PAJARO VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2016

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2016

FINANCIAL SECTION

This page left blank intentionally.

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, 2016, 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 *2015-2016 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

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, 2016, 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 3 to the financial statements, in 2016, the District adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application;* GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68;* GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of other postemployment benefits funding progress, schedule of the district's proportionate share of net pension liability, and the schedule of district pension contributions, 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 supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents 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 November 30, 2016, 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.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 30, 2016

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 2015-2016 Annual Financial Audit summarizes the District's financial performance during the 2015-2016 fiscal year ending June 30, 2016. 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 Fund Financial Statements* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

- The *Proprietary Fund Financial Statements* are prepared using the economic resources measurement focus and the accrual basis of accounting.

- The *Fiduciary Fund Financial Statements* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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 Diamond Technology 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 transitional 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.

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.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was -$77.9 million and -$81.1 million for the fiscal years ended June 30, 2016 and 2015, respectively. Of this amount, -$152.2 million and -$156.9 million were unrestricted for fiscal years ending June 30, 2016 and 2015, 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	
	2016	**2015**
Current and other assets	$ 181,137,056	$ 129,499,613
Loan receivable	1,484,966	1,878,915
Capital assets	149,478,741	141,954,423
Total Assets	**332,100,763**	**273,332,951**
Deferred charge on refunding	1,969,802	2,296,806
Current year pension contribution	20,677,454	12,581,266
Total Deferred Outflows of Resources	**22,647,256**	**14,878,072**
Current liabilities	26,152,425	27,374,275
Long-term debt	222,918,683	169,342,098
Aggregate net pension liability	167,250,206	135,891,024
Total Liabilities	**416,321,314**	**332,607,397**
Difference between actual and expected rate of investment return	16,318,520	36,692,145
Total Deferred Inflows of Resources	**16,318,520**	**36,692,145**
Net investment in capital assets	46,547,429	55,551,652
Restricted	27,788,358	20,979,189
Unrestricted	(152,227,602)	(157,619,360)
Total Net Position	**$ (77,891,815)**	**$ (81,088,519)**

The -$152.2 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Position

The results of 2015-2016 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	
	2016	**2015**
Revenues		
Program revenues:		
Charges for services	$ 1,246,417	$ 723,335
Operating grants and contributions	74,577,332	69,382,234
General revenues:		
Federal and state sources	125,820,086	102,513,325
Property taxes	71,834,584	63,367,431
Other general revenues	2,589,370	5,389,164
Total Revenues	**276,067,789**	**241,375,489**
Expenses		
Instruction related	198,965,882	193,279,515
Student support services	35,512,974	33,820,063
Administration	10,750,145	12,636,048
Maintenance and operations	18,990,967	21,042,314
Other	8,651,117	7,694,872
Total Expenses	**272,871,085**	**268,472,812**
Change in Net Position	**$ 3,196,704**	**$ (27,097,323)**

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2015-2016 was $272.9 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only $71.8 million. This is because $75.8 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 $128.4 million in State and federal funds and with other revenues, such as interest and general entitlements.

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	
	2016	**2015**
Instruction and instruction related	$ 145,264,841	$ 142,454,411
Pupil services	20,520,334	20,128,138
General administration	8,547,172	10,645,340
Maintenance and operations	16,713,555	18,834,162
Other	6,001,434	6,305,192
Totals	**$ 197,047,336**	**$ 198,367,243**

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 2014-15, the ending balance increased by 4.0 percent from the district's June estimates. For 2015-16, the district's ending balanced increased by 36.7 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.

2015-16 fiscal year was the third 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 2016-17 Budget.

As part of the LCAP the District brought in additional counselors, coaches to assist teachers in specific content areas, increase access to visual and performing arts curriculum, added maintenance and custodial staff, and continued to phase in the K-3 class-size reduction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016 and 2015, the District had $149.4 million and $141.9 million, net of depreciation in a broad range of capital assets including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of $7.5 million or 5.30%, from last year.

TABLE 4

	Governmental Activities	
	2016	**2015**
Land	$ 17,055,144	$ 17,055,144
Construction in progress	19,856,026	11,556,908
Buildings and improvements	279,301,474	269,666,201
Equipment	6,742,382	5,837,139
Accumulated depreciation	(173,476,285)	(162,160,969)
Totals	**$ 149,478,741**	**$ 141,954,423**

This year's additions to capital assets of $18.8 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 $16.9 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 $168.7 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

	Governmental Activities	
	2016	**2015**
General obligation bonds	$ 168,747,906	$ 132,204,928
Bond premium	9,589,717	5,119,830
Accumulated vacation - net	3,705,901	2,825,256
Supplemental employees retirement plan	110,808	922,287
Capital leases	1,706,393	2,280,557
Other post employment benefits	39,057,958	31,886,318
Net pension liability	167,250,206	135,891,024
Totals	**$ 390,168,889**	**$ 311,130,200**

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 10 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 $124.0 million and $43.2 million as the District's portion of the State Teachers Retirement System liability and California Public Employees Retirement System, respectively.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2015-2016 ARE NOTED BELOW:

During the 2015-2016 fiscal year, as a result of the implementation of the LCFF and LCAP, the District experienced the following accomplishments:

- Visual and Performing Arts continued to expand in the elementary schools through providing release time teachers and purchased musical instruments and art supplies
- Teachers participated in professional development opportunities in their content and/or grade level
- Continued to phase in the K-3 class-size reduction
- Hired additional counselors to help students with social and emotional issues

FISCAL OUTLOOK FOR 2016-17

In considering the District Budget for the 2016-2017 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 3.66%
4. STRS and PERS (employee retirement systems) rates are increasing 1.85% and 2.041%, 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:

Melody Canady
Chief Business Officer
294 Green Valley Road, Watsonville, CA 95076
Melody_Canady@pvusd.net

Helen Bellonzi
Director of Fiscal Services
294 Green Valley Road, Watsonville, CA 95076
Helen_Bellonzi@pvusd.net

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	$ 166,518,307
Receivables	13,852,407
Prepaid expenses	306,369
Stores inventories	262,152
Current portion of loan receivable	197,821
Noncurrent portion of loan receivable	1,484,966
Capital assets not depreciated	36,911,170
Capital assets, net of accumulated depreciation	112,567,571
Total Assets	332,100,763
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,969,802
Deferred outflows of resources related to pensions	20,677,454
Total Deferred Outflows of Resources	22,647,256
LIABILITIES	
Accounts payable	14,255,905
Interest payable	2,211,915
Unearned revenue	2,652,983
Claim liabilities	7,031,622
Long-term obligations:	
Current portion of long-term obligations other than pensions	5,573,644
Noncurrent portion of long-term obligations other than pensions	217,345,039
Total Long-Term Obligations	222,918,683
Aggregate net pension liability	167,250,206
Total Liabilities	416,321,314
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	16,318,520
Total Deferred Inflows of Resources	16,318,520
NET POSITION	
Net investment in capital assets	46,547,429
Restricted for:	
Debt service	9,370,904
Capital projects	2,258,609
Food program	4,681,388
Child development program	53,299
Charter schools fund	2,950,953
Self-Insurance	45,553
Educational programs	8,427,652
Unrestricted	(152,227,602)
Total Net Position	$ (77,891,815)

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, 2016

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	$ 153,257,630	$ 234,868	$ 37,499,126	$ (115,523,636)
Instruction-related activities:				
Supervision of instruction	21,908,878	60,335	13,614,431	(8,234,112)
Instructional library, media, and technology	5,532,351	16,330	728,783	(4,787,238)
School site administration	18,267,023	204,292	1,342,876	(16,719,855)
Pupil services:				
Home-to-school transportation	6,752,995	576	48,945	(6,703,474)
Food services	10,960,019	594,677	9,791,779	(573,563)
All other pupil services	17,799,960	21,109	4,535,554	(13,243,297)
Administration:				
Data processing	2,502,473	232	19,747	(2,482,494)
All other administration	8,247,672	45,148	2,137,846	(6,064,678)
Plant services	18,990,967	38,851	2,238,561	(16,713,555)
Ancillary services	1,914,983	414	104,637	(1,809,932)
Community services	72,794	-	-	(72,794)
Interest on long-term obligations	5,777,392	-	-	(5,777,392)
Other outgo	885,948	29,585	2,515,047	1,658,684
Total Governmental Activities	$ 272,871,085	$ 1,246,417	$ 74,577,332	(197,047,336)

General revenues and subventions:	
Property taxes, levied for general purposes	62,311,394
Property taxes, levied for debt service	9,017,446
Taxes levied for other specific purposes	505,744
Federal and State aid not restricted to specific purposes	125,820,086
Interest and investment earnings	267,014
Miscellaneous	2,322,356
Subtotal, General Revenues	200,244,040
Change in Net Position	3,196,704
Net Position - Beginning	(81,088,519)
Net Position - Ending	$ (77,891,815)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Charter Schools Fund	Building Fund
ASSETS			
Deposits and investments	$ 57,152,368	$ 4,974,329	$ 76,761,180
Receivables	10,838,828	217,508	-
Due from other funds	3,272,265	-	-
Prepaid expenses	306,369	-	-
Stores inventories	164,628	-	-
Total Assets	$ 71,734,458	$ 5,191,837	$ 76,761,180
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 10,347,601	$ 438,147	$ 1,558,875
Due to other funds	-	1,802,737	59,403
Unearned revenue	2,199,614	-	-
Total Liabilities	12,547,215	2,240,884	1,618,278
Fund Balances:			
Nonspendable	590,997	-	-
Restricted	8,427,652	2,950,953	75,142,902
Committed	17,580,000	-	-
Assigned	13,973,088	-	-
Unassigned	18,615,506	-	-
Total Fund Balances	59,187,243	2,950,953	75,142,902
Total Liabilities and Fund Balances	$ 71,734,458	$ 5,191,837	$ 76,761,180

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

Non-Major Governmental Funds	Total Governmental Funds
$ 19,419,286	$ 158,307,163
2,796,071	13,852,407
163,206	3,435,471
-	306,369
97,524	262,152
$ 22,476,087	$ 176,163,562
$ 1,441,236	$ 13,785,859
909,408	2,771,548
453,369	2,652,983
2,804,013	19,210,390
97,524	688,521
18,478,591	105,000,098
1,095,959	18,675,959
-	13,973,088
-	18,615,506
19,672,074	156,953,172
$ 22,476,087	$ 176,163,562

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance - Governmental Funds		**$ 156,953,172**
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	$ 322,955,026	
Accumulated depreciation is	(173,476,285)	
Net Capital Assets		149,478,741
Deferred charges on pension expenses due to adjustments to net pension liabilities and related accounts are classified as deferred outflows or deferred inflows.		4,358,934
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.		(2,211,915)
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.		45,553
Long-term loan receivable is not received during the current year and, therefore are not reported as receivable in the government funds.		1,682,787
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.		1,969,802

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

GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (Continued)
JUNE 30, 2016

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	(168,747,906)	
Unamortized bond premium	(9,589,717)	
Capital leases payable	(1,706,393)	
Compensated absences (vacations)	(3,705,901)	
Supplemental employee retirement plan	(110,808)	
OPEB obligations	(39,057,958)	
Net pension liability	(167,250,206)	
Total Long-Term Liabilities		(390,168,889)
Total Net Position - Governmental Activities		**$ (77,891,815)**

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, 2016

	General Fund	Charter School Fund	Building Fund
REVENUES			
Local control funding formula	$ 161,908,248	$ 12,602,436	$ -
Federal sources	20,373,823	-	-
Other state sources	38,087,423	1,604,459	-
Other local sources	4,154,719	33,721	396,651
Total Revenues	224,524,213	14,240,616	396,651
EXPENDITURES			
Current			
Instruction	124,404,669	8,097,229	-
Instruction-related activities:			
Supervision of instruction	17,360,021	186,957	-
Instructional library, media and technology	4,571,810	332,758	-
School site administration	11,529,351	4,227,219	-
Pupil services:			
Home-to-school transportation	6,196,280	-	-
Food services	66	-	-
All other pupil services	15,026,863	75,922	-
Administration:			
Data processing	2,296,170	-	-
All other administration	6,135,028	2,302	-
Plant services	15,912,332	398,698	2,579,207
Facility acquisition and construction	1,927,413	-	13,387,556
Ancillary services	1,724,001	33,111	-
Community services	66,793	-	-
Other outgo	689,820	-	-
Debt service			
Principal	574,164	-	-
Interest and other	42,152	-	-
Total Expenditures	208,456,933	13,354,196	15,966,763
Excess of Expenditures Over Revenues	16,067,280	886,420	(15,570,112)
Other Financing Sources (Uses)			
Transfers in	424,805	193,090	-
Other sources	-	-	39,807,277
Transfers out	(608,944)	-	-
Net Financing Sources (Uses)	(184,139)	193,090	39,807,277
NET CHANGE IN FUND BALANCES	15,883,141	1,079,510	24,237,165
Fund Balance - Beginning	43,304,102	1,871,443	50,905,737
Fund Balance - Ending	$ 59,187,243	$ 2,950,953	$ 75,142,902

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

Non-Major Governmental Funds	Total Governmental Funds
$ 16,926	$ 174,527,610
17,026,012	37,399,835
6,909,491	46,601,373
16,676,908	21,261,999
40,629,337	279,790,817
8,865,791	141,367,689
2,555,738	20,102,716
171,698	5,076,266
1,004,525	16,761,095
-	6,196,280
10,056,412	10,056,478
1,229,751	16,332,536
-	2,296,170
941,163	7,078,493
1,631,816	20,522,053
149,741	15,464,710
-	1,757,112
-	66,793
-	689,820
4,085,000	4,659,164
4,393,533	4,435,685
35,085,168	272,863,060
5,544,169	6,927,757
415,854	1,033,749
-	39,807,277
-	(608,944)
415,854	40,232,082
5,960,023	47,159,839
13,712,051	109,793,333
$ 19,672,074	$ 156,953,172

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, 2016

Total Net Change in Fund Balances - Governmental Funds		$ 47,159,839
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 capital outlays exceed depreciation in the period:		
Depreciation expense	$ (11,315,316)	
Capital outlays	18,839,634	
Net Expense Adjustment		7,524,318
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 $880,645.		(880,645)
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.		(2,889,369)
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.		574,164
Proceeds and premium received from the sale of general obligation bonds are revenue in the governmental funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.		(44,754,247)
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.		4,085,000

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, 2016

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.		(318,085)
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.		(627,978)
Other postemployement 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.		(7,171,640)
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	(327,004)	
Net amortization		(42,644)
Supplemental employee retirement plan payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net position and does not affect the statement of activities.		811,479
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.		(196,128)
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.		(77,360)
Change in Net Position of Governmental Activities		$ 3,196,704

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 8,211,144
Total Assets	8,211,144
LIABILITIES	
Current Liabilities	
Accounts payable	470,046
Due to other funds	663,923
Non-current Liabilities	
Claim liabilities	7,031,622
Total Liabilities	8,165,591
NET POSITION	
Restricted for insurance programs	45,553
Total Net Position	$ 45,553

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, 2016

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district contributions	$ 2,817,759
Total Operating Revenues	2,817,759
OPERATING EXPENSES	
Claims and insurance expense	2,564,356
Total Operating Expenses	2,564,356
Operating income	253,403
NONOPERATING REVENUES	
Interest income	94,042
Transfers out	(424,805)
Total Nonoperating Expenses	(330,763)
Change in Net Position	(77,360)
Total Net Position - Beginning	122,913
Total Net Position - Ending	$ 45,553

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, 2016

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	$	2,817,759
Cash payments for insurance claims		(3,703,957)
Net Cash Used for Operating Activities		(886,198)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments to repay excess contribution		(12,541,727)
Transfers out		(424,805)
Net Cash used for Financing Activities		(12,966,532)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments		94,042
Net Decrease in Cash and Cash Equivalents		(13,758,688)
Cash and Cash Equivalents - Beginning		21,969,832
Cash and Cash Equivalents - Ending	$	8,211,144
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating income	$	253,403
Adjustments to reconcile operating income to net cash used for operating activities:		
Accrued liabilities		356,693
Claims liabilities		(1,496,294)
NET CASH USED FOR OPERATING ACTIVITIES	$	(886,198)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	$ 7,491,082	$ 2,309,570	$ 342,235
Accounts receivable	-	9,211	-
Total Assets	$ 7,491,082	$ 2,318,781	$ 342,235
LIABILITIES			
Accounts payable	$ 1,841,375	$ 290,332	$ -
Due to student groups	-	-	342,235
Total Liabilities	1,841,375	290,332	$ 342,235
NET POSITION			
Held in trust for scholarship and retiree benefits	5,649,707	2,028,449	
Total Net Position	$ 5,649,707	$ 2,028,449	

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, 2016

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	$ -	$ 164,085
District contributions	4,055,492	-
Investment income	13,362	14,718
Total Additions	4,068,854	178,803
DEDUCTIONS		
Benefit payments	3,081,335	-
Scholarships awarded	-	204,511
Total Deductions	3,081,335	204,511
Change in Net Position	987,519	(25,708)
Net Position - Beginning	4,662,188	2,054,157
Net Position - Ending	$ 5,649,707	$ 2,028,449

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

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 Diamond Technology Charter Institute, 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.

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.

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.

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.

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

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

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).

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.

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.

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.

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, 2016, 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.

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.

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 for pension related items.

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 pension related items.

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, 2016, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 percent of General Fund expenditures and other financing uses.

Stabilization Arrangement

In fiscal year 2010-2011, the governing board adopted a resolution for stabilization arrangements. Under the resolution, a portion of the fund balance of the General Fund is committed for stabilization arrangements, such as might be needed in emergency situations or when revenue shortages or budgetary imbalances occur. The resolution states that, at fiscal year end, an amount approximately equal to, but not less than, ten percent of the annual operating expenditures of the General Fund is to be committed for use in covering catastrophic losses, including natural and man-made disasters, insurance loss reserves, and limited operating expenses in a period of severe economic uncertainty. At June 30, 2016, $17,580,000 of the fund balance for the General Fund was reported as committed for economic stabilization. The resolution recognizes that under extreme conditions, the use of resources may result in the committed fund balance amount dropping below the established threshold. Such amounts are required to be reinstated by the end of the subsequent fiscal year.

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1^{st} 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 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 District has implemented the provisions of this Statement as of June 30, 2016.

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.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criterial address (1) how the external investment pool transacts with participants, (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

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.

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 August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

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

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to Statements No 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental funds	$ 158,307,163
Proprietary fund	8,211,144
Fiduciary funds	10,142,887
Total Deposits and Investments	$ 176,661,194

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	$ 607,235
Cash in revolving	55,000
Investments	175,998,959
Total Deposits and Investments	$ 176,661,194

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

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, 2016. 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	$ 21,420	0.87
Mutual Funds	2,580,871	2,580,871	less than a year
County Pool	173,398,188	173,640,999	1.03
Total	$ 175,998,959	$ 176,243,290	

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, 2016, the District's bank balance of $100,539 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Santa Cruz County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Fair Value	Fair Value Measurements Level 1	Uncategorized
U.S. Treasuries	$ 21,420	$ 21,420	$ -
Mutual Funds	2,580,871	2,580,871	-
County Pool	173,640,999	-	173,640,999
Total	$ 176,243,290	$ 2,602,291	$ 173,640,999

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government					
Categorical aid	$ 4,317,093	$ -	$ 2,096,195	$ 6,413,288	$ -
State Government					
State principal apportionment	2,015,323	203,039	-	2,218,362	-
Categorical aid	714,938	-	447,768	1,162,706	-
Lottery	1,235,439	14,469	-	1,249,908	-
Other Local Sources	2,556,035	-	252,108	2,808,143	9,211
Total	$ 10,838,828	$ 217,508	$ 2,796,071	$ 13,852,407	$ 9,211

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 17,055,144	$ -	$ -	$ 17,055,144
Construction in Progress	11,556,908	14,314,845	6,015,727	19,856,026
Total Capital Assets Not Being Depreciated	28,612,052	14,314,845	6,015,727	36,911,170
Capital Assets Being Depreciated:				
Buildings and Improvements	269,666,201	9,635,273	-	279,301,474
Furniture and Equipment	5,837,139	905,243	-	6,742,382
Total Capital Assets Being Depreciated	275,503,340	10,540,516	-	286,043,856
Less Accumulated Depreciation:				
Buildings and Improvements	157,951,419	10,988,194	-	168,939,613
Furniture and Equipment	4,209,550	327,122	-	4,536,672
Total Accumulated Depreciation	162,160,969	11,315,316	-	173,476,285
Capital Assets Being depreciated, Net	113,342,371	(774,800)	-	112,567,571
Net Capital Assets	$ 141,954,423	$ 13,540,045	$ 6,015,727	$ 149,478,741

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

Governmental Activities	
Instruction	$ 6,460,146
Supervision of instruction	918,643
Instructional library and media	231,972
School site administration	765,939
Home to school transpiration	283,154
Food services	459,555
All other pupil services	746,355
Ancillary services	80,296
Community services	3,052
All general administration	323,469
Data processing services	104,929
Plant services	937,806
Total Depreciation Expense	$ 11,315,316

NOTE 6 - 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, 2016, between major and non-major governmental funds, and proprietary funds are as follows:

	Due From		
Due To	General Fund	Non-Major Governmental Funds	Total
Charter School	$ 1,802,737	$ -	$ 1,802,737
Building Fund	59,403	-	59,403
Non-Major Governmental Funds	746,202	163,206	909,408
Self-Insurance Fund	663,923	-	663,923
Total	$ 3,272,265	$ 163,206	$ 3,435,471

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfer In			
Transfer Out	General Fund	Charter School Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 193,090	$ 415,854	$ 608,944
Proprietary Fund	424,805	-	-	424,805
Total	$ 424,805	$ 193,090	$ 415,854	$ 1,033,749

The General Fund transferred to the Cafeteria Fund to support the District's cafeteria operations including providing assistance to student outstanding accounts.	$ 1,210
The General Fund transferred to the Charter School Fund to support the schools' operations.	193,090
The Self-Insurance Fund transferred to the General Fund for operating surplus from the District's insurance program.	424,805
The General Fund transferred to the Child Development Fund to support the child development program.	414,644
Total	$ 1,033,749

NOTE 7 - DEFERRED CHARGE ON REFUNDING

Deferred charge on refunding is a consumption of net position by the District that is applicable to a future reporting period. The $1,969,802 balance of the deferred outflows of resources at June 30, 2016 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The change in the District's deferred charge on refunding is as follows:

	Balance June 30, 2015	Accretion/ Additions	Deductions	Balance June 30, 2016
Deferred charges on refunding	$ 2,296,806	$ -	$ 327,004	$ 1,969,802

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Charter School Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	$ 2,876,138	$ 2,122	$1,558,875	$ 459,811	$ 4,896,946	$470,046	$ 290,332
State apportionment	5,038	6,067	-	-	11,105	-	-
Salaries and benefits	7,466,425	429,958	-	972,214	8,868,597	-	-
Other	-	-	-	9,211	9,211	-	1,841,375
Total	$10,347,601	$438,147	$1,558,875	$ 1,441,236	$13,785,859	$470,046	$ 2,131,707

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 229,402	$ 157,946	$ 387,348
State categorical aid	265,669	-	265,669
Other local	1,704,543	295,423	1,999,966
Total	$ 2,199,614	$ 453,369	$ 2,652,983

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	Balance June 30, 2015	Accretion/ Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	$132,204,928	$40,627,978	$ 4,085,000	$168,747,906	$ 4,530,000
Bond premium	5,119,830	4,754,247	284,360	9,589,717	406,966
Accumulated vacation - net	2,825,256	880,645	-	3,705,901	-
Capital leases	2,280,557	-	574,164	1,706,393	608,976
Other postemployment benefits	31,886,318	11,227,132	4,055,492	39,057,958	-
Supplemental employees retirement benefits	922,287	138,510	949,989	110,808	27,702
Net pension liability	135,891,024	31,359,182	-	167,250,206	-
Total	$311,130,200	$88,987,694	$ 9,949,005	$390,168,889	$ 5,573,644

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.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2015	Accreted / Issued	Redeemed	Bonds Outstanding June 30, 2016
2005	2023	3.00%-5.31%	$ 40,215,000	$ 2,420,000	$ -	$ 2,420,000	$ -
2005	2030	3.00%-5.31%	18,254,288	24,459,928	627,978	290,000	24,797,906
2013	2048	3.00%-5.00%	68,540,000	65,210,000	-	875,000	64,335,000
2013	2038	0.63%-5.12%	11,460,000	11,445,000	-	40,000	11,405,000
2013	2023	0.73%-3.19%	19,675,000	19,055,000	-	395,000	18,660,000
2013	2023	2.00%-4.00%	9,765,000	9,615,000	-	65,000	9,550,000
2016	2045	2.00%-5.00%	40,000,000	-	40,000,000	-	40,000,000
				$132,204,928	$40,627,978	$ 4,085,000	$168,747,906

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 4,530,000	$ 5,024,868	$ 9,554,868
2018	5,145,000	5,906,369	11,051,369
2019	5,555,000	5,791,170	11,346,170
2020	4,705,000	5,640,286	10,345,286
2021	4,630,000	5,486,764	10,116,764
2022-2026	17,415,634	37,046,455	54,462,089
2027-2031	14,643,653	42,166,596	56,810,249
2032-2036	15,290,000	21,999,930	37,289,930
2037-2041	27,285,000	16,973,594	44,258,594
2042-2046	43,945,000	8,666,156	52,611,156
2047-2048	15,470,000	671,075	16,141,075
Subtotal	158,614,287	$ 155,373,263	$ 313,987,550
Accretion to date	10,133,619		
Total general obligation bonds	$ 168,747,906		

Capital Leases

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

	School Buses	School Buses	Total
Balance, July 1, 2015	$ 488,300	$ 1,893,064	$ 2,381,364
Payments	162,766	453,555	616,321
Balance, July 1, 2016	$ 325,534	$ 1,439,509	$ 1,765,043

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2017	$ 671,236
2018	632,229
2019	461,578
Total	1,765,043
Less: Amount Representing Interest	58,650
Present Value of Minimum Lease Payments	$ 1,706,393

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to $3,705,901.

Supplemental Employees Retirement Plan (SERP)

The outstanding balance for the Supplemental Employee Retirement Plans as of June 30, 2016 consists of the 2015 Plan's amount of $110,808.

