# PALO VERDE
# UNIFIED SCHOOL DISTRICT

# ANNUAL FINANCIAL REPORT

# JUNE 30, 2017

**PALO VERDE UNIFIED SCHOOL DISTRICT**

# TABLE OF CONTENTS
**JUNE 30, 2017**

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**TABLE OF CONTENTS**
**JUNE 30, 2017**

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

# *FINANCIAL SECTION*

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants



# INDEPENDENT AUDITOR'S REPORT

Governing Board
Palo Verde Unified School District
Blythe, 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 Palo Verde 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.



10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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

***Opinions***

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

***Emphasis of Matter - Correction of an Error***

As discussed in Note 16 to the financial statements, in 2017, the District has restated beginning fund balance in the General Fund. The General Fund restatement was the result of a correction of an error related to Local Control Funding Formula. In addition, the beginning net position of the government-wide financial statements was restated to reflect the correction of an error. 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 on pages 5 through 14, the budgetary comparison schedule on pages 66, the schedule of other postemployment benefits funding progress on page 67, the schedule of the District's proportionate share of net pension liability on page 68, and the schedule of District contributions on page 69, 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 Palo Verde Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major 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 accompanying 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 Schedule of Expenditures of Federal Awards and other accompanying 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 14, 2017, on our consideration of the Palo Verde 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 Palo Verde 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 Palo Verde Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2017

PALO VERDE
Unified School District

"Improving Learning…Together"

295 North First Street, Blythe California 92225
Telephone (760) 922-4164
Fax (760) 922-5942



This section of Palo Verde Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## *INTRODUCTION*

Palo Verde Unified School District's goal is to provide an atmosphere of care and concern, an opportunity for every student to recognize and fully develop his/her particular academic, technical, vocational, physical, and social skills. Palo Verde Unified School District's students graduate prepared to succeed in tomorrow's world.

The management's discussion and analysis section of Palo Verde Unified School District's financial statements provide an overall review of the District's financial activities for the fiscal year ended June 30, 2017. This analysis will look at the District's financial performance as a whole. The management's discussion and analysis should be reviewed in conjunction with the audited financial statements and notes to the financial statements to enhance the understanding of the District's financial performance.

The Palo Verde Unified School District is a small urban district offering instruction to students from kindergarten through twelfth grade. During the 2016-2017 school year, the District operates three elementary schools, one high school, and one continuation high school. The District operates on the traditional August through early June schedule, for the instruction of approximately 3,096 students.

## *USING THE ANNUAL FINANCIAL REPORT*

This comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Palo Verde Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

The management's discussion and analysis statement is provided to assist our citizens, taxpayers, and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

## *FINANCIAL HIGHLIGHTS OF THE PAST YEAR*

- The District ended 2016-2017 with $17,056,475 in net position.
- Net position increased by $479,352 during 2016-2017.
- There were no major projects during 2016-2017.

## *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 about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's 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 them. Net position is the difference between assets and deferred outflows of resource, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to our 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 education and the safety of our schools will likely be an important component in this evaluation.

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

***Governmental Activities*** - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, 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 bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

***Governmental Funds*** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These 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 the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

## *THE DISTRICT AS TRUSTEE*

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Statement 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 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 $17,056,475 for the fiscal year ended June 30, 2017. Of this amount, $(20,475,465) was the unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the Board's ability to use net position for day-to-day operations. Our analysis below, in summary form, 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 | (As Restated) 2016 |
| **Assets** | | |
| Current assets | $ 12,054,801 | $ 12,339,294 |
| Capital assets | 48,415,236 | 49,899,025 |
| **Total Assets** | 60,470,037 | 62,238,319 |
| **Deferred Outflows of Resources** | 10,156,238 | 6,867,176 |
| **Liabilities** | | |
| Current liabilities | 1,479,267 | 1,791,513 |
| Long-term obligations | 20,317,976 | 19,576,979 |
| Aggregate net pension liability | 27,929,638 | 25,917,727 |
| **Total Liabilities** | 49,726,881 | 47,286,219 |
| **Deferred Inflows of Resources** | 3,842,919 | 5,242,153 |
| **Net Position** | | |
| Net investment in capital assets | 33,333,225 | 35,236,271 |
| Restricted | 4,198,715 | 5,121,241 |
| Unrestricted | (20,475,465) | (23,780,389) |
| **Total Net Position** | $ 17,056,475 | $ 16,577,123 |

The $(20,475,465) in the unrestricted net deficit of governmental activities represents the *accumulated* results of all past years' operations.

***Changes in Net Position***

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 16.

**Table 2**

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| **Revenues** | | |
| Program revenues: | | |
| Charges for services | $ 193,978 | $ 169,530 |
| Operating grants and contributions | 8,920,117 | 9,538,167 |
| Capital grants and contributions | 295 | - |
| General revenues: | | |
| State and Federal revenue limit sources - unrestricted | 20,761,527 | 21,214,106 |
| Property taxes | 8,238,088 | 7,050,446 |
| Other general revenues | 2,963,910 | 6,656 |
| **Total Revenues** | 41,077,915 | 37,978,905 |
| **Expenses** | | |
| Instruction-related | 25,021,738 | 23,683,180 |
| Student support services | 5,477,609 | 6,314,971 |
| Administration | 2,190,186 | 2,405,498 |
| Maintenance and operations | 3,934,037 | 3,333,408 |
| Other | 3,974,993 | 970,155 |
| **Total Expenses** | 40,598,563 | 36,707,212 |
| **Change in Net Position** | $ 479,352 | $ 1,271,693 |

***Governmental Activities***

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was $40,598,563. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $8,238,088, because the cost was paid by those who benefited and other governments and organizations who subsidized certain programs with grants and contributions of $9,114,390. We paid for the remaining "public benefit" portion of our governmental activities with $23,725,437 in State and Federal funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions - instruction, instruction-related activities, home-to-school transportation, other pupil services, administration, maintenance and operations, ancillary services, community services, enterprise services, interest on long-term obligations, and other outgo. 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 our citizens to consider the cost of each function in comparison to the benefits that are provided by that function.

**Table 3**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Instruction | $ 21,472,750 | $ 16,021,215 | $ 20,651,564 | $ 16,799,297 |
| Instruction-related activities | 3,548,988 | 2,891,198 | 3,031,616 | 1,888,773 |
| Home-to-school transportation | 1,392,934 | 1,367,750 | 2,348,424 | 2,035,464 |
| Other pupil services | 4,084,675 | 1,447,922 | 3,966,547 | 1,616,079 |
| Administration | 2,190,186 | 2,082,644 | 2,405,498 | 2,160,361 |
| Maintenance and operations | 3,934,037 | 3,888,830 | 3,333,408 | 3,122,532 |
| Ancillary services | 277,726 | 276,333 | 243,804 | 239,309 |
| Community services | - | - | 579 | 107 |
| Interest on long-term obligations | 1,485,588 | 1,485,588 | 685,032 | 685,032 |
| Other outgo | 2,211,679 | 2,022,693 | 40,740 | (1,547,439) |
| **Total** | $ 40,598,563 | $ 31,484,173 | $ 36,707,212 | $ 26,999,515 |

### *THE DISTRICT'S FUNDS*

As the District completed this year, our governmental funds reported a combined fund balance of $10,742,438, which is an increase of $18,553 from last year (Table 4).

**Table 4**

| | Balances and Activity | | | |
|---|---|---|---|---|
| | (As Restated) July 1, 2016 | Revenues | Expenditures | June 30, 2017 |
| General Fund | $ 7,931,301 | $ 35,280,994 | $ 36,636,652 | $ 6,575,643 |
| Cafeteria Fund | 184,269 | 1,805,110 | 1,737,712 | 251,667 |
| Capital Facilities Fund | 42,088 | 46,292 | - | 88,380 |
| County School Facilities Fund | 36,362 | 293 | - | 36,655 |
| Special Reserve Fund for Capital Outlay Projects | 579,226 | 3,114,159 | 1,200,495 | 2,492,890 |
| Bond Interest and Redemption Fund | 1,245,142 | 870,179 | 819,075 | 1,296,246 |
| COP Debt Service Fund | 705,497 | 8,389,579 | 9,094,119 | 957 |
| **Total** | $ 10,723,885 | $ 49,506,606 | $ 49,488,053 | $ 10,742,438 |

