19,450,000	-	395,000	19,055,000
2013	2023	2.00%-4.00%	9,765,000	9,680,000	-	65,000	9,615,000
				<u>\$ 137,835,042</u>	<u>\$ 619,886</u>	<u>\$ 6,250,000</u>	<u>\$ 132,204,928</u>

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	4,305,000	3,974,336	8,279,336
2021-2025	19,015,873	25,474,718	44,490,591
2026-2030	12,433,414	38,259,165	50,692,579
2031-2035	7,360,000	15,797,592	23,157,592
2036-2040	14,985,000	13,040,452	28,025,452
2041-2045	25,910,000	8,021,375	33,931,375
2046-2048	22,285,000	1,473,369	23,758,369
Subtotal	<u>122,699,287</u>	<u>\$ 122,942,443</u>	<u>\$ 245,641,730</u>
Accretion to date	9,505,641		
Total general obligation bonds	<u>\$ 132,204,928</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$2,825,256.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Capital Leases

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

	Porter Building	School Buses	School Buses	Total
Balance, July 1, 2014	\$ 92,366	\$ 651,066	\$ -	\$ 743,432
Additions	-	-	2,346,614	2,346,614
Payments	92,366	162,766	453,550	708,682
Balance, July 1, 2015	<u>\$ -</u>	<u>\$ 488,300</u>	<u>\$ 1,893,064</u>	<u>\$ 2,381,364</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2016	\$ 647,583
2017	639,974
2018	632,229
2019	461,578
Total	<u>2,381,364</u>
Less: Amount Representing Interest	100,807
Present Value of Minimum Lease Payments	<u>\$ 2,280,557</u>

Supplemental Employees Retirement Plan (SERP)

The outstanding balance for the Supplemental Employee Retirement Plans as of June 30, 2015 consists of the 2012 Plan's amount of \$922,287.

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, 2015, the amount of the trust fund account balance amounted to \$2,585,688, 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, 2015

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, 2015, 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 \$27,405,258, 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, 2015, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations and the related trust fund account balance amounted to \$1,060,000 and \$1,081,249, respectively.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 55,000
Stores inventories	168,020	-	102,183	270,203
Prepaid expenditures	100,000	-	-	100,000
Other reserve	65,000	-	-	65,000
Total Nonspendable	388,020	-	102,183	490,203
Restricted				
Educational programs	8,318,771	-	1,888,809	10,207,580
Food program	-	-	4,232,777	4,232,777
Capital projects	-	50,905,737	1,799,890	52,705,627
Debt services	-	-	6,407,676	6,407,676
Total Restricted	8,318,771	50,905,737	14,329,152	73,553,660
Committed				
Deferred maintenance programs	-	-	1,152,159	1,152,159
Stabilization	17,580,000	-	-	17,580,000
Total Committed	17,580,000	-	1,152,159	18,732,159
Assigned				
Other	3,531,928	-	-	3,531,928
Total Assigned	3,531,928	-	-	3,531,928
Unassigned				
Reserve for economic uncertainties	6,116,533	-	-	6,116,533
Remaining unassigned	7,368,850	-	-	7,368,850
Total Unassigned	13,485,383	-	-	13,485,383
Total	\$ 43,304,102	\$ 50,905,737	\$ 15,583,494	\$ 109,793,333

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 198 retirees and beneficiaries currently receiving benefits and 1,978 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 2014-2015, the District contributed \$3,770,427 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	\$ 9,154,521
Interest on net OPEB obligation	1,617,507
Annual OPEB cost (expense)	<u>10,772,028</u>
Contributions made	<u>(3,770,427)</u>
Increase in net OPEB obligation	7,001,601
Net OPEB obligation, beginning of year	24,884,717
Net OPEB obligation, end of year	<u><u>\$ 31,886,318</u></u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
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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,	Amount OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Asset/Obligation
2015	\$ 10,772,028	\$ 3,770,427	35.00%	\$ 31,886,318
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

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])
April 1, 2015	\$ 2,534,396	\$ 71,971,950	\$ 69,437,554	3.52%	\$ 120,692,614	57.53%

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 April 1, 2015, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 6.5 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 April 1, 2015, was 20 years. The actuarial value of assets as of April 1, 2015 was \$2,534,396.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, 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>
Public Insurance Program for Schools	Workers' Compensation (Incidents after 7/1/2012)	\$ 1,000,000
Schools Association For Excess Risk	Property	250,250,000
Schools Association For Excess Risk	Liability	25,000,000
Schools Association For Excess Risk	Excess Liability	25,000,000

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, 2015**

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, 2013 to June 30, 2015:

Liability Balance, July 1, 2013	\$ 13,616,220
Claims and changes in estimates	39,273,661
Claims payments	<u>(41,566,245)</u>
Liability Balance, June 30, 2014	11,323,636
Claims and changes in estimates	1,707,161
Claims payments	<u>(4,502,881)</u>
Liability Balance, June 30, 2015	<u>\$ 8,527,916</u>
Assets available to pay claims at June 30, 2015	<u><u>\$ 8,650,829</u></u>

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflow of Resources</u>	<u>Proportionate Share of Deferred Inflow of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalSTRS	\$ 102,724,052	\$ 6,752,541	\$ 25,295,602	\$ 8,868,403
CalPERS	<u>33,166,972</u>	<u>5,828,725</u>	<u>11,396,543</u>	<u>3,828,717</u>
Total	<u>\$ 135,891,024</u>	<u>\$ 12,581,266</u>	<u>\$ 36,692,145</u>	<u>\$ 12,697,120</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
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A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$6,752,541.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	102,724,052
State's proportionate share of the net pension liability associated with the District		<u>62,029,218</u>
Total	\$	<u><u>164,753,270</u></u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.1758 percent.

For the year ended June 30, 2015, the District recognized its proportionate share pension expense of \$8,868,403. In addition, the District recognized pension expense and revenue of \$5,355,124 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflow of Resources	Deferred inflow of Resources
Pension contributions subsequent to measurement date	\$ 6,752,541	\$ -
Net differences between projected and actual earnings on plan investments	-	<u>25,295,602</u>
Total	<u>\$ 6,752,541</u>	<u>\$ 25,295,602</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
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The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 6,323,901
2017	6,323,901
2018	6,323,901
2019	6,323,899
Total	<u>\$ 25,295,602</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
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Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

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

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 160,119,932
Current discount rate (7.60%)	\$ 102,724,052
1% increase	\$ 54,866,320

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) [and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013 annual actuarial valuation report, and Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$3,821,850.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$33,166,972. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June, 30 2014 and June 30, 2013, respectively was 0.2922% and 0.2735%, resulting in a net decrease in proportionate share of .0187%.

For the year ended June 30, 2015, the District recognized pension expense of \$3,828,717. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,821,850	\$ -
Adjustment to changes in proportionate share	2,006,875	-
Net differences between projected and actual earnings on plan investments	-	11,396,543
Total	\$ 5,828,725	\$ 11,396,543

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred outflows of resources related to the adjustment to changes in proportionate share will be amortized over a closed three-year period. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense. The amortization of deferred outflows and inflows of resources is as follows:

Year Ended June 30,	Deferred Outflow and Inflow Amortization
2016	\$ 2,180,177
2017	2,180,177
2018	2,180,177
2019	2,849,137
Total	\$ 9,389,668

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 58,182,440
Current discount rate (7.50%)	\$ 33,166,972
1% increase (8.50%)	\$ 12,264,027

Accumulated Program for Part-Time and Limited Services Employees (APPLE)

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 \$4,210,741, \$4,126,937 and \$3,700,126, respectively, for 2015, 2014 and 2013 (5.679, 5.541, and 5.176 percent of annual payroll for 2015, 2014, and 2013, 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, 2015

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2015 the District had the following construction commitments.

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
AHS-Freedom Field Upgrade-Ph 1,2 and 3	\$ 414,773	Aug 2016
AHS Modernization	2,597,803	June 2017
AHS Solar	47,358	Jan 2016
AJHS New Gymnasium	3,226,393	June 2017
Bradley Modernization	1,572,800	June 2017
Bradley Solar	3,888	Jan 2016
Mar Vista - Reconfigure MPR MOD	1,189,529	Aug 2018
Mar Vista - Modernization	580,677	June 2016
Mar Vista - New MPR Building	3,787,350	Aug 2017
Rio Del Mar Modernization	1,378,098	Dec 2017
Valencia Modernization	957,368	Dec 2017
Renaissance High - Modernization	2,422,132	Aug 2017
PV High Upper Fields	10,326,606	Aug 2016
PV High New Auditorium	3,132,220	Aug 2016
PV High Solor	2,552,110	Aug 2019
Cesar Chavez MS Modernization	1,386,995	Dec 2016
Lakeview MS Modernization	1,155,164	Dec 2016
RHMS Gym Modernization	317,931	Aug 2018
RHMS - Modernization	1,999,207	Aug 2017
RHMS Solar	24,897	Jan 2016
Amesti Modernization	2,059,713	Aug 2018
Ann Soldo Modernization	1,020,875	Aug 2018
Calabasas Modernization	1,429,671	Aug 2018
Freedom Modernization	1,549,604	Aug 2017
HA Hyde Modernization	2,061,673	Aug 2017
Radcliff Modernization	1,240,548	Sept 2017
Starlight Modernization	1,519,583	Aug 2018

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Alianza Fire Hydrant and Water Tank	899,469	Apr 2017
Alianza Modernization	2,475,966	Aug 2018
WCSA Modernization	2,295,079	Aug 2017
Landmark Modernization	485,689	Aug 2017
WHS C and F Wing Modernization	3,581,500	Aug 2019
WHS 2-Story Classroom Addition	640,152	Mar 2016
WHS Solar	8,531	Jan 2016
PMS Modernization	69,969	Jan 2016
EA Hall A Wing Modernization	18,619	Aug 2019
EA Hall Track and Field Replacement	2,805,386	Aug 2017
EA Hall 9-Relocatable Replacement	41,851	Jan 2016
Hall District Modernization	401,097	Aug 2017
MacQuiddy Modernization	1,528,457	Aug 2017
Ohlone Modernization	1,485,726	Jan 2018
Mintie White Other Modernization	275,058	Jan 2017
Linscott Modernization	2,232,093	Jan 2017
	<u>\$ 69,199,608</u>	

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, 2015.

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, 2015.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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), and Public Insurance Program for Schools (PIPS) 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, 2015, the District made payments of \$3,350,106 to PIPS for workers' compensation insurance, \$20,468,464 to SISC for medical and vision insurance and \$953,708 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, 2015, 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, 2015**

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:

Fiscal Year	Principal	Interest to Maturity	Total
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	202,842	8,047	210,889
2021-2025	881,466	14,863	896,329
Total Loan Receivable	<u>\$ 1,878,915</u>	<u>\$ 104,157</u>	<u>\$ 1,983,072</u>

NOTE 18 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. The restatement does not include deferred inflows of resources, as this information was not available. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 103,859,261
Restatement related to net pension activities	<u>(157,850,455)</u>
Net Position - Beginning as Restated	<u><u>\$ (53,991,194)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variances- Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Local control funding formula	\$ 140,551,924	\$ 139,466,954	\$ 140,356,152	\$ 889,198
Federal sources	22,105,158	28,850,393	21,675,092	(7,175,301)
Other state sources	22,428,961	24,767,631	29,454,110	4,686,479
Other local sources	1,281,956	4,135,262	3,507,507	(627,755)
Total Revenues	186,367,999	197,220,240	194,992,861	(2,227,379)
EXPENDITURES				
Certificated salaries	77,652,692	79,075,074	77,469,289	1,605,785
Classified salaries	29,566,775	30,495,241	29,334,218	1,161,023
Employee benefits	61,442,617	63,077,090	63,862,798	(785,708)
Books and supplies	10,408,697	13,438,175	9,237,959	4,200,216
Services and operating expenditures	18,333,363	25,388,594	22,637,646	2,750,948
Other outgo	500,000	948,983	2,067,790	(1,118,807)
Capital outlay	388,782	398,500	730,726	(332,226)
Debt service - principal	686,345	689,896	689,894	2
Debt service - interest	18,790	18,790	18,789	1
Total Expenditures	198,998,061	213,530,343	206,049,109	7,481,234
Deficiency of Revenues Over Expenditures	(12,630,062)	(16,310,103)	(11,056,248)	5,253,855
Other Financing Sources (Uses)				
Transfers in	50,000	51,182	16,356,307	16,305,125
Other sources	-	-	2,267,749	2,267,749
Transfers out	(921,124)	(1,442,006)	(972,594)	469,412
Net Financing Sources (Uses)	(871,124)	(1,390,824)	17,651,462	19,042,286
NET CHANGE IN FUND BALANCES	(13,501,186)	(17,700,927)	6,595,214	24,296,141
Fund Balance - Beginning	36,708,888	36,708,888	36,708,888	-
Fund Balance - Ending	\$ 23,207,702	\$ 19,007,961	\$ 43,304,102	\$ 24,296,141

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015**

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)
April 1, 2015	\$ 2,534,396	\$ 71,971,950	\$ 69,437,554	3.52%	\$ 120,692,614	57.53%
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%

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.1758%</u>
District's proportionate share of the net pension liability	\$ 102,724,052
State's proportionate share of the net pension liability associated with the District	<u>62,029,218</u>
Total	<u>\$ 164,753,270</u>
District's covered - employee payroll	<u>\$ 80,688,631</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>127.31%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 CalPERS	
District's proportion of the net pension liability (asset)	<u>0.2922%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 33,166,972</u>
District's covered - employee payroll	<u>\$ 30,895,833</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>107.35%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

Note : In the future, as data become available, ten years of information will be presented.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 6,752,541
Contributions in relation to the contractually required contribution	<u>6,752,541</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 82,863,246</u>
Contributions as a percentage of covered - employee payroll	<u>8.15%</u>
 CalPERS	
Contractually required contribution	\$ 3,821,850
Contributions in relation to the contractually required contribution	<u>3,821,850</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 32,468,352</u>
Contributions as a percentage of covered - employee payroll	<u>11.77%</u>

Note : In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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 and ESL	84.002A	14508	\$ 110,676
Priority 5, Adult Secondary Education	84.002	13978	55,313
English Literacy and Civics Education	84.002A	14109	41,059
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	4,935,755
Title I-Migrant Education (Regular and Summer Program)	84.011	14326	3,182,698
Title I-Even Start Migrant Education	84.214	14768	282,210
Title I-School Site Improvements	84.377	14971	2,967,798
Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement	84.330B	14831	7,048
Title II-Teacher Quality	84.367	14341	813,979
Title II-Mathematics and Science Partnerships	84.366	14512	4,867
Title III-Limited English Proficiency Student	84.365	10084	938,236
Title IV-21st Century Community Centers Learning	84.287	14349	3,026,571
Carl D. Perkins Career and Technical Education Act:			
Vocational and Applied Technology	84.048	14894	163,108
Individuals with Disabilities Education Act:			
Basic Local Assistance Entitlement	84.027	13379	3,522,294
Mental Health Allocation Plan, Part B, Section 611 Private Schools	84.027	14468	226,119
Preschool Grants	84.173	13430	170,528
Preschool Local Entitlement	84.027A	13682	369,662
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	230,203
California Preschool Instructional Network	84.173A	13431	1,059
Subtotal			21,295,706

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

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	275,615
Head Start	93.600	10016	6,535,869
Medi-Cal Billing Option	93.778	10013	586,433
Subtotal			<u>7,397,917</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
National School Lunch Act:			
National School Lunch Program	10.555	13524	5,297,853
National School Breakfast	10.553	13390	1,740
Meal Supplements	10.553	13396	479,175
Especially Needy Breakfast	10.553	13526	2,641,053
Child and Adult Care Food Program	10.558	13393	190,225
Fresh Fruits and Vegetables	10.582	14968	363,823
Commodity Supplemental Food Program	10.565	13524	505,186
Subtotal			<u>9,479,055</u>
Total Expenditures of Federal Awards			<u>\$ 38,172,678</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

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>
Jeff Ursino	President	2018
Maria Orozco	Vice President	2016
Kim De Serpa	Member	2018
Dr. Lupe Rivas	Member	2016
Leslie De Rose	Member	2018
Karen Osmundson	Member	2016
Willie Yahiro	Member	2018

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, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,958.42	5,955.62
Fourth through sixth	4,154.56	4,160.45
Seventh and eighth	2,510.94	2,508.59
Ninth through twelfth	4,652.79	4,618.99
Total Regular ADA	<u>17,276.71</u>	<u>17,243.65</u>
Extended Year Special Education		
Transitional kindergarten through third	8.17	8.17
Fourth through sixth	8.17	8.17
Ninth through twelfth	9.45	9.45
Total Extended Year Special Education	<u>25.79</u>	<u>25.79</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.71	0.81
Fourth through sixth	0.12	0.09
Seventh and eighth	3.32	3.85
Ninth through twelfth	7.31	8.57
Total Special Education, Nonpublic, Nonsectarian Schools	<u>11.46</u>	<u>13.32</u>
Extended Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.44	0.44
Ninth through twelfth	0.80	0.80
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.24</u>	<u>1.24</u>
Community Day School		
Seventh and eighth	5.77	5.72
Ninth through twelfth	26.15	25.92
Total Community Day School	<u>31.92</u>	<u>31.64</u>
Total ADA	<u>17,347.12</u>	<u>17,315.64</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, 2015**

CHARTER SCHOOLS	Academic/ Vocational	Alianza	Linscott	Watsonville	Pacific Coast
Second Period Report					
Classroom-Based					
Transitional Kindergarten through third	-	335.23	125.47	158.67	-
Fourth through sixth	-	205.30	87.43	103.03	-
Seventh and eighth	-	101.02	56.93	24.11	-
Ninth through twelfth	54.91	-	-	-	-
Total Classroom-Based	54.91	641.55	269.83	285.81	-
Non Classroom-Based					
Transitional Kindergarten through third	-	-	-	-	32.85
Fourth through sixth	-	-	-	-	34.80
Seventh and eighth	-	-	-	-	30.40
Ninth through twelfth	-	-	-	-	186.27
Total Non Classroom-Based	-	-	-	-	284.32
Total Charter School	54.91	641.55	269.83	285.81	284.32
Annual Report					
Classroom-Based					
Transitional Kindergarten through third	-	319.25	125.56	156.87	-
Fourth through sixth	-	216.30	87.26	102.48	-
Seventh and eighth	-	106.01	56.43	25.41	-
Ninth through twelfth	53.38	-	-	-	-
Total Classroom-Based	53.38	641.56	269.25	284.76	-
Non Classroom-Based					
Transitional Kindergarten through third	-	-	-	-	32.81
Fourth through sixth	-	-	-	-	35.67
Seventh and eighth	-	-	-	-	30.15
Ninth through twelfth	-	-	-	-	188.48
Total Non Classroom-Based	-	-	-	-	287.11
Total Charter School	53.38	641.56	269.25	284.76	287.11

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Grade Level</u>	<u>1986-87 Actual Minutes</u>	<u>Reduced 1986-87 Actual Minutes</u>	<u>2014-15 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	50,607	180	In compliance
Grade 2	50,400	49,000	50,607	180	In compliance
Grade 3	50,400	49,000	50,607	180	In compliance
Grades 4 - 6					
Grade 4	54,000	52,500	54,155	180	In compliance
Grade 5	54,000	52,500	54,155	180	In compliance
Grade 6	54,000	52,500	54,155	180	In compliance
Grades 7 - 8					
Grade 7	54,000	52,500	55,212	180	In compliance
Grade 8	54,000	52,500	55,212	180	In compliance
Grades 9 - 12					
Grade 9	64,800	63,000	65,052	180	In compliance
Grade 10	64,800	63,000	65,052	180	In compliance
Grade 11	64,800	63,000	65,052	180	In compliance
Grade 12	64,800	63,000	65,052	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, 2015**

Grade Level	Education Code Section 46201.2 Required Minutes	2014-2015 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	37,025	In Compliance
Grade 1	48,960	54,260	In Compliance
Grade 2	48,960	54,260	In Compliance
Grade 3	48,960	54,260	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	37,800	In Compliance
Grade 1	48,960	52,740	In Compliance
Grade 2	48,960	52,740	In Compliance
Grade 3	48,960	52,740	In Compliance
Grade 4	52,457	55,800	In Compliance
Grade 5	52,457	54,600	In Compliance
Grade 6	52,457	55,500	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, 2015**

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, 2015, Unaudited Actuals	\$ 42,663,105	\$ 1,791,724	\$ 245,625
Increase in:			
Accounts receivable	640,997	79,719	-
Decrease in:			
Cash in County Treasury	-	-	(122,712)
Balance, June 30, 2015, Audited Financial Statements	<u>\$ 43,304,102</u>	<u>\$ 1,871,443</u>	<u>\$ 122,913</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	(Budget)			
	2016 ¹	2015	2014	2013
GENERAL FUND				
Revenues	\$ 212,377,540	\$ 190,782,120	\$ 180,219,997	\$ 167,468,396
Other sources	-	18,624,056	1,084	7,039,362
Total Revenues and Other Sources	<u>212,377,540</u>	<u>209,406,176</u>	<u>180,221,081</u>	<u>174,507,758</u>
Expenditures	211,036,439	201,838,368	188,969,579	171,369,041
Other uses and transfers out	610,314	972,594	1,678,245	651,792
Total Expenditures and Other Uses	<u>211,646,753</u>	<u>202,810,962</u>	<u>190,647,824</u>	<u>172,020,833</u>
INCREASE (DECREASE)				
IN FUND BALANCE	<u>\$ 730,787</u>	<u>\$ 6,595,214</u>	<u>\$ (10,426,743)</u>	<u>\$ 2,486,925</u>
ENDING FUND BALANCE	<u>\$ 44,034,889</u>	<u>\$ 43,304,102</u>	<u>\$ 36,708,888</u>	<u>\$ 47,135,631</u>
AVAILABLE RESERVES ²	<u>\$ 10,225,051</u>	<u>\$ 13,485,383</u>	<u>\$ 22,936,155</u>	<u>\$ 32,380,792</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>4.83%</u>	<u>6.65%</u>	<u>12.03%</u>	<u>18.82%</u>
LONG-TERM OBLIGATIONS	<u>\$ 305,233,122</u>	<u>\$ 311,130,200</u>	<u>\$ 174,308,991</u>	<u>\$ 170,429,240</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	<u>17,327</u>	<u>17,347</u>	<u>17,486</u>	<u>17,241</u>

The General Fund balance has decreased by \$3,831,529 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$730,787. 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 an operating surplus during the fiscal year 2014-2015 and anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by \$140,700,960 over the past two years.

Average daily attendance has increased by 106 over the past two years. A decline of 20 ADA is anticipated during fiscal year 2015-2016.

¹ Budget 2016 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 \$4,210,741, \$3,704,752, and \$3,700,126, in the General Fund have been excluded from the revenues and expenditures for fiscal years ending June 30, 2015, 2014, and 2013, 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, 2015**

<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, 2015**

	<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	\$ 528,517	\$ 63,363	\$ 1,050,207	\$ 568,066	\$ 36,673	\$ 2,246,826
Revenues	1,922,370	2,249,063	2,177,970	5,180,947	744,607	12,274,957
Expenditures	<u>(2,057,353)</u>	<u>(2,224,580)</u>	<u>(2,270,450)</u>	<u>(5,421,670)</u>	<u>(756,005)</u>	<u>(12,730,058)</u>
Fund balance, ending	<u>\$ 393,534</u>	<u>\$ 87,846</u>	<u>\$ 957,727</u>	<u>\$ 327,343</u>	<u>\$ 25,275</u>	<u>\$ 1,791,725</u>

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, 2015**

Grantor/Program	Revenue	Expenditures
First 5 Monterey	\$ 93,790	\$ 93,790

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2015

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 2,632,398	\$ 300,149	\$ 561,467	\$ 2,652,513
Receivables	279,343	124,517	597,219	2,264,068
Stores inventories	-	-	-	102,183
Total Assets	\$ 2,911,741	\$ 424,666	\$ 1,158,686	\$ 5,018,764
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 84,894	\$ 57,316	\$ 539,991	\$ 88,274
Due to other funds	955,404	325,397	106,985	595,530
Unearned revenue	-	41,953	494,344	-
Total Liabilities	1,040,298	424,666	1,141,320	683,804
Fund Balances:				
Nonspendable	-	-	-	102,183
Restricted	1,871,443	-	17,366	4,232,777
Committed	-	-	-	-
Total Fund Balances	1,871,443	-	17,366	4,334,960
Total Liabilities and Fund Balances	\$ 2,911,741	\$ 424,666	\$ 1,158,686	\$ 5,018,764

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 1,156,046	\$ 1,800,040	\$ 6,407,676	\$ 15,510,289
-	-	-	3,265,147
-	-	-	102,183
<u>\$ 1,156,046</u>	<u>\$ 1,800,040</u>	<u>\$ 6,407,676</u>	<u>\$ 18,877,619</u>
\$ 3,887	\$ 150	\$ -	\$ 774,512
-	-	-	1,983,316
-	-	-	536,297
<u>3,887</u>	<u>150</u>	<u>-</u>	<u>3,294,125</u>
-	-	-	102,183
-	1,799,890	6,407,676	14,329,152
1,152,159	-	-	1,152,159
<u>1,152,159</u>	<u>1,799,890</u>	<u>6,407,676</u>	<u>15,583,494</u>
<u>\$ 1,156,046</u>	<u>\$ 1,800,040</u>	<u>\$ 6,407,676</u>	<u>\$ 18,877,619</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, 2015**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 11,541,196	\$ 1,438,735	\$ -	\$ -
Federal sources	-	207,048	6,811,484	8,973,868
Other State sources	654,955	67,119	3,838,896	738,885
Other local sources	153,102	406,319	414,310	607,694
Total Revenues	12,349,253	2,119,221	11,064,690	10,320,447
EXPENDITURES				
Current				
Instruction	7,819,589	1,158,731	6,952,575	-
Instruction-related activities:				
Supervision of instruction	173,126	274,205	2,125,317	-
Instructional library, media, and technology	332,407	52,625	134,500	-
School site administration	4,206,519	753,887	96,764	-
Pupil services:				
Food services	-	-	-	9,720,847
All other pupil services	44,291	70,545	1,118,985	-
Administration:				
All other administration	1,674	59,939	394,001	348,651
Plant services	299,200	80,714	627,327	2,615
Facility acquisition and construction	89,155	-	-	-
Ancillary services	30,924	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	12,996,885	2,450,646	11,449,469	10,072,113
Excess (Deficiency) of Revenues Over Expenditures	(647,632)	(331,425)	(384,779)	248,334
Other Financing Sources (Uses)				
Transfers in	272,249	331,425	364,016	4,904
Net Financing Sources (Uses)	272,249	331,425	364,016	4,904
NET CHANGE IN FUND BALANCES	(375,383)	-	(20,763)	253,238
Fund Balance - Beginning	2,246,826	-	38,129	4,081,722
Fund Balance - Ending	\$ 1,871,443	\$ -	\$ 17,366	\$ 4,334,960

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 12,979,931
-	-	-	15,992,400
-	-	60,919	5,360,774
6,402	837,306	8,081,721	10,506,854
<u>6,402</u>	<u>837,306</u>	<u>8,142,640</u>	<u>44,839,959</u>
-	-	-	15,930,895
-	-	-	2,572,648
-	-	-	519,532
-	-	-	5,057,170
-	-	-	9,720,847
-	-	-	1,233,821
-	-	-	804,265
398,576	517,759	-	1,926,191
78,369	2,494	-	170,018
-	-	-	30,924
-	-	6,250,000	6,250,000
-	-	4,589,486	4,589,486
<u>476,945</u>	<u>520,253</u>	<u>10,839,486</u>	<u>48,805,797</u>
(470,543)	317,053	(2,696,846)	(3,965,838)
-	-	-	972,594
-	-	-	972,594
(470,543)	317,053	(2,696,846)	(2,993,244)
1,622,702	1,482,837	9,104,522	18,576,738
<u>\$ 1,152,159</u>	<u>\$ 1,799,890</u>	<u>\$ 6,407,676</u>	<u>\$ 15,583,494</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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, 2014 then spent during the fiscal year ended June 30, 2015. 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:		\$ 37,667,492
Add: Fair Market Value of Commodities not recorded in the financial statements	10.555	505,186
Total Schedule of Expenditures of Federal Awards		<u>\$ 38,172,678</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, 2015

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, 2015, 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, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 opinions 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.

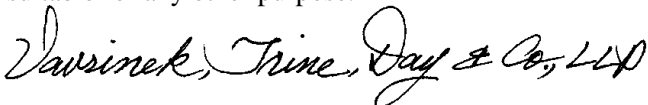
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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, 2015



**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, 2015. 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, 2015.

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, 2015



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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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, 2015.

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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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.

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, 2015.

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 Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, see below
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	Yes
Determination of Funding for Non Classroom-Based Instruction	Yes
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The District does not offer Early Retirement Incentive, Juvenile Court Schools, Middle or Early College High Schools, K-3 Grade Span Adjustment, Transportation Maintenance of Effort, Regional Occupational Centers or Programs Maintenance of Effort, After School Education and Safety Program – Before School, or Charter School Facility Grant Program and therefore we did not perform procedures related to these programs.

Wassinek, Trine, Day & Co., LLP

Palo Alto, California
December 15, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

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:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A, 84.181	<u>Special Education Cluster</u>
84.011, 84.214	<u>Title I-Migrant Education</u>
93.600	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,145,180</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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

2014-1 Code 40000

After School Education and Safety

Finding

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.

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.

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.

Current Status

Implemented

2014-2 Code 70000

Instructional Materials

Finding

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.

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.

Recommendation

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

Current Status

Implemented