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, 2016, the amount of the trust fund account balance amounted to $2,704,833, which is established to pay total value of the outstanding bonds on August 1, 2027 of $4,075,000.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Charter School Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 55,000	$ -	$ -	$ -	$ 55,000
Stores inventories	164,628	-	-	97,524	262,152
Prepaid expenditures	306,369	-	-	-	306,369
Other reserve	65,000	-	-	-	65,000
Total Nonspendable	590,997	-	-	97,524	688,521
Restricted					
Educational programs	8,427,652	-	-	53,299	8,480,951
Food program	-	-	-	4,583,864	4,583,864
Charter schools	-	2,950,953	-	-	2,950,953
Capital projects	-	-	75,142,902	2,258,609	77,401,511
Debt services	-	-	-	11,582,819	11,582,819
Total Restricted	8,427,652	2,950,953	75,142,902	18,478,591	105,000,098
Committed					
Deferred maintenance	-	-	-	802,965	802,965
Adult education	-	-	-	292,994	292,994
Stabilization	17,580,000	-	-	-	17,580,000
Total Committed	17,580,000	-	-	1,095,959	18,675,959
Assigned					
Program carryover	13,973,088	-	-	-	13,973,088
Total Assigned	13,973,088	-	-	-	13,973,088
Unassigned					
Reserve for economic uncertainties	6,272,190	-	-	-	6,272,190
Remaining unassigned	12,343,316	-	-	-	12,343,316
Total Unassigned	18,615,506	-	-	-	18,615,506
Total	$ 59,187,243	$ 2,950,953	$ 75,142,902	$ 19,672,074	$ 156,953,172

NOTE 12 - 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 2015-2016, the District contributed $4,055,492 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	2,072,611
Annual OPEB cost (expense)	11,227,132
Contributions made	(4,055,492)
Increase in net OPEB obligation	7,171,640
Net OPEB obligation, beginning of year	31,886,318
Net OPEB obligation, end of year	$ 39,057,958

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

Year Ended June 30,	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Asset/Obligation
2016	$ 11,227,132	$ 4,055,492	36.12%	$ 39,057,958
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

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.

NOTE 13 - 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, 2016, 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:

Insurance Program / Company Name	Type of Coverage	Limits
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.

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, 2014 to June 30, 2016:

Liability Balance, July 1, 2014	$ 11,324,189
Claims and changes in estimates	(109,206)
Claims payments	(2,687,067)
Liability Balance, June 30, 2015	8,527,916
Claims and changes in estimates	1,190,774
Claims payments	(2,687,068)
Liability Balance, June 30, 2016	$ 7,031,622
Assets available to pay claims at June 30, 2016	$ 7,077,175

NOTE 14 - 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).

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 124,038,926	$ 12,882,132	$ 12,183,908	$ 10,548,295
CalPERS	43,211,280	7,795,322	4,134,612	4,713,552
Total	$ 167,250,206	$ 20,677,454	$ 16,318,520	$ 15,261,847

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.

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, 2014, 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, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.13%	7.13%

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, 2016, are presented above and the District's total contributions were $7,603,764.

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

At June 30, 2016, 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	$	124,038,926
State's proportionate share of the net pension liability associated with the District		65,602,918
Total	$	189,641,844

The net pension liability was measured as of June 30, 2015. 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. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.1842 percent and 0.1757 percent, resulting in a net increase in the proportionate share of 0.0085 percent.

For the year ended June 30, 2016, the District recognized pension expense of $10,548,295. In addition, the District recognized pension expense and revenue of $5,980,867 for support provided by the State. At June 30, 2016, 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	$	7,603,764	$	-
Net change in proportionate share of net pension liability		5,278,368		-
Difference between projected and actual earnings on pension plan investments		-		(10,111,188)
Differences between expected and actual experience in the measurement of the total pension liability		-		(2,072,720)
Total	$	12,882,132	$	(12,183,908)

The deferred outflows 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 subsequent fiscal year. The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2017	$ (4,184,821)
2018	(4,184,821)
2019	(4,184,822)
2020	2,443,276
Total	$ (10,111,188)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ 534,275
2018	534,275
2019	534,275
2020	534,275
2021	534,275
2022	534,275
Total	$ 3,205,650

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
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 be 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:

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%)	$ 187,289,124
Current discount rate (7.60%)	$ 124,038,926
1% increase (8.60%)	$ 71,472,908

<u>California Public Employees Retirement System (CalPERS)</u>

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.

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, 2014 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, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
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, 2016, are presented above and the total District contributions were $3,897,772.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $43,211,280. The net pension liability was measured as of June 30, 2015. 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 2015 and June 30, 2014, respectively was 0.2932 percent and 0.2922 percent, resulting in a net increase in proportionate share of 0.0010 percent.

For the year ended June 30, 2016, the District recognized pension expense of $4,713,552. At June 30, 2016, 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 measurment date	$ 3,897,772	$ -
Differences between projected and actual earnings on plan investments	-	(1,479,591)
Change in assumption	-	(2,655,021)
Differences between expected and actual experience	2,469,588	-
Change in proportions	1,427,962	-
Total	$ 7,795,322	$ (4,134,612)

The deferred outflows 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 subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ (1,084,613)
2018	(1,084,613)
2019	(1,084,614)
2020	1,774,249
Total	$ (1,479,591)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ 667,088
2018	597,885
2019	(22,444)
Total	$ 1,242,529

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 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:

Discount rate	Net Pension Liability
1% decrease (6.60%)	$ 70,329,958
Current discount rate (7.60%)	$ 43,211,280
1% increase (8.60%)	$ 20,660,287

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 $5,980,867, $4,210,741, and $4,126,937, respectively, for 2016, 2015 and 2014 (7.410, 5.679, and 5.541, percent of annual payroll for 2016, 2015, and 2014, 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.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2016 the District had the following construction commitments.

Capital Project	Remaining Construction Commitment	Expected Date of Completion
AHS-Freedom Field Upgrade-Ph 1,2 and 3	$ 415,769	Aug 2018
AHS Modernization	3,316,967	Jun 2017
AJHS Modernization	1,882,950	Jun 2018
Bradley Modernization	843,603	Jun 2018
Mar Vista - Reconfigure MPR MOD	1,195,340	Dec 2018
Mar Vista Modernization	1,357,661	Jun 2016
Rio Del Mar Modernization	940,777	Dec 2017
Valencia Modernization	645,114	Aug 2017
Renaissance High Modernization	2,238,827	Aug 2019
PV High Upper Fields	9,912,230	Aug 2019
PV High New Auditorium	6,217,903	Aug 2018
PV High - Additional Work - MOD	185,935	Dec 2017
Cesar Chavez MS Modernization	1,497,466	Dec 2018
Lakeview MS Modernization	653,866	Dec 2018

Capital Project	Remaining Construction Commitment	Expected Date of Completion
RHMS Gym Modernization	459,174	Dec 2019
RHMS - Modernization	588,867	Dec 2017
Amesti Modernization	2,061,754	Oct 2018
Ann Soldo Modernization	1,019,242	Oct 2018
Calabasas Modernization	1,361,197	Oct 2017
Freedom Modernization	1,946,030	Oct 2017
HA Hyde Modernization	2,065,173	Dec 2017
Radcliff Modernization	1,279,627	Oct 2018
Starlight Modernization	1,768,065	Dec 2018
Alianza Fire Hydrant and Water Tank	48,938	Dec 2016
Alianza Modernization	1,765,892	Jun 2018
Alianza - Relocatables	2,316,862	Dec 2018
WCSA Modernization	663,400	Jun 2017
Landmark Modernization	35,689	Dec 2018
New School - Modernization	92,328	Dec 2017
WHS - Modernizations	1,809,471	Aug 2018
EA Hall A Wing Modernization	7,657	Apr 2017
EA Hall Track and Field Replacement	2,404,357	May 2017
Hall District Modernization	162,107	Dec 2017
MacQuiddy Modernization	1,251,311	Aug 2017
Ohlone Modernization	1,482,726	Jan 2018
Mintie White - Wing A - Modernization	2,963,407	Dec 2017
Mintie White Other Modernization	275,058	Jun 2018
Linscott Modernization	2,222,878	Jun 2018
	$ 61,355,621	

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, 2016.

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, 2016.

NOTE 16 - 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, 2016, the District made payments of $3,574,333 to PIPS for workers' compensation insurance, $47,144,693 to SISC for medical and vision insurance and $1,041,136 to SAFER for excess property and liability insurance.

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 payments of $52,722 are due the first day of each quarter, commencing December 1, 2014.

The loan matures through 2024 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	204,574	6,315	210,889
2022-2024	676,892	8,548	685,440
Total Loan Receivable	$ 1,682,787	$ 57,097	$ 1,739,884

NOTE 18 - SUBSEQUENT EVENTS

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 November 30, 2016, 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.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variances- Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
REVENUES				
Local control funding formula	$ 158,917,169	$ 161,627,222	$ 161,908,248	$ 281,026
Federal sources	19,672,138	21,485,478	20,373,823	(1,111,655)
Other state sources	31,668,644	38,699,647	38,087,423	(612,224)
Other local sources	1,721,375	3,875,374	4,154,719	279,345
Total Revenues	211,979,326	225,687,721	224,524,213	(1,163,508)
EXPENDITURES				
Current				
Certificated salaries	77,846,039	81,472,839	78,439,915	3,032,924
Classified salaries	30,380,407	29,876,147	29,723,697	152,450
Employee benefits	66,497,907	68,492,774	68,137,340	355,434
Books and supplies	11,377,249	10,977,848	9,865,766	1,112,082
Services and operating expenditures	23,103,733	22,397,348	19,873,789	2,523,559
Other outgo	125,292	369,939	(251,343)	621,282
Capital outlay	2,272,000	2,332,871	2,051,453	281,418
Debt service - principal	570,701	570,701	574,164	(3,463)
Debt service - interest	45,616	45,616	42,152	3,464
Total Expenditures	212,218,944	216,536,083	208,456,933	8,079,150
Excess (Deficiency) of Revenues Over Expenditures	(239,618)	9,151,638	16,067,280	6,915,642
Other Financing Sources (Uses)				
Transfers in	-	-	424,805	424,805
Transfers out	(150,000)	(150,000)	(608,944)	(458,944)
Net Financing Sources (Uses)	(150,000)	(150,000)	(184,139)	(34,139)
NET CHANGE IN FUND BALANCES	(389,618)	9,001,638	15,883,141	6,881,503
Fund Balance - Beginning	43,304,102	43,304,102	43,304,102	-
Fund Balance - Ending	$ 42,914,484	$ 52,305,740	$ 59,187,243	$ 6,881,503

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

CHARTER SCHOOLS SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variances- Favorable (Unfavorable)
	Original	**Final**	**Actual**	**Final to Actual**
REVENUES				
Local control funding formula	$ 13,077,880	$ 12,626,584	$ 12,602,436	$ (24,148)
Other state sources	275,395	1,559,731	1,604,459	44,728
Other local sources	9,100	24,753	33,721	8,968
Total Revenues	13,362,375	14,211,068	14,240,616	29,548
EXPENDITURES				
Curent				
Certificated salaries	5,387,949	5,648,069	5,433,385	214,684
Classified salaries	787,992	814,100	807,391	6,709
Employee benefits	3,249,696	3,618,288	3,591,673	26,615
Books and supplies	1,112,878	563,424	521,871	41,553
Services and operating expenditures	2,968,451	3,579,169	2,999,876	579,293
Total Expenditures	13,506,966	14,223,050	13,354,196	868,854
Excess (Deficiency) of Revenues Over Expenditures	(144,591)	(11,982)	886,420	898,402
Other Financing Sources				
Transfers in	144,591	261,285	193,090	(68,195)
Net Financing Sources (Uses)	144,591	261,285	193,090	(68,195)
NET CHANGE IN FUND BALANCES	-	249,303	1,079,510	830,207
Fund Balance - Beginning	1,871,443	1,871,443	1,871,443	-
Fund Balance - Ending	$ 1,871,443	$ 2,120,746	$ 2,950,953	$ 830,207

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

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%

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

MEASUREMENT DATE	June 30, 2015	June, 30 2014
CalSTRS		
District's proportion of the net pension liability	0.1842%	0.1758%
District's proportionate share of the net pension liability	$ 124,038,926	$ 102,724,052
State's proportionate share of the net pension liability associated with the District	65,602,918	62,029,218
Total	$ 189,641,844	$ 164,753,270
District's covered - employee payroll	$ 82,863,246	$ 80,688,631
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	149.69%	127.31%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.2932%	0.2922%
District's proportionate share of the net pension liability	$ 43,211,280	$ 33,166,972
District's covered - employee payroll	$ 32,468,352	$ 30,898,266
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	133.09%	107.34%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
Contractually required contribution	$ 7,603,674	$ 6,752,541
Contributions in relation to the contractually required contribution	7,603,674	6,752,541
Contribution deficiency	$ -	$ -
District's covered - employee payroll	$ 83,782,062	$ 82,863,246
Contributions as a percentage of covered - employee payroll	9.08%	8.15%
CalPERS		
Contractually required contribution	$ 3,897,772	$ 3,821,850
Contributions in relation to the contractually required contribution	3,897,772	3,821,850
Contribution deficiency	$ -	$ -
District's covered - employee payroll	$ 32,903,213	$ 32,468,352
Contributions as a percentage of covered - employee payroll	11.85%	11.77%

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

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

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	$ 95,101	
Priority 5, Adult Secondary Education	84.002	13978	57,085	
English Literacy and Civics Education	84.002A	14109	49,716	
Total Adult Education				$ 201,902
No Child Left Behind Act:				
Title I-Basic Grants Low-Income and Neglected	84.010	14329		5,105,961
Title I-Migrant Education	84.011	14326		2,874,875
Title I-Even Start Migrant Education	84.011	14768		285,216
Title I-School Site Improvements	84.377	14971		944,960
Title II-Teacher Quality	84.367	14341		918,007
Title III-Limited English Proficiency Student	84.365	10084		922,447
Title IV-21st Century Community Centers Learning	84.287	14349		3,389,665
Title X-McKinney-Vento Homeless Assistance	84.196	14332		113,866
Carl D. Perkins Career and Technical Education Act:				
Vocational and Applied Technology	84.048	14894		178,701
Special Education Cluster				
Basic Local Assistance Entitlement	84.027	13379	3,466,375	
Mental Health Allocation Plan, Private Schools	84.027	14468	223,359	
Preschool Grants	84.173	13430	170,411	
Preschool Local Entitlement	84.027A	13682	363,794	
Preschool Staff Development	84.173A	13431	1,749	
Total Special Education Cluster				4,225,688
Early Intervention Grants	84.181	23761		246,523
Workability II	84.126	10006		230,203
Total U.S. Department of Education				19,638,014

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

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:				
Medicaid Programs:				
Medi-Cal Billing Option	93.778	10013	599,438	
Medi-Cal Administrative Activities	93.778	10060	338,271	
Total Medicaid Programs				937,709
Federal Child Care Center Base	93.596	13609		393,093
Head Start	93.600	10016		6,996,928
Total U.S. Department of Health and Human Services				8,327,730
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education:				
National School Lunch Act:				
National School Lunch Program	10.555	13524	5,612,935	
National School Breakfast	10.553	13390	15,949	
Meal Supplements	10.555	13396	508,359	
Especially Needy Breakfast	10.553	13526	2,694,165	
Commodity Supplemental Food Program	10.555	13524	616,584	
Total Child Nutrition Cluster				9,447,992
Child and Adult Care Food Program	10.558	13393		202,712
Team Nutrition	10.574	15332		595
Fresh Fruits and Vegatables	10.582	14968		399,376
Total U.S. Department of Agriculture				10,050,675
Total Expenditures of Federal Awards				$ 38,016,419

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

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

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

ADMINISTRATION

Dorma Baker	Superintendent

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,802.26	5,811.03
Fourth through sixth	4,282.72	4,284.98
Seventh and eighth	2,557.93	2,554.05
Ninth through twelfth	4,680.92	4,629.17
Total Regular ADA	17,323.83	17,279.23
Extended Year Special Education		
Transitional kindergarten through third	9.97	9.97
Fourth through sixth	5.61	5.61
Seventh and eighth	6.26	6.26
Ninth through twelfth	9.88	9.88
Total Extended Year Special Education	31.72	31.72
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	1.04	1.01
Ninth through twelfth	16.58	16.09
Total Special Education, Nonpublic, Nonsectarian Schools	17.62	17.10
Extended Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.10	0.10
Ninth through twelfth	1.48	1.48
Total Special Education, Nonpublic, Nonsectarian Schools	1.58	1.58
Community Day School		
Seventh and eighth	3.68	4.64
Ninth through twelfth	24.86	25.88
Total Community Day School	28.54	30.52
Total ADA	17,403.29	17,360.15

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016

CHARTER SCHOOLS	Alianza	Diamond Technology Institute	Linscott	Pacific Coast	Watsonville
Second Period Report					
Classroom-Based					
Transitional kindergarten through third	325.93	-	101.37	-	156.77
Fourth through sixth	209.29	-	102.40	-	99.43
Seventh and eighth	101.43	-	51.11	-	44.91
Ninth through twelfth	-	45.91	-	-	-
Total Classroom-Based	636.65	45.91	254.88	-	301.11
Non Classroom-Based					
Transitional kindergarten through third	-	-	-	20.01	-
Fourth through sixth	-	-	-	27.17	-
Seventh and eighth	-	-	-	14.49	-
Ninth through twelfth	-	-	-	185.26	-
Total Non Classroom-Based	-	-	-	246.93	-
Total Charter School	636.65	45.91	254.88	246.93	301.11
Annual Report					
Classroom-Based					
Transitional kindergarten through third	326.28	-	102.27	-	157.03
Fourth through sixth	209.51	-	103.10	-	98.99
Seventh and eighth	101.17	-	51.34	-	44.38
Ninth through twelfth	-	45.17	-	-	-
Total Classroom-Based	636.96	45.17	256.71	-	300.40
Non Classroom-Based					
Transitional kindergarten through third	-	-	-	20.25	-
Fourth through sixth	-	-	-	27.55	-
Seventh and eighth	-	-	-	15.43	-
Ninth through twelfth	-	-	-	186.67	-
Total Non Classroom-Based	-	-	-	249.90	-
Total Charter School	636.96	45.17	256.71	249.90	300.40

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Actual Minutes	2015-16 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,000	180	In compliance
Grades 1 - 3				
Grade 1	50,400	50,475	180	In compliance
Grade 2	50,400	50,475	180	In compliance
Grade 3	50,400	50,475	180	In compliance
Grades 4 - 6				
Grade 4	54,000	54,155	180	In compliance
Grade 5	54,000	54,155	180	In compliance
Grade 6	54,000	54,155	180	In compliance
Grades 7 - 8				
Grade 7	54,000	55,902	180	In compliance
Grade 8	54,000	55,902	180	In compliance
Grades 9 - 12				
Grade 9	64,800	65,094	180	In compliance
Grade 10	64,800	65,094	180	In compliance
Grade 11	64,800	65,094	180	In compliance
Grade 12	64,800	65,094	180	In compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	Education Code Section 46201.2 Required Minutes	2015-2016 Actual Minutes	Status
Diamond Technology Charter Institute			
Grade 9	64,800	65,412	In Compliance
Grade 10	64,800	65,412	In Compliance
Grade 11	64,800	65,412	In Compliance
Grade 12	64,800	65,412	In Compliance
Alianza Elementary Charter School			
Kindergarten	36,000	37,025	In Compliance
Grade 1	50,400	54,385	In Compliance
Grade 2	50,400	54,385	In Compliance
Grade 3	50,400	54,385	In Compliance
Grade 4	54,000	54,385	In Compliance
Grade 5	54,000	54,385	In Compliance
Grade 6	54,000	54,385	In Compliance
Grade 7	54,000	54,385	In Compliance
Grade 8	54,000	54,385	In Compliance
Linscott Elementary Charter School			
Kindergarten	36,000	40,500	In Compliance
Grade 1	50,400	52,290	In Compliance
Grade 2	50,400	52,290	In Compliance
Grade 3	50,400	52,290	In Compliance
Grade 4	54,000	54,255	In Compliance
Grade 5	54,000	54,255	In Compliance
Grade 6	54,000	54,255	In Compliance
Grade 7	54,000	54,255	In Compliance
Grade 8	54,000	54,255	In Compliance
Watsonville Charter School of Arts			
Kindergarten	36,000	37,800	In Compliance
Grade 1	50,400	52,740	In Compliance
Grade 2	50,400	52,740	In Compliance
Grade 3	50,400	52,740	In Compliance
Grade 4	54,000	55,080	In Compliance
Grade 5	54,000	55,080	In Compliance
Grade 6	54,000	57,240	In Compliance
Grade 7	54,000	57,240	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, 2016

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

	Building Fund
FUND BALANCE	
Balance, June 30, 2016, Unaudited Actuals	$ 75,897,677
Increase in accounts payable	(754,775)
Balance, June 30, 2016, Audited Financial Statements	$ 75,142,902

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 [1]	2016	2015	2014
GENERAL FUND				
Revenues	$231,781,828	$218,543,346	$190,782,120	$180,219,997
Other sources	-	424,805	18,624,056	1,084
Total Revenues and Other Sources	231,781,828	218,968,151	209,406,176	180,221,081
Expenditures	249,843,527	202,476,066	201,838,368	188,969,579
Other uses and transfers out	811,262	608,944	972,594	1,678,245
Total Expenditures and Other Uses	250,654,789	203,085,010	202,810,962	190,647,824
INCREASE (DECREASE) IN FUND BALANCE	$ (18,872,961)	$ 15,883,141	$ 6,595,214	$ (10,426,743)
ENDING FUND BALANCE	$ 40,314,282	$ 59,187,243	$ 43,304,102	$ 36,708,888
AVAILABLE RESERVES [2]	$ 9,473,723	$ 18,615,506	$ 13,485,383	$ 22,936,155
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	3.78%	9.17%	6.65%	12.03%
LONG-TERM OBLIGATIONS	$385,231,000	$390,168,889	$311,130,200	$174,308,991
K-12 AVERAGE DAILY ATTENDANCE AT P-2	17,403	17,403	17,347	17,486

The General Fund balance has increased by $22,478,355 over the past two years. The fiscal year 2016-2017 budget projects a decrease of $18,872,961. 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 2015-2016 and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by $215,859,898 over the past two years.

Average daily attendance has decreased by 83 over the past two years. No increase or decrease in ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 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 $5,345,514, $4,210,741, and $3,704,752, in the General Fund have been excluded from the revenues and expenditures for fiscal years ending June 30, 2016, 2015, and 2014, respectively.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2016

Name of Charter School	Included in Audit Report
Diamond Technology 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, 2016

	Alianza Elementary	Diamond Technology Institute	Linscott Elementary	Pacific Coast	Watsonville School of Arts	Total
Fund balance, beginning	$ 360,186	$ 22,300	$ 407,703	$ 981,469	$ 99,785	$ 1,871,443
Revenues	6,351,605	768,518	2,192,952	2,356,775	2,763,856	14,433,706
Expenditures	(5,904,276)	(754,605)	(2,208,617)	(2,118,240)	(2,368,458)	(13,354,196)
Fund balance, ending	$ 807,515	$ 36,213	$ 392,038	$ 1,220,004	$ 495,183	$ 2,950,953

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, 2016

Grantor/Program	Revenue	Expenditures
First 5 Monterey	$ 94,999	$ 94,999

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	$ 888,251	$ 32,764	$ 3,850,017
Receivables	93,014	1,228,972	1,474,085
Due from other funds	-	163,206	-
Stores inventories	-	-	97,524
Total Assets	$ 981,265	$ 1,424,942	$ 5,421,626
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 100,214	$ 989,623	$ 347,596
Due to other funds	528,353	-	380,997
Unearned revenue	59,704	382,020	11,645
Total Liabilities	688,271	1,371,643	740,238
Fund Balances:			
Nonspendable	-	-	97,524
Restricted	-	53,299	4,583,864
Committed	292,994	-	-
Total Fund Balances	292,994	53,299	4,681,388
Total Liabilities and Fund Balances	$ 981,265	$ 1,424,942	$ 5,421,626

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
$ 803,135	$ 2,262,300	$ 11,582,819	$ 19,419,286
-	-	-	2,796,071
-	-	-	163,206
-	-	-	97,524
$ 803,135	$ 2,262,300	$ 11,582,819	$ 22,476,087
$ 112	$ 3,691	$ -	$ 1,441,236
58	-	-	909,408
-	-	-	453,369
170	3,691	-	2,804,013
-	-	-	97,524
-	2,258,609	11,582,819	18,478,591
802,965	-	-	1,095,959
802,965	2,258,609	11,582,819	19,672,074
$ 803,135	$ 2,262,300	$ 11,582,819	$ 22,476,087

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, 2016

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Revenue limit sources	$ 16,926	$ -	$ -
Federal sources	201,902	7,390,021	9,434,089
Other State sources	1,761,061	4,341,118	730,275
Other local sources	826,904	672,246	646,568
Total Revenues	2,806,793	12,403,385	10,810,932
EXPENDITURES			
Current			
Instruction	1,078,867	7,786,924	-
Instruction-related activities:			
Supervision of instruction	225,937	2,329,801	-
Instructional library, media, and technology	53,043	118,655	-
School site administration	894,711	109,814	-
Pupil services:			
Food services	-	-	10,056,412
All other pupil services	67,953	1,161,798	-
Administration:			
All other administration	81,424	468,805	390,934
Plant services	100,934	759,351	18,368
Facility acquisition and construction	10,930	46,948	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	2,513,799	12,782,096	10,465,714
Excess (Deficiency) of Revenues Over Expenditures	292,994	(378,711)	345,218
Other Financing Sources (Uses)			
Transfers in	-	414,644	1,210
Net Financing Sources (Uses)	-	414,644	1,210
NET CHANGE IN FUND BALANCES	292,994	35,933	346,428
Fund Balance - Beginning	-	17,366	4,334,960
Fund Balance - Ending	$ 292,994	$ 53,299	$ 4,681,388

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
$ -	$ -	$ -	$ 16,926
-	-	-	17,026,012
-	-	77,037	6,909,491
6,011	948,540	13,576,639	16,676,908
6,011	948,540	13,653,676	40,629,337
-	-	-	8,865,791
-	-	-	2,555,738
-	-	-	171,698
-	-	-	1,004,525
-	-	-	10,056,412
-	-	-	1,229,751
-	-	-	941,163
300,984	452,179	-	1,631,816
54,221	37,642	-	149,741
-	-	4,085,000	4,085,000
-	-	4,393,533	4,393,533
355,205	489,821	8,478,533	35,085,168
(349,194)	458,719	5,175,143	5,544,169
-	-	-	415,854
-	-	-	415,854
(349,194)	458,719	5,175,143	5,960,023
1,152,159	1,799,890	6,407,676	13,712,051
$ 802,965	$ 2,258,609	$ 11,582,819	$ 19,672,074

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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, 2015 then spent during the fiscal year ended June 30, 2016. 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:		$ 37,399,835
Add: Fair Market Value of Commodities not recorded in the financial statements	10.565	616,584
Total Schedule of Expenditures of Federal Awards		$ 38,016,419

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.

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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 (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application;* GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68;* GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. 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 the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 30, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 30, 2016

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 *2015-2016 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, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State 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 *2015-2016 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

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, 2016.

260 Sheridan Avenue, Suite 440 Palo Alto, CA 94306 Tel: 650.462.0400 www.vtdcpa.com Fax: 650.462.0500

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:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	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	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	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
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	Yes
Immunizations	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	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 an Early Retirement Incentive Program, Juvenile Court Schools, Middle or Early College High Schools, does not offer a Before School Education and Safety Program, did not have any schools listed on the immunization assessment reports, or Charter School Facility Grant Programs during the current year; therefore, we did not perform procedures related to these programs.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 30, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies)?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No
Identification of major federal programs:	

CFDA Numbers	Name of Federal Program or Cluster
10.555. 10.553	Child Nutrition Cluster
84.010	Title I-Basic Grants Low-Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,140,493
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for all programs:	Unmodified

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.