### *GENERAL FUND BUDGETARY HIGHLIGHTS*

The District budget is prepared in accordance with California law and is based on the cash basis of accounting, utilizing cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The District begins the budget process in January of each year, to be completed by June 30. After updating of the forecast for changes in revenue and expenditure assumptions, the operating budget begins at the school level. Each school in the District receives a per pupil allocation augmented. The departments provide input to the Business Office for their budget needs. The site and department budgets are reviewed monthly to ensure management becomes aware of any significant variations during the year.

- The General Fund reported a positive fund balance of $6,575,643.
- Overall revenues were $35,280,994, and expenditures were $34,044,652 in the General Fund.
- Redevelopment revenues received for fiscal year 2016-2017 were $1,047,937.
- Developer fees collected for fiscal year 2016-2017 totaled $50,176. Fees are collected based on a residential fee of $3.86 per square foot and 0.56 cents for commercial square feet.
- The District is required to maintain a three percent reserve in the General Fund. The District has met this requirement.

## *GENERAL FUND BUDGET VARIATIONS*

In June of each year, a budget is adopted by the Palo Verde Unified School District's Board of Trustees, effective July 1 through June 30. The budget is based on year ending projections from the previous year's budget. As the school year progresses, the budget is revised and updated, with numerous financial reports made public outlining the revisions. In August of the following year, the books are closed for the July 1 - June 30 fiscal year, and the results are audited, yielding actual final numbers. The final amendment to the budget was adopted on June 14, 2017.

There are several reasons for budget revisions. Most notable are any salary increases approved by the Board of Trustees for District employees. The original budget does not account for salary increases. Also, any changes in the number of staff or staff utilization of health and welfare benefits that vary from the original projections would also yield budget revisions.

## *CAPITAL ASSET AND DEBT ADMINISTRATION*

### *Capital Assets*

At June 30, 2017, the District had $48,415,236 in a broad range of capital assets (net of depreciation), including land, buildings, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $1,483,789. (Table 5) We present more detailed information regarding our capital assets in Note 5 of the financial statements.

**Table 5**

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| (Net of Depreciation) | | |
| Land and construction in process | $ 479,033 | $ 479,033 |
| Buildings and improvements | 46,272,566 | 47,591,798 |
| Equipment | 1,663,637 | 1,828,194 |
| **Total** | $ 48,415,236 | $ 49,899,025 |

***Long-Term Obligations***

At the end of this year, the District had $20,317,976 in long-term obligations outstanding versus $19,576,979 last year. Those obligations consisted of the following:

**Table 6**

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| General obligation bonds (financed with property taxes) | $ 7,155,845 | $ 7,649,615 |
| Certificates of participation | 7,241,158 | 5,815,000 |
| Flex Fund lease financing | 1,992,042 | 2,135,003 |
| Compensated absences | 226,576 | 298,888 |
| Capitalized lease obligations | 2,692,324 | 3,038,026 |
| OPEB obligation, net | 1,010,031 | 640,447 |
| **Total** | $ 20,317,976 | $ 19,576,979 |

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

***Net Pension Liability (NPL)***

At year end, the Program had an outstanding pension liability of $27,929,638, as a result of the adoption of GASB Statement No. 68, *Accounting and Reporting for Pensions*. The Program has, therefore, recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

| | Governmental Activities | |
|---|---|---|
| | 2017 | 2016 |
| Net pension liability | $ 27,929,638 | $ 25,917,727 |

***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

***The Assumptions in our Revenue Forecast are the following:***

- Property tax revenues will increase slightly due to the estimated assessed valuation and general growth.
- During the fiscal year 2016-2017, a statutory Cost of Living Adjustment (COLA) is projected to not increase and remain the same.
- Federal income is projected to be stable with expiring carryover funds expended. Declining enrollment and attendance continue to apply pressures to Federal income projections.
- State income projections increased over the prior year due to some closure in the funding gap. However, income projections are not growing at the recommended rate. Spending deficits and declining enrollment/attendance continue to dampen growth projections for State income.

### *STUDENT ENROLLMENT AND DEMOGRAPHIC TRENDS*

- The Palo Verde Unified School District has an enrollment of approximately 3,096 students for the 2016-2017 school year, with enrollment projected to decrease to 3,005 for the 2017-2018 school year.

- In addition to tracking enrollment, the District also monitors actual Average Daily Attendance (ADA). The ADA is typically lower than a district's enrollment, although the two terms are often used interchangeably. The 2016-2017 ADA for the District is approximately 2,864 which includes County attendance. The District is making every effort to improve attendance for the coming year.

- School districts have traditionally placed great importance on the accurate projection of student enrollment for the ensuing budget year, due to the broad range of funding and programs impacted by this number. The basic funding model for California school districts factor the number of days attended by the enrolled students by Grade Span to achieve the Local Control Funding Formula.

### *FOR THE FUTURE*

The District's system of budgeting and internal controls is well regarded, and it will take all of the District's financial abilities to meet the challenges of the future.

### *CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT*

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meliton Sanchez, Director of Business Services, 295 N First Street, Blythe, California 92225, or e-mail at: meliton.sanchez@pvusd.us.

## PALO VERDE UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION
## JUNE 30, 2017

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Deposits and investments | $ 10,287,922 |
| Receivables | 1,424,029 |
| Due from other governmental units | 233,459 |
| Stores inventories | 109,391 |
| Capital assets | |
| Land and construction in process | 479,033 |
| Other capital assets | 73,539,221 |
| Less: Accumulated depreciation | (25,603,018) |
| Total Capital Assets | 48,415,236 |
| **Total Assets** | 60,470,037 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred charge on refunding | 2,136,092 |
| Deferred outflows of resources related to pensions | 8,020,146 |
| **Total Deferred Outflows of Resources** | 10,156,238 |
| **LIABILITIES** | |
| Accounts payable | 1,275,871 |
| Interest payable | 166,904 |
| Unearned revenue | 36,492 |
| Long-term obligations | |
| Current portion of long-term obligations other than pensions | 1,651,160 |
| Noncurrent portion of long-term obligations other than pensions | 18,666,816 |
| Total Long-Term Obligations | 20,317,976 |
| Aggregate net pension liability | 27,929,638 |
| **Total Liabilities** | 49,726,881 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows of resources related to pensions | 3,842,919 |
| **NET POSITION** | |
| Net investment in capital assets | 33,333,225 |
| Restricted for: | |
| Debt service | 1,130,299 |
| Capital projects | 125,035 |
| Educational programs | 2,701,861 |
| Other activities | 241,520 |
| Unrestricted (Deficit) | (20,475,465) |
| **Total Net Position** | $ 17,056,475 |

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

## PALO VERDE UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2017

| | | Program Revenues | | |
|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| **Governmental Activities:** | | | | |
| Instruction | $ 21,472,750 | $ - | $ 5,451,240 | $ 295 |
| Instruction-related activities: | | | | |
| Supervision of instruction | 864,375 | - | 427,785 | - |
| Instructional library, media, and technology | 466,741 | - | 58,096 | - |
| School site administration | 2,217,872 | - | 171,909 | - |
| Pupil services: | | | | |
| Home-to-school transportation | 1,392,934 | - | 25,184 | - |
| Food services | 1,817,829 | 193,773 | 1,631,159 | - |
| All other pupil services | 2,266,846 | - | 811,821 | - |
| Administration: | | | | |
| Data processing | 109,095 | - | - | - |
| All other administration | 2,081,091 | - | 107,542 | - |
| Plant services | 3,934,037 | 205 | 45,002 | - |
| Ancillary services | 277,726 | - | 1,393 | - |
| Interest on long-term obligations | 1,485,588 | - | - | - |
| Other outgo | 2,211,679 | - | 188,986 | - |
| **Total Governmental Activities** | $ 40,598,563 | $ 193,978 | $ 8,920,117 | $ 295 |

General Revenues and Subventions:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Taxes levied for other specific purposes
Federal and State aid not restricted to specific purposes
Interest and investment earnings
Miscellaneous
**Subtotal, General Revenues**
**Change in Net Position**
Net Position - Beginning, As Restated
Net Position - Ending

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

| Net (Expenses) Revenues and Changes in Net Position |
|---|
| Governmental Activities |
| $ (16,021,215) |
| (436,590) |
| (408,645) |
| (2,045,963) |
| (1,367,750) |
| 7,103 |
| (1,455,025) |
| (109,095) |
| (1,973,549) |
| (3,888,830) |
| (276,333) |
| (1,485,588) |
| (2,022,693) |
| (31,484,173) |
| 6,855,033 |
| 863,541 |
| 519,514 |
| 20,761,527 |
| 597 |
| 2,963,313 |
| 31,963,525 |
| 479,352 |
| 16,577,123 |
| $ 17,056,475 |

## PALO VERDE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS
## BALANCE SHEET
## JUNE 30, 2017

| | General Fund | Special Reserve Fund for Capital Outlay Projects | COP Debt Service Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments | $ 8,446,761 | $ 140,014 | $ 957 |
| Receivables | 1,479,936 | 627 | - |
| Due from other funds | 200,000 | 2,352,249 | - |
| Stores inventories | 99,244 | - | - |
| **Total Assets** | $ 10,225,941 | $ 2,492,890 | $ 957 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **Liabilities:** | | | |
| Accounts payable | $ 1,261,557 | $ - | $ - |
| Due to other funds | 2,352,249 | - | - |
| Unearned revenue | 36,492 | - | - |
| **Total Liabilities** | 3,650,298 | - | - |
| **Fund Balances:** | | | |
| Nonspendable | 115,244 | - | - |
| Restricted | 2,701,861 | - | 957 |
| Assigned | - | 2,492,890 | - |
| Unassigned | 3,758,538 | - | - |
| **Total Fund Balances** | 6,575,643 | 2,492,890 | 957 |
| **Total Liabilities and Fund Balances** | $ 10,225,941 | $ 2,492,890 | $ 957 |

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

| Non-Major Governmental Funds | Total Governmental Funds |
|---|---|
| $ 1,700,190 | $ 10,287,922 |
| 176,925 | 1,657,488 |
| - | 2,552,249 |
| 10,147 | 109,391 |
| $ 1,887,262 | $ 14,607,050 |
| | |
| $ 14,314 | $ 1,275,871 |
| 200,000 | 2,552,249 |
| - | 36,492 |
| 214,314 | 3,864,612 |
| | |
| 10,147 | 125,391 |
| 1,662,801 | 4,365,619 |
| - | 2,492,890 |
| - | 3,758,538 |
| 1,672,948 | 10,742,438 |
| | |
| $ 1,887,262 | $ 14,607,050 |

## PALO VERDE UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
## JUNE 30, 2017

| | | |
|---|---|---|
| **Total Fund Balance - Governmental Funds** | | **$ 10,742,438** |
| **Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:** | | |
| 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 the following: | $ 74,018,254 | |
| Accumulated depreciation is the following: | (25,603,018) | |
| Total Capital Assets | | 48,415,236 |
| Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis. | | 2,136,092 |
| In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when incurred. | | (166,904) |
| Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of: | | |
| Pension contributions subsequent to measurement date | 3,491,691 | |
| Net change in proportionate share of net pension liability | 1,202,375 | |
| Differences between projected and actual earnings on pension plan investments | 2,925,372 | |
| Differences between expected and actual experience in the measurement of the total pension liability | 400,708 | |
| Total Deferred Outflows of Resources Related to Pensions | | 8,020,146 |

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

## PALO VERDE UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
## JUNE 30, 2017

| | | |
|---|---|---|
| Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of: | | |
| Net change in proportionate share of net pension liability | $ (3,108,967) | |
| Differences between expected and actual experience in the measurement of the total pension liability | (454,041) | |
| Changes in assumptions | (279,911) | |
| Total Deferred Inflows of Resources Related to Pensions | | $ (3,842,919) |
| Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. | | (27,929,638) |
| Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds. | | |
| Long-term obligations at year end consist of the following: | | |
| General obligation bonds | 5,249,395 | |
| Unamortized premium on issuance | 194,342 | |
| Certificates of participation | 7,090,000 | |
| Flex fund lease financing | 1,992,042 | |
| Capital leases payable | 2,692,324 | |
| Compensated absences (vacations) | 226,576 | |
| Net OPEB obligation | 1,010,031 | |
| In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is: | 1,863,266 | |
| Total Long-Term Obligations | | (20,317,976) |
| **Total Net Position - Governmental Activities** | | **$ 17,056,475** |

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

## PALO VERDE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED JUNE 30, 2017

| | General Fund | Special Reserve Fund for Capital Outlay Projects | COP Debt Service Fund |
|---|---|---|---|
| **REVENUES** | | | |
| Local Control Funding Formula | $ 27,777,833 | $ - | $ - |
| Federal sources | 3,098,152 | - | - |
| Other State sources | 2,785,114 | - | - |
| Other local sources | 1,619,895 | 522,159 | 25,316 |
| **Total Revenues** | 35,280,994 | 522,159 | 25,316 |
| **EXPENDITURES** | | | |
| Current | | | |
| Instruction | 20,800,776 | - | - |
| Instruction-related activities: | | | |
| Supervision of instruction | 814,570 | - | - |
| Instructional library, media, and technology | 439,714 | - | - |
| School site administration | 2,128,096 | - | - |
| Pupil services: | | | |
| Home-to-school transportation | 1,360,322 | - | - |
| Food services | 24,945 | - | - |
| All other pupil services | 2,168,244 | - | - |
| Administration: | | | |
| Data processing | 91,520 | - | - |
| All other administration | 2,008,458 | - | - |
| Plant services | 3,832,426 | - | - |
| Facility acquisition and construction | 16,985 | - | - |
| Ancillary services | 276,077 | - | - |
| Other outgo | 82,519 | - | - |
| Debt service | | | |
| Principal | - | 345,702 | 410,000 |
| Interest and other | - | 152,480 | 596,998 |
| **Total Expenditures** | 34,044,652 | 498,182 | 1,006,998 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 1,236,342 | 23,977 | (981,682) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | - | 2,592,000 | 702,313 |
| Other sources | - | - | 7,661,950 |
| Transfers out | (2,592,000) | (702,313) | - |
| Other uses | - | - | (8,087,121) |
| **Net Financing Sources (Uses)** | (2,592,000) | 1,889,687 | 277,142 |
| **NET CHANGE IN FUND BALANCES** | (1,355,658) | 1,913,664 | (704,540) |
| **Fund Balances - Beginning, As Restated** | 7,931,301 | 579,226 | 705,497 |
| **Fund Balances - Ending** | $ 6,575,643 | $ 2,492,890 | $ 957 |

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

| Non-Major Governmental Funds | Total Governmental Funds |
|---|---|
| $ - | $ 27,777,833 |
| 1,506,211 | 4,604,363 |
| 108,120 | 2,893,234 |
| 1,107,543 | 3,274,913 |
| 2,721,874 | 38,550,343 |
| | |
| - | 20,800,776 |
| - | 814,570 |
| - | 439,714 |
| - | 2,128,096 |
| - | 1,360,322 |
| 1,736,113 | 1,761,058 |
| - | 2,168,244 |
| - | 91,520 |
| - | 2,008,458 |
| 1,599 | 3,834,025 |
| - | 16,985 |
| - | 276,077 |
| - | 82,519 |
| 665,000 | 1,420,702 |
| 154,075 | 903,553 |
| 2,556,787 | 38,106,619 |
| 165,087 | 443,724 |
| - | 3,294,313 |
| - | 7,661,950 |
| - | (3,294,313) |
| - | (8,087,121) |
| - | (425,171) |
| 165,087 | 18,553 |
| 1,507,861 | 10,723,885 |
| $ 1,672,948 | $ 10,742,438 |

**PALO VERDE UNIFIED SCHOOL DISTRICT**

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

| | | |
|---|---|---|
| **Total Net Change in Fund Balances - Governmental Funds** | | **$ 18,553** |
| **Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:** | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. | | |
| This is the amount by which depreciation exceeds capital outlay in the period. | | |
| Depreciation expense | $ (1,551,344) | |
| Capital outlays | 69,542 | |
| Net Expense Adjustment | | (1,481,802) |
| Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. | | (1,987) |
| In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by $72,312. | | 72,312 |
| 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. | | 540,293 |
| Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities: | | |
| Refunding certificates of participation | | (7,500,000) |
| Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items: | | |
| Premium on issuance | (161,950) | |
| Deferred amount on refunding | 2,288,670 | |
| Combined adjustment | | 2,126,720 |

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

# PALO VERDE UNIFIED SCHOOL DISTRICT

# RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)
# FOR THE YEAR ENDED JUNE 30, 2017

| | | |
|---|---|---|
| Repayment of general obligation bonds, certificates of participation, special tax bonds and capital lease obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities: | | |
| General obligation bonds | $ 665,000 | |
| Certificates of participation | 6,225,000 | |
| Flex fund lease | 142,961 | |
| Capital lease payable | 345,702 | |
| | | $ 7,378,663 |
| Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances: | | |
| Amortization of debt premium | 16,961 | |
| Amortization of deferred amount on refunding | (152,578) | |
| Combined adjustment | | (135,617) |
| Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by $9,200, and second, $177,399 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds. | | (168,199) |
| In the Statement of Activities, Other Postemployment Benefits Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year amounts contributed towards the OPEB obligation were less than the ARC by $369,584. | | (369,584) |
| **Change in Net Position of Governmental Activities** | | **$ 479,352** |

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

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS**
**STATEMENT OF NET POSITION**
**JUNE 30, 2017**

| | Fiduciary Funds |
|---|---|
| | Associated Student Bodies |
| **ASSETS** | |
| Deposits and investments | $ 52,271 |
| **LIABILITIES** | |
| Due to student groups | $ 52,271 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Financial Reporting Entity

The Palo Verde Unified School District (the District) was organized on July 1, 1936, under the laws of the State of California. The District operates under a locally elected five-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 three elementary schools, one high school, and one continuation high school.

A reporting entity is comprised of the primary government 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 Palo Verde Unified School District, this includes general operations, food service, and student related activities of the District.

### 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 two broad fund categories: governmental 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.

**Special Reserve Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

**COP Debt Service Fund** The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

**Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes 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.

**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).

**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 major capital facilities and other 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).

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**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).

**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.

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 financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of 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 is self-financing or draws from the general revenues of the District.

Net position should be reported as restricted when constraints placed on net position are 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 result from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental 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 a 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 balances 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 reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**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 District's 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 District's 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 requirements. 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 combined balance sheet and revenue is recognized.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

**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 investment pools are determined by the program sponsor.

**Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds.

**Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial Statement of Net Position. The valuation basis for capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by 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.

**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 Statement of Net Position. 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 with 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 school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources and are reported as obligations of the 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 long-term loans are recognized as liabilities in the governmental fund financial statements when due.

**Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, or 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 straight-line method.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net 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 deferred amount on refunding and pension related items.

In addition to liabilities, the statement of net 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.

**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 or chief business officer/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**

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

**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. The government-wide financial statements report $4,198,715 of restricted net position.

**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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

**Estimates**

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

**Budgetary Data**

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

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

**Property Tax**

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

**Change in Accounting Principles**

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.

This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

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

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

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

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

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions.

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

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

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

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

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 GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 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**

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

This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 30, 2017. Early implementation is encouraged.

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

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

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

In November 2016, the 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 assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the 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.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In March 2017, the 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 [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the 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 in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2017, the 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

## 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 activities | $ 10,287,922 |
| Fiduciary funds | 52,271 |
| Total Deposits and Investments | $ 10,340,193 |

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

| | |
|---|---|
| Cash on hand and in banks | $ 52,271 |
| Cash in revolving | 16,000 |
| Investments | 10,271,922 |
| