PAJARO VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 *2016-2017 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.

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2017, 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 13 to the financial statements, in 2017, the District adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* 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, and other required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pajaro Valley Unified School District's basic financial statements. The 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 (Uniform Guidance)* and the other supplementary information as listed in 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 December 10, 2017, 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 solely 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 the effectiveness of Pajaro Valley Unified School District's 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
December 10, 2017

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 2016-2017 Annual Financial Audit summarizes the District's financial performance during the 2016-2017 fiscal year ending June 30, 2017. 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 Charter School, Watsonville Charter 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 -$93.6 million and -$77.9 million for the fiscal years ended June 30, 2017 and 2016, respectively. Of this amount, -$164.2 million and -$152.2 million were unrestricted for fiscal years ending June 30, 2017 and 2016, 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	
	2017	**2016**
Current and other assets	$ 169,091,186	$ 181,137,056
Loan receivable	1,484,966	1,484,966
Capital assets	158,622,000	149,478,741
Total Assets	329,198,152	332,100,763
Deferred charge on refunding	1,688,402	1,969,802
Current year pension contribution	38,128,873	20,677,454
Total Deferred Outflows of Resources	39,817,275	22,647,256
Current liabilities	33,154,629	26,152,425
Long-term debt	222,597,092	222,918,683
Aggregate net pension liability	187,553,243	167,250,206
Total Liabilities	443,304,964	416,321,314
Difference between actual and expected rate of investment return	19,271,558	16,318,520
Total Deferred Inflows of Resources	19,271,558	16,318,520
Net investment in capital assets	44,129,728	46,547,429
Restricted	26,491,814	27,788,358
Unrestricted	(164,182,637)	(152,227,602)
Total Net Position	$ (93,561,095)	$ (77,891,815)

The -$164 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Position

The results of 2016-2017 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	
	2017	**2016**
Revenues		
Program revenues:		
Charges for services	$ 826,874	$ 1,246,417
Operating grants and contributions	76,640,070	74,577,332
General revenues:		
Federal and state sources	124,627,907	125,820,086
Property taxes	76,493,999	71,834,584
Other general revenues	5,537,888	2,589,370
Total Revenues	284,126,738	276,067,789
Expenses		
Instruction related	220,741,484	198,965,882
Student support services	38,699,541	35,512,974
Administration	9,201,086	10,750,145
Maintenance and operations	21,244,692	18,990,967
Other	9,909,215	8,651,117
Total Expenses	299,796,018	272,871,085
Change in Net Position	$ (15,669,280)	$ 3,196,704

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2016-2017 was $299.8 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only $76.5 million. This is because $77.5 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 $130.2 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	
	2017	**2016**
Instruction and instruction related	$ 164,307,347	$ 145,264,841
Pupil services	22,615,459	20,520,334
General administration	6,811,683	8,547,172
Maintenance and operations	19,756,835	16,713,555
Other	8,837,750	6,001,434
Totals	$ 222,329,074	$ 197,047,336

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 2015-16, the ending balance increased by 36.7 percent from the district's June estimates. For 2016-17, the district's ending balance decreased by 2.7 percent. This was primarily due to increases in LCFF revenue adopted by the state and an increase 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.

2016-17 fiscal year was the fourth 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 2017-18 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, and added maintenance and custodial staff.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017 and 2016, the District had $158.6 million and $149.5 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 $9.1 million or 6.12%, from last year.

TABLE 4

	Governmental Activities	
	2017	**2016**
Land	$ 17,055,144	$ 17,055,144
Construction in progress	37,384,827	19,856,026
Buildings and improvements	280,556,666	279,301,474
Equipment	8,494,254	6,742,382
Accumulated depreciation	(184,868,891)	(173,476,285)
Totals	$ 158,622,000	$ 149,478,741

This year's additions to capital assets of $20.5 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 $164.8 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

	Governmental Activities	
	2017	**2016**
General obligation bonds	$ 164,830,687	$ 168,747,906
Bond premium	9,182,751	9,589,717
Accumulated vacation - net	1,938,175	3,705,901
Supplemental employees retirement plan	83,106	110,808
Capital leases	1,042,215	1,706,393
Other post employment benefits	45,520,158	39,057,958
Net pension liability	187,553,243	167,250,206
Totals	$ 410,150,335	$ 390,168,889

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)

The District adopted Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions.* The pronouncement requires the District to recognize its proportional share of net pension liability of State Teachers Retirement System (CalSTRS) and California Public Employees Retirement System (CalPERS). As a result, the District reported $187.6 million and $167.3 million net pension liability in its statement of net position in 2016-17 and 2015-16, respectively.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017 ARE NOTED BELOW:

During the 2016-2017 fiscal years, 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.
- Finalized phase in the K-3 class-size reduction.
- Hired additional counselors to help students with social and emotional issues.
- Added digital resources and training to support differentiation in the classroom.
- Strengthening early literacy in the primary grades.

FISCAL OUTLOOK FOR 2017-18

In considering the District Budget for the 2017-2018 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 5.8%.
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:

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, 2017

	Governmental Activities
ASSETS	
Deposits and investments	$ 155,137,547
Receivables	13,328,607
Prepaid expenses	349,960
Stores inventories	275,072
Current portion of loan receivable	199,489
Noncurrent portion of loan receivable	1,285,477
Capital assets not depreciated	54,439,971
Capital assets, net of accumulated depreciation	104,182,029
Total Assets	329,198,152
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,688,402
Deferred outflows of resources related to pensions	38,128,873
Total Deferred Outflows of Resources	39,817,275
LIABILITIES	
Accounts payable	21,631,027
Interest payable	2,445,022
Unearned revenue	2,780,499
Claim liabilities	6,298,081
Long-term obligations:	
Current portion of long-term obligations other than pensions	11,337,272
Noncurrent portion of long-term obligations other than pensions	211,259,820
Total Long-Term Obligations	222,597,092
Aggregate net pension liability	187,553,243
Total Liabilities	443,304,964
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	19,271,558
Total Deferred Inflows of Resources	19,271,558
NET POSITION	
Net investment in capital assets	44,129,728
Restricted for:	
Debt service	6,872,344
Capital projects	2,974,107
Food program	5,033,635
Child development program	170,463
Charter schools	3,096,162
Self-Insurance	170,408
Educational programs	8,174,695
Unrestricted	(164,182,637)
Total Net Position	$ (93,561,095)

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, 2017

		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	$ 171,057,095	$ 201,070	$ 40,748,830	$ (130,107,195)
Instruction-related activities:				
Supervision of instruction	25,178,998	42,997	14,053,806	(11,082,195)
Instructional library, media, and technology	4,936,282	3,056	452,546	(4,480,680)
School site administration	19,569,109	654	931,178	(18,637,277)
Pupil services:				
Home-to-school transportation	6,926,956	-	-	(6,926,956)
Food services	11,093,955	490,037	10,108,974	(494,944)
All other pupil services	20,678,630	7,219	5,477,852	(15,193,559)
Administration:				
Data processing	2,785,465	299	6,809	(2,778,357)
All other administration	6,415,621	25,994	2,356,301	(4,033,326)
Plant services	21,244,692	14,499	1,473,358	(19,756,835)
Ancillary services	2,390,328	682	111,403	(2,278,243)
Community services	20,633	-	-	(20,633)
Interest on long-term obligations	6,645,888	-	-	(6,645,888)
Other outgo	852,366	40,367	919,013	107,014
Total Governmental Activities	$ 299,796,018	$ 826,874	$ 76,640,070	(222,329,074)

General revenues and subventions:	
Property taxes, levied for general purposes	67,860,187
Property taxes, levied for debt service	8,101,061
Taxes levied for other specific purposes	532,751
Federal and State aid not restricted to specific purposes	124,627,907
Interest and investment earnings	492,398
Miscellaneous	5,045,490
Subtotal, General Revenues	206,659,794
Change in Net Position	(15,669,280)
Net Position - Beginning	(77,891,815)
Net Position - Ending	$ (93,561,095)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 66,260,944	$ 61,315,263	$ 21,590,771	$ 149,166,978
Receivables	7,909,508	-	4,792,249	12,701,757
Due from other funds	893,660	-	192,491	1,086,151
Prepaid expenses	349,960	-	-	349,960
Stores inventories	149,395	-	125,677	275,072
Total Assets	$ 75,563,467	$ 61,315,263	$ 26,701,188	$ 163,579,918
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 15,686,721	$ 2,439,590	$ 3,081,180	$ 21,207,491
Due to other funds	4,658	694	1,375,405	1,380,757
Unearned revenue	2,285,724	-	494,775	2,780,499
Total Liabilities	17,977,103	2,440,284	4,951,360	25,368,747
Fund Balances:				
Nonspendable	714,355	-	125,677	840,032
Restricted	8,174,695	58,874,979	20,466,056	87,515,730
Committed	34,908,359	-	1,158,095	36,066,454
Assigned	5,229,438	-	-	5,229,438
Unassigned	8,559,517	-	-	8,559,517
Total Fund Balances	57,586,364	58,874,979	21,749,828	138,211,171
Total Liabilities and Fund Balances	$ 75,563,467	$ 61,315,263	$ 26,701,188	$ 163,579,918

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
JUNE 30, 2017

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance - Governmental Funds		$ 138,211,171
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	$ 343,490,891	
Accumulated depreciation is	(184,868,891)	
Net Capital Assets		158,622,000
Deferred charges on pension expenses due to adjustments to net pension liabilities and related accounts are classified as deferred outflows or deferred inflows.		18,857,315
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.		(2,445,022)
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.		170,408
Long-term loan receivable is not received during the current year and, therefore are not reported as receivable in the government funds.		1,484,966
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.		1,688,402

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, 2017

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	(164,830,687)	
Unamortized bond premium	(9,182,751)	
Capital leases payable	(1,042,215)	
Compensated absences (vacations)	(1,938,175)	
Supplemental employee retirement plan	(83,106)	
OPEB obligations	(45,520,158)	
Net pension liability	(187,553,243)	
Total Long-Term Liabilities		(410,150,335)
Total Net Position - Governmental Activities		$ (93,561,095)

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, 2017

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local control funding formula	$ 170,940,569	$ -	$ 13,453,334	$ 184,393,903
Federal sources	20,040,653	-	18,250,363	38,291,016
Other state sources	36,654,688	-	9,990,638	46,645,326
Other local sources	3,631,868	586,100	12,058,014	16,275,982
Total Revenues	231,267,778	586,100	53,752,349	285,606,227
EXPENDITURES				
Current				
Instruction	139,162,337	-	19,109,489	158,271,826
Instruction-related activities:				
Supervision of instruction	18,844,039	-	4,449,241	23,293,280
Instructional library, media and technology	4,119,466	-	447,126	4,566,592
School site administration	12,894,769	-	5,208,760	18,103,529
Pupil services:				
Home-to-school transportation	6,408,179	-	-	6,408,179
Food services	-	-	10,263,101	10,263,101
All other pupil services	17,706,336	-	1,423,619	19,129,955
Administration:				
Data processing	2,576,855	-	-	2,576,855
All other administration	6,706,435	-	1,052,499	7,758,934
Plant services	17,605,724	1,785,538	1,983,572	21,374,834
Ancillary services	2,175,217	-	36,094	2,211,311
Community services	19,088	-	-	19,088
Other outgo	654,545	-	-	654,545
Facility acquisition and construction	2,468,517	15,068,485	1,138,313	18,675,315
Debt service				
Principal	585,318	-	4,530,000	5,115,318
Interest and other	30,998	-	5,894,568	5,925,566
Total Expenditures	231,957,823	16,854,023	55,536,382	304,348,228
Excess of Expenditures Over Revenues	(690,045)	(16,267,923)	(1,784,033)	(18,742,001)
Other Financing Sources (Uses)				
Transfers in	-	-	910,834	910,834
Transfers out	(910,834)	-	-	(910,834)
Net Financing Sources (Uses)	(910,834)	-	910,834	-
NET CHANGE IN FUND BALANCES	(1,600,879)	(16,267,923)	(873,199)	(18,742,001)
Fund Balance - Beginning	59,187,243	75,142,902	22,623,027	156,953,172
Fund Balance - Ending	$ 57,586,364	$ 58,874,979	$ 21,749,828	$ 138,211,171

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Total Net Change in Fund Balances - Governmental Funds		$ (18,742,001)
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	$ (11,392,606)	
Capital outlays	20,535,865	
Net Expense Adjustment		9,143,259
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).		1,767,726
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.		(5,804,656)
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.		664,178
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.		4,530,000

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

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, 2017

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.		(233,107)
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.		(612,781)
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.		(6,462,200)
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	406,966	
Defeasance costs on general obligation bonds	(281,400)	
Net amortization		125,566
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.		27,702
Amounts received from charter schools are recorded as revenues in the governmental funds. However, the amount received is not a revenue in the statement of activities. Instead, it decreases the loan receivable in the statement of net position.		(197,821)
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.		124,855
Change in Net Position of Governmental Activities		$ (15,669,280)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 5,970,569
Receivables	626,850
Due from other funds	294,606
Total Assets	6,892,025
LIABILITIES	
Current Liabilities	
Accounts payable	423,536
Non-current Liabilities	
Claim liabilities	6,298,081
Total Liabilities	6,721,617
NET POSITION	
Restricted for insurance programs	170,408
Total Net Position	$ 170,408

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, 2017

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district contributions	$ 2,681,696
Total Operating Revenues	2,681,696
OPERATING EXPENSES	
Claims and insurance expense	2,610,286
Total Operating Expenses	2,610,286
Operating income	71,410
NONOPERATING REVENUES	
Interest income	53,445
Total Nonoperating Expenses	53,445
Change in Net Position	124,855
Total Net Position - Beginning	45,553
Total Net Position - Ending	$ 170,408

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, 2017

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 1,760,240
Cash payments for insurance claims	(3,390,337)
Net Cash Used for Operating Activities	(1,630,097)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash payments to repay excess contribution	(663,923)
Net Cash used for Financing Activities	(663,923)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	53,445
Net Decrease in Cash and Cash Equivalents	(2,240,575)
Cash and Cash Equivalents - Beginning	8,211,144
Cash and Cash Equivalents - Ending	$ 5,970,569
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating income	$ 71,410
Adjustments to reconcile operating income to net cash used for operating activities:	
Accrued liabilities	(46,510)
Claims liabilities	(733,541)
NET CASH USED FOR OPERATING ACTIVITIES	$ (1,630,097)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	$ 8,298,624	$ 2,320,881	$ 310,198
Accounts receivable	-	4,000	-
Total Assets	8,298,624	2,324,881	$ 310,198
LIABILITIES			
Accounts payable	626,850	317,622	$ -
Due to student groups	-	-	310,198
Total Liabilities	626,850	317,622	$ 310,198
NET POSITION			
Held in trust for scholarship and retiree benefits	7,671,774	2,007,259	
Total Net Position	$ 7,671,774	$ 2,007,259	

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

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	$ -	$ 187,670
District contributions	4,987,447	-
Investment income	37,611	18,926
Total Additions	5,025,058	206,596
DEDUCTIONS		
Benefit payments	3,002,991	-
Scholarships awarded	-	227,786
Total Deductions	3,002,991	227,786
Change in Net Position	2,022,067	(21,190)
Net Position - Beginning	5,649,707	2,028,449
Net Position - Ending	$ 7,671,774	$ 2,007,259

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 Institute, Alianza Charter, Linscott Charter, Watsonville Charter School of Arts, Pacific Coast Charter and Ceiba College Preparatory Academy 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 College Preparatory Academy 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 Northern California Regional Liability Excess Fund (NorCal ReLiEF) that provides insurance coverage to the District. These organizations do not meet the criteria for inclusion as component units, so they are not component units of the District for financial reporting purposes. The District also participates in the Henry J. Mello Center for the Performing Arts Administration Agency (the JPA), through a joint powers agreement with the City of Watsonville and the District. Each member's board appoints three directors. The JPA was established for the purpose of administering all functions necessary for the operation and maintenance of the Performing Arts Center (the Center). On August 2, 1994, the JPA entered into a management, operation and maintenance agreement with the Pajaro Valley Performing Arts Association (PVPAA), a tax exempt, nonprofit public benefit corporation. The agreement was for a period of ten years and has been reviewed and continued annually, whereby; PVPAA shall operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

Non-Major Governmental Funds

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

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.

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 revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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 and dental 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. 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, 2017, 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 and Food Services Program which has a threshold of $2,000 with a useful life of five years or more. 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, 2017, 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. In 2016-17, the governing board approved an additional 3% or $6.8 million.

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, 2017, $16,353,154 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 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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

Property Tax

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

New Accounting Pronouncements Effective This Fiscal Year

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017, 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.

New Accounting Pronouncements Effective in the Future Fiscal Year

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The District has not determined the effect of the statement.

GASB Statement No 81 – 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 splitinterest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The District has not determined the effect of the statement.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District has not determined the effect of the statement

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for insubstance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources–resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The District has not determined the effect of the statement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	$ 149,166,978
Proprietary fund	5,970,569
Fiduciary funds	10,929,703
Total Deposits and Investments	$ 166,067,250

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	$ 575,198
Cash in revolving	150,000
Investments	165,342,052
Total Deposits and Investments	$ 166,067,250

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. Pooled investments, such as the county pool and mutual funds were not rated on June 30, 2017.

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
Mutual Funds	$ 2,835,184	$ 2,835,184	N/A
County Pool	162,506,868	162,208,773	0.87
Total	$ 165,342,052	$ 165,043,957	

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, 2017, the District's bank balance of $185,090 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, 2017:

Investment Type	Fair Value	Fair Value Measurements Level 1	Uncategorized
Mutual Funds	$ 2,835,184	$ 2,835,184	$ -
County Pool	162,208,773	-	162,208,773
Total	$ 165,043,957	$ 2,835,184	$ 162,208,773

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government				
Categorical aid	$ 3,782,650	$ 3,333,520	$ 7,116,170	$ -
State Government				
State principal apportionment	2,266,182	222,741	2,711,664	-
Categorical aid	601,265	760,628	1,361,893	-
Lottery	788,582	74,517	937,616	-
Other Local Sources	470,829	1,027,693	1,498,522	4,000
Total	$ 7,909,508	$ 5,419,099	$ 13,625,865	$ 4,000

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 17,055,144	$ -	$ -	$ 17,055,144
Construction in Progress	19,856,026	17,528,801	-	37,384,827
Total Capital Assets Not Being Depreciated	36,911,170	17,528,801	-	54,439,971
Capital Assets Being Depreciated:				
Buildings and Improvements	279,301,474	1,255,192	-	280,556,666
Furniture and Equipment	6,742,382	1,751,872	-	8,494,254
Total Capital Assets Being Depreciated	286,043,856	3,007,064	-	289,050,920
Less Accumulated Depreciation:				
Buildings and Improvements	168,939,613	10,996,584	-	179,936,197
Furniture and Equipment	4,536,672	396,022	-	4,932,694
Total Accumulated Depreciation	173,476,285	11,392,606	-	184,868,891
Capital Assets Being depreciated, Net	112,567,571	(8,385,542)	-	104,182,029
Net Capital Assets	$ 149,478,741	$ 9,143,259	$ -	$ 158,622,000

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

Governmental Activities	
Instruction	$ 6,581,303
Supervision of instruction	968,587
Instructional library and media	189,889
School site administration	752,786
Home to school transpiration	266,467
Food services	426,763
All other pupil services	795,467
Ancillary services	91,951
Community services	794
All general administration	322,634
Data processing services	107,151
Plant services	888,814
Total Depreciation Expense	$ 11,392,606

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, 2017, between major and non-major governmental funds, and proprietary funds are as follows:

	Due From			
Due To	General Fund	Non-Major Governmental Funds	Proprietary Funds	Total
General	$ -	$ -	$ 4,658	$ 4,658
Building Fund	694	-	-	694
Non-Major Governmental Funds	892,966	192,491	289,948	1,375,405
Total	$ 893,660	$ 192,491	$ 294,606	$ 1,380,757

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

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.	113,453
The General Fund transferred to the Child Development Fund to support the child development program.	796,171
Total	$ 910,834

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 $1,688,402 balance of the deferred outflows of resources at June 30, 2017 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, 2016	Accretion/ Additions	Deductions	Balance June 30, 2017
Deferred charges on refunding	$ 1,969,802	$ -	$ 281,400	$ 1,688,402

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	$ 5,558,464	$ 2,439,590	$ 824,035	$ 8,852,501	$ 423,536	$ 317,622
Salaries and benefits	10,128,257	-	2,257,145	13,006,991	-	-
Other	-	-	-	-	-	626,850
Total	$ 15,686,721	$ 2,439,590	$ 3,081,180	$ 21,859,492	$ 423,536	$ 944,472

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 282,484	$ 237,960	$ 520,444
State categorical aid	339,436	-	339,436
Other local	1,663,804	256,815	1,920,619
Total	$ 2,285,724	$ 494,775	$ 2,780,499

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, 2016	Accretion/ Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	$ 168,747,906	$ 612,781	$ 4,530,000	$ 164,830,687	$ 10,290,000
Bond premium	9,589,717	-	406,966	9,182,751	406,966
Accumulated vacation - net	3,705,901	-	1,767,726	1,938,175	-
Capital leases	1,706,393	-	664,178	1,042,215	596,692
Other postemployment benefits	39,057,958	11,449,647	4,987,447	45,520,158	-
Supplemental employees retirement benefits	110,808	-	27,702	83,106	27,702
Net pension liability	167,250,206	20,303,037	-	187,553,243	-
Total	$ 390,168,889	$ 32,365,465	$ 12,384,019	$ 410,150,335	$ 11,321,360

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, 2016	Accreted / Issued	Redeemed	Bonds Outstanding June 30, 2017
2005	2030	3.00%-5.31%	$ 18,254,288	$ 24,797,906	$ 612,781	$ -	$ 25,410,687
2013	2048	3.00%-5.00%	68,540,000	64,335,000	-	1,015,000	63,320,000
2013	2038	0.63%-5.12%	11,460,000	11,405,000	-	60,000	11,345,000
2013	2023	0.73%-3.19%	19,675,000	18,660,000	-	2,320,000	16,340,000
2013	2023	2.00%-4.00%	9,765,000	9,550,000	-	1,135,000	8,415,000
2016	2045	2.00%-5.00%	40,000,000	40,000,000	-	-	40,000,000
				$ 168,747,906	$ 612,781	$ 4,530,000	$ 164,830,687

Debt Service Requirements to Maturity

The bonds mature through fiscal year 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ 5,145,000	$ 4,431,118	$ 9,576,118
2019	5,555,000	5,791,170	11,346,170
2020	4,705,000	5,640,287	10,345,287
2021	4,630,000	5,486,765	10,116,765
2022	4,618,064	5,692,291	10,310,355
2023-2027	15,684,117	40,383,562	56,067,679
2028-2032	14,037,106	37,813,614	51,850,720
2033-2037	17,360,000	21,227,207	38,587,207
2038-2042	30,250,000	15,556,337	45,806,337
2043-2047	44,045,000	6,679,625	50,724,625
2048-2049	8,055,000	171,169	8,226,169
Subtotal	154,084,287	$ 148,873,145	$ 302,957,432
Accretion to date	10,746,400		
Total general obligation bonds	$ 164,830,687		

Capital Leases

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

	School Buses	School Buses	Total
Balance, July 1, 2016	$ 325,534	$ 1,439,509	$ 1,765,043
Payments	162,767	532,409	695,176
Balance, July 1, 2017	$ 162,767	$ 907,100	$ 1,069,867

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	$ 616,317
2019	453,550
Total	1,069,867
Less: Amount Representing Interest	27,652
Present Value of Minimum Lease Payments	$ 1,042,215

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to $1,938,175.

Supplemental Employees Retirement Plan (SERP)

The outstanding balance for the Supplemental Employee Retirement Plans as of June 30, 2017 consists of the 2015 Plan's amount of $83,106.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 150,000	$ -	$ -	$ 150,000
Stores inventories	149,395	-	125,677	275,072
Prepaid expenditures	349,960	-	-	349,960
Other reserve	65,000	-	-	65,000
Total Nonspendable	714,355	-	125,677	840,032
Restricted				
Educational programs	8,174,695	-	170,463	8,345,158
Food program	-	-	4,907,958	4,907,958
Charter schools	-	-	3,096,162	3,096,162
Capital projects	-	58,874,979	2,974,107	61,849,086
Debt services	-	-	9,317,366	9,317,366
Total Restricted	8,174,695	58,874,979	20,466,056	87,515,730
Committed				
Deferred maintenance	-	-	586,426	586,426
Adult education	-	-	571,669	571,669
Stabilization	16,353,154	-	-	16,353,154
Facilities	2,796,841	-	-	2,796,841
Furniture and science labs replacement	900,000	-	-	900,000
One time salary payment	8,000,000	-	-	8,000,000
Additional 3% reserve	6,858,364	-	-	6,858,364
Total Committed	34,908,359	-	1,158,095	20,308,090
Assigned				
Program carryover	5,229,438	-	-	5,229,438
Total Assigned	5,229,438	-	-	5,229,438
Unassigned				
Reserve for economic uncertainties	6,986,114	-	-	6,986,114
Remaining unassigned	1,573,403	-	-	1,573,403
Total Unassigned	8,559,517	-	-	8,559,517
Total	$ 57,586,364	$ 58,874,979	$ 21,749,828	$ 122,452,807

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 160 retirees and beneficiaries currently receiving benefits and 2,045 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 2016-2017, the District contributed $4,987,447 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	$ 9,692,039
Interest on net OPEB obligation	1,757,608
Annual OPEB cost (expense)	11,449,647
Contributions made	(4,987,447)
Increase in net OPEB obligation	6,462,200
Net OPEB obligation, beginning of year	39,057,958
Net OPEB obligation, end of year	$ 45,520,158

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

Year Ended June 30,	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2017	$ 11,449,647	$ 4,987,447	43.56%	$ 45,520,158
2016	11,227,132	4,055,492	36.12%	39,057,958
2015	10,772,028	3,770,427	35.00%	24,884,717
2014	8,957,471	4,353,494	48.60%	20,280,740
2013	8,026,326	4,943,178	61.59%	17,197,592
2012	7,795,167	4,492,879	57.64%	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)
July 1, 2017	$ 2,835,184	$ 70,565,914	$ 67,730,730	4.02%	$ 137,357,251	49.31%

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 October 22, 2017, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 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 July 1, 2017 was 22 years. The actuarial value of assets as of July 1, 2017 was $2,835,184.

NOTE 13 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

Plan administration. Pajaro Valley Unified School District administers the Postemployment Benefits Plan (the "Plan") – a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for the District. Management of the Plan is vested in the District's Governing Board, which consists of seven locally elected plan members.

Plan membership. At June 30, 2017, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	160
Active plan members	2,045
Total Plan Members	2,205

Benefits provided. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the *plan*. The District's Governing Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions. 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 2016-2017, the District contributed $4,987,447 to the plan, all of which was used for current premiums (approximately 100 percent of total premiums). Plan members are not required to contribute to the plan. The remainder of the premiums were funded from beginning net position and interest earnings.

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Pajaro Valley Unified School District Governing Board by a majority vote of its members. It is the policy of the Governing Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
US Large Cap	40%
US Small Cap	20%
Long-Term Corporate Bonds	30%
Short-Term Gov't Fixed	10%
Total	100%

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 3.33 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB of the District

The component of the net OPEB liability of the District as June 30, 2017, were as follows:

Total OPEB liability	$ 74,847,015
Plan fiduciary net position	2,835,184
District's net OPEB liability	$ 72,011,831
Plan fiduciary net position as a percentage of the total OPEB liability	3.79%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.33 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4 percent

Mortality rates were based on the 2009 CalSTRS Mortality, 2009 CalPERS Mortality for Retired Miscellaneous Employees, and the 2009 CalPERS Mortality for Active Miscellaneous Employees for Males or Females, as appropriate, with adjustments for mortality improvements based on CalPERS analysis.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the 2009 CalSTRS Retirement Rates, 2009 CalPERS 2.0% at 60 Rates for Miscellaneous Employees, and the 2009 CalPERS Retirement Rates for School Employees.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, (see the discussion of Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
US Large Cap	7.795%
US Small Cap	7.795%
Long-Term Corporate Bonds	5.295%
Short-Term Gov't Fixed	3.250%

Discount rate. The discount rate used to measure the total OPEB liability was 3.6 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.6 percent) or 1-percentage-point higher (4.6 percent) than the current discount rate:

	1% Decrease 2.6%	Discount Rate 3.6%	1% Increase 4.6%
Net OPEB liability	$ 77,119,626	$ 72,011,831	$ 67,278,580

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4 percent decreasing to 3 percent) or 1-percentage-point higher (4 percent increasing to 5 percent) than the current healthcare cost trend rates:

	1% Decrease 3%	Healthcare Cost Trend Rates 4%	1% Increase 5%
Net OPEB liability	$ 68,366,731	$ 72,011,831	$ 75,052,765

NOTE 14 - 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, 2017, 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

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 to 7/1/12)	$ 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 claims filed prior to the termination of the self-insured program and dental. 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, 2015 to June 30, 2017:

Liability Balance, July 1, 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
Claims and changes in estimates	1,876,746
Claims payments	(2,610,287)
Liability Balance, June 30, 2017	$ 6,298,081
Assets available to pay claims at June 30, 2017	$ 6,468,489

NOTE 15 - 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, 2017, 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	$ 133,420,686	$ 22,307,579	$ 15,474,862	$ 14,947,967
CalPERS	54,132,557	15,821,294	3,796,696	7,576,723
Total	$ 187,553,243	$ 38,128,873	$ 19,271,558	$ 22,524,690

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, 2015, 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, 2017, 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	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

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, 2017, are presented above and the District's total contributions were $11,700,700.

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

At June 30, 2017, 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	$	133,420,686
State's proportionate share of the net pension liability associated with the District		75,954,016
Total	$	209,374,702

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.1650 percent and 0.1842 percent, resulting in a net decrease in the proportionate share of 0.0192 percent.

For the year ended June 30, 2017, the District recognized pension expense of $14,947,967. In addition, the District recognized pension expense and revenue of $7,341,755 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 11,700,700	$ -
Net change in proportionate share of net pension liability	-	(12,220,216)
Difference between projected and actual earnings on pension plan investments	10,606,879	-
Differences between expected and actual experience in the measurement of the total pension liability	-	(3,254,646)
Total	$ 22,307,579	$ (15,474,862)

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 outflow 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 of Resources
2018	$ 231,407
2019	231,407
2020	6,165,815
2021	3,978,250
Total	$ 10,606,879

The deferred (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 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred (Inflows) of Resources
2018	$ (2,630,694)
2019	(2,630,694)
2020	(2,630,694)
2021	(2,630,694)
2022	(2,630,692)
2023	(2,321,394)
Total	$ (15,474,862)

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

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%)	$ 192,022,457
Current discount rate (7.60%)	$ 133,420,686
1% increase (8.60%)	$ 84,751,111

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) 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, 2015 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, 2017, 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	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

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, 2017, are presented above and the total District contributions were $5,019,334.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $54,132,557. The net pension liability was measured as of June 30, 2016. 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 2016 and June 30, 2015, respectively was 0.2741 percent and 0.2932 percent, resulting in a net decrease in proportionate share of 0.0191 percent.

For the year ended June 30, 2017, the District recognized pension expense of $7,576,723. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurment date	$ 5,019,334	$ -
Differences between projected and actual earnings on plan investments	8,399,632	-
Change in assumption	-	(1,626,361)
Differences between expected and actual experience	2,328,219	-
Change in proportions	74,109	(2,170,335)
Total	$ 15,821,294	$ (3,796,696)

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 are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	$ 1,178,159
2019	1,178,159
2020	3,851,083
2021	2,192,231
Total	$ 8,399,632

The deferred (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 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred (Inflows) of Resources
2018	$ (487,981)
2019	(485,903)
2020	(420,484)
Total	$ (1,394,368)

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and forestland	2%	5.09%
Liquidity	1%	-1.05%

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 (6.65%)	$ 80,766,076
Current discount rate (7.65%)	$ 54,132,557
1% increase (8.65%)	$ 31,954,911

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 $8,821,244, $5,980,867, and $4,210,741, respectively, for 2017, 2016 and 2015 (8.828, 7.410, and 5.679, percent of annual payroll for 2017, 2016, and 2015, 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 16 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2017 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	$ 426,456	2022
AHS Modernization	2,140,377	2022
AHS Solar	79,506	2022
AJHS Modernization	1,876,250	2022
Bradley Modernization	843,603	2022
Mar Vista - Reconfigure MPR MOD	1,195,340	2022
Mar Vista Modernization	15,868	2022
Rio Del Mar Modernization	292,197	2022
Valencia Modernization	250,265	2022
Renaissance High Modernization	1,176,099	2022
PV High Upper Fields	9,986,097	2022
PV High New Auditorium	5,676,420	2022
PV High - Additional Work - MOD	185,935	2022
PV High Solar	6,451	2022

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Cesar Chavez MS Modernization	1,377,766	2022
Cesar Chavez Relocatables	873,500	2022
Lakeview MS Modernization	644,962	2022
RHMS Gym Modernization	478,929	2022
RHMS - Modernization	876,325	2022
RHMS Solar	1,423	2022
Amesti Modernization	1,816,861	2022
Ann Soldo Modernization	1,027,682	2022
Calabasas Modernization	382,599	2022
Freedom Modernization	1,565,908	2022
HA Hyde Modernization	163,245	2020
HA Relocatables	2,770	2017
Radcliff Modernization	1,221,927	2022
Starlight Modernization	1,093,240	2022
Alianza Fire Hydrant and Water Tank	582,206	2017
Alianza Modernization	381,265	2022
Alianza - Relocatables	82,326	2018
WCSA Modernization	44,986	2022
WCSA Relocatables	69,464	2018
Landmark Modernization	485,689	2022
New School - Modernization	92,328	2022
WHS - Modernizations	636,288	2022
PMS Modernization	246,087	2021
EA Hall Track and Field Replacement	2,378,408	2022
Hall District Modernization	40,333	2022
MacQuiddy Modernization	678,527	2022
Ohlone Modernization	1,473,753	2022
Mintie White - Wing A - Modernization	1,688,816	2022
Mintie White Other Modernization	204,463	2022
Linscott Modernization	1,855,968	2022
Pajaro Middle Roofing Improvements	71,208	N/A
Rolling Hills - Roofing Improvements	47,871	2022
Flooring - Phase 5	268,089	Nov 17
HA Hyde Building Refurbishing	172,509	Nov 17
	$ 47,178,585	

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, 2017.

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, 2017.

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of Self Insured Schools of California (SISC), Northern California Regional Liability Excess Fund (NorCal ReLiEF), 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, 2017, the District made payments of $3,676,433 to PIPS for workers' compensation insurance, $1,049,321 to NorCal ReliEF for excess property and liability insurance, and $52,324,378 to SISC for medical and vision insurance.

NOTE 18 - 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 2025 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	206,298	4,591	210,889
2023-2025	470,594	3,957	474,551
Total Loan Receivable	$ 1,484,966	$ 44,030	$ 1,528,996

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variances-Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local control funding formula	$ 170,605,902	$ 169,768,892	$ 170,940,569	$ 1,171,677
Federal sources	19,650,687	19,489,890	20,040,653	550,763
Other state sources	32,159,403	33,675,218	36,654,688	2,979,470
Other local sources	1,261,628	3,342,703	3,631,868	289,165
Total Revenues	223,677,620	226,276,703	231,267,778	4,991,075
EXPENDITURES				
Current				
Certificated salaries	86,724,450	87,333,626	87,930,343	(596,717)
Classified salaries	31,565,244	32,573,485	33,018,759	(445,274)
Employee benefits	77,448,005	75,233,010	78,888,677	(3,655,667)
Books and supplies	14,909,848	10,646,205	10,194,089	452,116
Services and operating expenditures	20,174,554	21,032,236	19,263,636	1,768,600
Other outgo	540,775	(34,790)	(397,954)	363,164
Capital outlay	17,000	3,768,932	2,443,957	1,324,975
Debt service - principal	572,283	585,318	585,318	-
Debt service - interest	46,267	30,998	30,998	-
Total Expenditures	231,998,426	231,169,020	231,957,823	(788,803)
Excess (Deficiency) of Revenues Over Expenditures	(8,320,806)	(4,892,317)	(690,045)	4,202,272
Other Financing Sources (Uses)				
Transfers out	(811,262)	(627,546)	(910,834)	(283,288)
Net Financing Sources (Uses)	(811,262)	(627,546)	(910,834)	(283,288)
NET CHANGE IN FUND BALANCES	(9,132,068)	(5,519,863)	(1,600,879)	3,918,984
Fund Balance - Beginning	59,187,243	59,187,243	59,187,243	-
Fund Balance - Ending	$ 50,055,175	$ 53,667,380	$ 57,586,364	$ 3,918,984

See accompanying note to required supplementary information.

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2017

	2017
Total OPEB Liability	
Service cost	$ 6,666,329
Interest	2,539,977
Changes of benefit terms	(3,345,424)
Net changes in total OPEB liability	5,860,882
Total OPEB Liability - beginning	68,986,133
Total OPEB Liability - ending (a)	74,847,015
Plan Fiduciary Net Position	
Net investment income	284,816
Administrative expense	(30,503)
Net change in plan fiduciary net position	254,313
Plan fiduciary net position - beginning	2,580,871
Plan fiduciary net position - ending (b)	2,835,184
District's net OPEB liability - ending (a) - (b)	$ 72,011,831
Plan fiduciary net position as a percentage of the total OPEB liability	3.79%
Covered payroll	$ 137,357,251
District's net OPEB liability as a percentage of covered - payroll	52.43%

See accompanying note to required supplementary information.

SCHEDULE OF DISTRICT CONTRIBUTIONS TO OPEB
FOR THE YEAR ENDED JUNE 30, 2017

		2017
Actuarially determined contribution	$	3,345,424
Contributions in relations to the actuarially determined contribution		4,987,447
Contribution deficiency (excess)	$	(1,642,023)
Covered payroll	$	137,357,251
Contribution as a percentage of covered employee payroll		3.63%

See accompanying note to required supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2017

	2017
Annual moneyweighted rate of return, net of investment expense	3.33%

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

See accompanying note to required supplementary information.

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017

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)
July 1, 2017	$ 2,835,184	$ 70,565,914	$ 67,730,730	4.02%	$ 137,357,251	49.31%
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%

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, 2017

MEASUREMENT DATE, JUNE 30,	2016	2015	2014
CalSTRS			
District's proportion of the net pension liability	0.1650%	0.1842%	0.1758%
District's proportionate share of the net pension liability	$ 133,420,686	$ 124,038,926	$ 102,724,052
State's proportionate share of the net pension liability associated with the District	75,954,016	65,602,918	62,029,218
Total	$ 209,374,702	$ 189,641,844	$ 164,753,270
District's covered payroll	$ 83,782,062	$ 82,863,246	$ 80,688,631
District's proportionate share of the net pension liability as a percentage of its covered payroll	159.25%	149.69%	127.31%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.2741%	0.2932%	0.2922%
District's proportionate share of the net pension liability	$ 54,132,557	$ 43,211,280	$ 33,166,972
District's covered payroll	$ 32,903,213	$ 32,468,352	$ 30,898,266
District's proportionate share of the net pension liability as a percentage of its covered payroll	164.52%	133.09%	107.34%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

Note : In the future, as data becomes 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, 2017

FISCAL YEAR ENDED, JUNE 30,	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 11,700,700	$ 7,603,674	$ 6,752,541
Contributions in relation to the contractually required contribution	11,700,700	7,603,674	6,752,541
Contribution deficiency	$ -	$ -	$ -
District's covered payroll	$ 91,823,567	$ 83,782,062	$ 82,863,246
Contributions as a percentage of covered payroll	12.74%	9.08%	8.15%
CalPERS			
Contractually required contribution	$ 5,019,334	$ 3,897,772	$ 3,821,850
Contributions in relation to the contractually required contribution	5,019,334	3,897,772	3,821,850
Contribution deficiency	$ -	$ -	$ -
District's covered - payroll	$ 36,009,464	$ 32,903,213	$ 32,468,352
Contributions as a percentage of covered - payroll	13.94%	11.85%	11.77%

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

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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 Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – The District did not make changes in benefit terms in the Fiscal Year 2016-2017.

Change in assumptions – The District did not make changes in assumptions in the Fiscal Year 2016-2017.

Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Valuation Date: Actuarially determined contribution rates are calculated as of June 30, 2017, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, projected
Amortization period	20 years
Asset Valuation method	5-year smoothed market
Inflation	2.75 percent
Healthcare cost trend rates	4 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	3.33 percent, net of OPEB plan investment expense, including inflation
Retirement age	Expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	2009 CalSTRS Mortality, 2009 CalPERS Mortality for Retired Miscellaneous Employees, 2009 CalPERS Mortality for Active Miscellaneous Employees

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Schedule of Investment Returns

This schedule presents information on the annual money weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

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.

***Changes in Benefit Terms* –** There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

***Changes in Assumptions* –** There were no changes in economic assumptions for the CalSTRS plan from the previous valuations. The CalPERS changes from 7.6 percent to 7.65 percent from the previous valuations.

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.

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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	$ 94,534	
Priority 5, Adult Secondary Education	84.002	13978	77,874	
English Literacy and Civics Education	84.002A	14109	48,855	
Total Adult Education				$ 221,263
No Child Left Behind Act:				
Title I-Basic Grants Low-Income and Neglected	84.010	14329		5,025,420
Title I-Migrant Education	84.011	14326		3,173,003
Title I-Even Start Migrant Education	84.011	14768		145,984
Title I-School Site Improvements	84.377	14971		336,665
Title II-Teacher Quality	84.367	14341		914,386
Title III-Limited English Proficiency Student	84.365	10084		787,102
Title IV-21st Century Community Centers Learning	84.287	14349		4,051,705
Title X-McKinney-Vento Homeless Assistance	84.196	14332		138,738
Carl D. Perkins Career and Technical Education Act:				
Vocational and Applied Technology	84.048	14894		176,008
Evem Start Technical Assistance	84.213	14381		2,265
Special Education Cluster				
Basic Local Assistance Entitlement	84.027	13379	3,396,408	
Mental Health Allocation Plan, Private Schools	84.027	14468	217,655	
Preschool Grants	84.173	13430	175,276	
Preschool Local Entitlement	84.027A	13682	514,164	
Preschool Staff Development	84.173A	13431	1,693	
Total Special Education Cluster				4,305,196
Early Intervention Grants	84.181	23761		246,523
Workability II	84.126	10006		230,203
Total U.S. Department of Education				19,754,461

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017

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	443,889	
Medi-Cal Administrative Activities	93.778	10060	63,565	
Total Medicaid Programs				507,454
Federal Child Care Center Base	93.596	13609		523,337
Head Start	93.600	10016		7,717,086
Total U.S. Department of Health and Human Services				8,747,877
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education:				
National School Lunch Act:				
National School Lunch Program	10.555	13524	5,957,506	
National School Breakfast	10.553	13390	23,845	
Meal Supplements	10.555	13396	511,600	
Especially Needy Breakfast	10.553	13526	2,671,824	
Commodity Supplemental Food Program	10.555	13524	497,009	
Total Child Nutrition Cluster				9,661,784
Child and Adult Care Food Program	10.558	13393		217,150
Team Nutrition	10.574	15332		13,005
Fresh Fruits and Vegatables	10.582	14968		393,748
Total U.S. Department of Agriculture				10,285,687
Total Expenditures of Federal Awards				$ 38,788,025

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2017

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
Kim De Serpa	President	2018
Jeff Ursino	Vice President	2018
Maria Orozco	Member	2020
Georgia Acosta	Member	2020
Karen Osmundson	Member	2020
Leslie De Rose	Member	2018
Willie Yahiro	Member	2018

ADMINISTRATION

Michelle Rodriguez	Superintendent

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,642.53	5,645.84
Fourth through sixth	4,314.43	4,298.44
Seventh and eighth	2,596.27	2,588.68
Ninth through twelfth	4,740.53	4,700.25
Total Regular ADA	17,293.76	17,233.21
Extended Year Special Education		
Transitional kindergarten through third	9.71	9.71
Fourth through sixth	5.20	5.20
Seventh and eighth	6.53	6.54
Ninth through twelfth	6.91	6.91
Total Extended Year Special Education	28.35	28.36
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.34	0.27
Fourth through sixth	0.43	0.57
Ninth through twelfth	9.78	10.57
Total Special Education, Nonpublic, Nonsectarian Schools	10.55	11.41
Extended Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.09	0.09
Ninth through twelfth	1.16	1.16
Total Special Education, Nonpublic, Nonsectarian Schools	1.25	1.25
Community Day School		
Seventh and eighth	4.32	3.24
Ninth through twelfth	31.46	33.20
Total Community Day School	35.78	36.44
Total ADA	17,369.69	17,310.67

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE – CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

CHARTER SCHOOLS	Alianza Charter School	Diamond Technology Institute	Linscott Charter School	Pacific Coast Charter School	Watsonville Charter School of The Arts
Second Period Report					
Classroom-Based					
Transitional kindergarten through third	325.55	-	97.17	-	156.56
Fourth through sixth	212.77	-	98.93	-	111.25
Seventh and eighth	108.51	-	51.00	-	46.82
Ninth through twelfth	-	60.92	-	-	-
Total Classroom-Based	646.83	60.92	247.10	-	314.63
Non Classroom-Based					
Transitional kindergarten through third	-	-	-	18.85	-
Fourth through sixth	-	-	-	19.14	-
Seventh and eighth	-	-	-	31.26	-
Ninth through twelfth	-	-	-	164.11	-
Total Non Classroom-Based	-	-	-	233.36	-
Total Charter School	646.83	60.92	247.10	233.36	314.63
Annual Report					
Classroom-Based					
Transitional kindergarten through third	325.89	-	98.78	-	156.14
Fourth through sixth	212.37	-	100.52	-	110.40
Seventh and eighth	108.14	-	51.74	-	46.73
Ninth through twelfth	-	60.12	-	-	-
Total Classroom-Based	646.40	60.12	251.04	-	313.27
Non Classroom-Based					
Transitional kindergarten through third	-	-	-	19.32	-
Fourth through sixth	-	-	-	19.98	-
Seventh and eighth	-	-	-	32.51	-
Ninth through twelfth	-	-	-	161.53	-
Total Non Classroom-Based	-	-	-	233.34	-
Total Charter School	646.40	60.12	251.04	233.34	313.27

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME - DISTRICT
FOR THE YEAR ENDED JUNE 30, 2017

Grade Level	1986-87 Actual Minutes	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	36,000	180	In compliance
Grades 1 - 3				
Grade 1	50,400	50,653	180	In compliance
Grade 2	50,400	50,653	180	In compliance
Grade 3	50,400	50,653	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	54,160	180	In compliance
Grades 7 - 8				
Grade 7	54,000	55,821	180	In compliance
Grade 8	54,000	55,821	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, 2017

Grade Level	Education Code Section 46201.2 Required Minutes	2016-2017 Actual Minutes	Status
Diamond Technology 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 Charter School			
Kindergarten	36,000	36,895	In Compliance
Grade 1	50,400	55,165	In Compliance
Grade 2	50,400	55,165	In Compliance
Grade 3	50,400	55,165	In Compliance
Grade 4	54,000	55,155	In Compliance
Grade 5	54,000	55,155	In Compliance
Grade 6	54,000	55,155	In Compliance
Grade 7	54,000	54,255	In Compliance
Grade 8	54,000	54,255	In Compliance
Linscott 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 the 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	53,640	In Compliance
Grade 4	54,000	55,080	In Compliance
Grade 5	54,000	55,080	In Compliance
Grade 6	54,000	60,120	In Compliance
Grade 7	54,000	60,120	In Compliance

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017

	(Budget) 2018 [1]	2017	2016	2015
GENERAL FUND				
Revenues	$ 226,151,969	$ 231,267,778	$ 218,543,346	$ 190,782,120
Other sources	-	-	424,805	18,624,056
Total Revenues and Other Sources	226,151,969	231,267,778	218,968,151	209,406,176
Expenditures	235,687,230	231,957,823	202,476,066	201,838,368
Other uses and transfers out	622,294	910,834	608,944	972,594
Total Expenditures and Other Uses	236,309,524	232,868,657	203,085,010	202,810,962
INCREASE (DECREASE) IN FUND BALANCE	$ (10,157,555)	$ (1,600,879)	$ 15,883,141	$ 6,595,214
ENDING FUND BALANCE	$ 47,427,008	$ 57,586,364	$ 59,187,243	$ 43,304,102
AVAILABLE RESERVES [2]	$ 8,871,904	$ 9,473,723	$ 18,615,506	$ 13,485,383
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.75%	4.07%	9.17%	6.65%
LONG-TERM OBLIGATIONS	$ 399,532,229	$ 385,231,000	$ 390,168,889	$ 311,130,200
K-12 AVERAGE DAILY ATTENDANCE AT P-2	17,370	17,370	17,403	17,347

The General Fund balance has increased by $14,282,262 over the past two years. The fiscal year 2017-2018 budget projects a decrease of $10,157,555. 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 deficit during the fiscal year 2016-2017 and anticipates incurring an operating surplus during the 2017-2018 fiscal year. Total long-term obligations have increased by $74,100,800 over the past two years.

Average daily attendance has decreased by 56 over the past two years. A decrease of 33 ADA is anticipated during fiscal year 2017-2018.

[1] Budget 2018 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.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017

Name of Charter School	Audit Report
Diamond Technology Institute	Yes
Alianza Charter School	Yes
Linscott Charter School	Yes
Pacific Coast Charter School	Yes
Watsonville Charter School of the 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, 2017

	Alianza Charter School	Diamond Technology Institute	Linscott Charter School	Pacific Coast Charter School	Watsonville School of the Arts	Total
Fund balance, beginning	$ 807,515	$ 36,213	$ 392,038	$ 1,220,004	$ 495,183	$ 2,950,953
Revenues	6,645,631	864,693	2,070,214	2,191,376	2,941,982	14,713,896
Expenditures	(6,619,829)	(831,423)	(2,171,272)	(2,137,101)	(2,809,062)	(14,568,687)
Fund balance, ending	$ 833,317	$ 69,483	$ 290,980	$ 1,274,279	$ 628,103	$ 3,096,162

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, 2017

Grantor/Program	Revenue	Expenditures
First 5 Monterey	$ 99,000	$ 99,000

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	$ 4,140,396	$ 822,485	$ 215,094	$ 3,509,333
Receivables	297,258	269,428	1,652,222	2,573,341
Due from other funds	-	-	192,491	-
Stores inventories	-	-	-	125,677
Total Assets	$ 4,437,654	$ 1,091,913	$ 2,059,807	$ 6,208,351
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 652,001	$ 392,968	$ 1,421,754	$ 588,893
Due to other funds	689,491	100,091	-	585,823
Unearned revenue	-	27,185	467,590	-
Total Liabilities	1,341,492	520,244	1,889,344	1,174,716
Fund Balances:				
Nonspendable	-	-	-	125,677
Restricted	3,096,162	-	170,463	4,907,958
Committed	-	571,669	-	-
Total Fund Balances	3,096,162	571,669	170,463	5,033,635
Total Liabilities and Fund Balances	$ 4,437,654	$ 1,091,913	$ 2,059,807	$ 6,208,351

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
$ 586,616	$ 2,999,481	$ 9,317,366	$ 21,590,771
-	-	-	4,792,249
-	-	-	192,491
-	-	-	125,677
$ 586,616	$ 2,999,481	$ 9,317,366	$ 26,701,188
$ 190	$ 25,374	$ -	$ 3,081,180
-	-	-	1,375,405
-	-	-	494,775
190	25,374	-	4,951,360
-	-	-	125,677
-	2,974,107	9,317,366	20,466,056
586,426	-	-	1,158,095
586,426	2,974,107	9,317,366	21,749,828
$ 586,616	$ 2,999,481	$ 9,317,366	$ 26,701,188

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, 2017

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	$ 13,453,334	$ -	$ -	$ -
Federal sources	-	221,263	8,240,423	9,788,677
Other State sources	1,641,773	3,045,895	4,529,608	719,976
Other local sources	53,199	900,128	713,473	542,294
Total Revenues	15,148,306	4,167,286	13,483,504	11,050,947
EXPENDITURES				
Current				
Instruction	9,030,025	1,856,906	8,222,558	-
Instruction-related activities:				
Supervision of instruction	225,282	1,518,665	2,705,294	-
Instructional library, media, and technology	293,404	57,448	96,274	-
School site administration	4,990,368	106,434	111,958	-
Pupil services:				
Food services	-	-	-	10,263,101
All other pupil services	119,804	55,878	1,247,937	-
Administration:				
All other administration	-	112,752	523,804	415,943
Plant services	421,573	180,528	863,833	20,866
Facility acquisition and construction	-	-	390,853	-
Ancillary services	36,094	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	15,116,550	3,888,611	14,162,511	10,699,910
Excess (Deficiency) of Revenues Over Expenditures	31,756	278,675	(679,007)	351,037
Other Financing Sources (Uses)				
Transfers in	113,453	-	796,171	1,210
NET CHANGE IN FUND BALANCES	145,209	278,675	117,164	352,247
Fund Balance - Beginning	2,950,953	292,994	53,299	4,681,388
Fund Balance - Ending	$ 3,096,162	$ 571,669	$ 170,463	$ 5,033,635

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
$ -	$ -	$ -	$ 13,453,334
-	-	-	18,250,363
-	-	53,386	9,990,638
6,441	1,736,750	8,105,729	12,058,014
6,441	1,736,750	8,159,115	53,752,349
-	-	-	19,109,489
-	-	-	4,449,241
-	-	-	447,126
-	-	-	5,208,760
-	-	-	10,263,101
-	-	-	1,423,619
-	-	-	1,052,499
49,773	446,999	-	1,983,572
173,207	574,253	-	1,138,313
-	-	-	36,094
-	-	4,530,000	4,530,000
-	-	5,894,568	5,894,568
222,980	1,021,252	10,424,568	55,536,382
(216,539)	715,498	(2,265,453)	(1,784,033)
-	-	-	910,834
(216,539)	715,498	(2,265,453)	(873,199)
802,965	2,258,609	11,582,819	22,623,027
$ 586,426	$ 2,974,107	$ 9,317,366	$ 21,749,828

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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, 2016 then spent during the fiscal year ended June 30, 2017. 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:		$ 38,291,016
Add: Fair Market Value of Commodities not recorded in the financial statements	10,555	497,009
Total Schedule of Expenditures of Federal Awards		$ 38,788,025

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, 2017

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

Charter School Statement of Changes in Fund Balances

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

First 5 Monterey Grant Schedule of Revenues and Expenditures

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Pajaro Valley Unified School District's basic financial statements, and have issued our report thereon dated December 10, 2017.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2017, the District adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 10, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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, 2017. 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, 2017.

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 a 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
December 10, 2017

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 (District) compliance with the types of compliance requirements as identified in the *2016-2017 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 District's State government programs as noted below for the year ended June 30, 2017.

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 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 *2016-2017 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Basis for Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Pajaro Valley Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts 2017-1. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Pajaro Valley Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

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

Unmodified Opinion on Each of the Other Programs

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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
Mental Health Expenditures	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	Yes
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	Yes
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 did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not have a Charter School Facility Grant Program; therefore, we did not perform any procedures for Charter School Facility Grant Program.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California
December 10, 2017

Schedule of Findings and Questioned Costs

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

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
84.027, 84.173	Special Education Cluster
84.287	Title IV-21st Century Community Centers Learning

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,163,641
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

Unmodified for all programs except for the Unduplicated Local Control Funding Formula Pupil Counts which was qualified.

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2016-001 **Code: 40000** Unduplicated Local Control Funding Formula Pupil Counts

Criteria or Specific Requirements
Supplemental and concentration grant amounts are calculated based on the percentage of "unduplicated pupils" enrolled in the District on census day (first Wednesday in October). The percentage equals:

> Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. Divided by total enrollment in the LEA (EC sections 2574(b)(1) and 42238.02(b)(5)).

"Unduplicated count" means that each pupil is counted only once even if the pupil meets more than one of these criteria (EC sections 2574(b) (2) and 42238.02(b)(1)). Data submitted by LEAs to CALPADS is used as the starting point for calculating the unduplicated student count. CALPADS Certification Report 1.17 – FRPM/English Learner/Foster Youth – Count, displays the counts of students by category and an unduplicated total.

In order to be counted in Report 1.17, a student must have an open primary or short-term enrollment in CALPADS over census day and meet one or more of the following criteria:

- Have a program record with an education program code of Homeless (191), Migrant (135), Free Meal Program (181), or Reduced-Price Meal Program (182), that is open over census day.
- Have an English Language Acquisition Status (ELAS) of "English learner" (EL) that is effective over census day.
- Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS.
- Be identified as a foster youth based on a statewide match conducted by CALPADS.
- Be identified as a foster youth through a local data matching process and submitted to and validated by CALPADS.

Condition
Our audit procedures identified that the District omitted 872 pupils who meet the criteria above were not included in the count.
After the errors were noted we selected additional 71 samples from the omitted 872 qualified pupils, and no exceptions were noted.

Questioned Costs
There are no questioned costs.

Context
The above condition pertains to the testing of 2016-17 Unduplicated pupil counts.

Effect
As a result of the errors, the unduplicated pupils' count for the past three years was revised to 43,133 from previous 42,260.
Incorrect reporting can result in a calculation error in LCFF funding. The District underreported the total CalPADS Unduplicated pupil counts by 872.

The audited total (B-4) is 43,132. This number includes the original 42,260 pupils, 1 district funded county program student (B-2), and 871 omitted pupils as the audit adjustment (B-3).

Cause
The underreported counts is because the District inadvertently failed to collect the Alternative Income Forms (Forms) from Community Eligibility Program School (CEP) in the current year, resulting the CEP's unduplicated pupil count was omitted.

Recommendation
Periodic review and reconciliation of the District's data and CALPADS data should be performed to ensure the integrity of data.

Corrective Action Plan
The CEP was new to the district for the 2016-17 school year. Part of the provision is the Food Services Department is no longer allowed to collect Free and Reduced Applications from the designated CEP schools and any student who qualified for Free and Reduced meals in the prior school year are qualified for 4 years.

The district became aware of the omission in March when CALPADS was being finalized. At that time, the Business Services Department created an Alternative Income Form based on samples from the California Department of Education (CDE) website, distributed to the sites to have the kindergarten and any new students' parents fill out and entered the data into eSchool (district attendance software where CALPADS resides). To capture the students who qualified from the previous year, the Technology Department rolled the students to the current year.

For the 2017-18 school year and beyond, Alternative Income Forms were and will be distributed to the CEP schools at the beginning of the school year for all kindergarten and new students and returned to the Business Services Department to be input into eSchool. The Technology Department rolled and will roll prior year eligible students to capture returning students who are eligible.

With the 4 year qualification, the district will require all CEP schools to have all students' parents re-certify their income in 2020-21 and every 4 years after.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

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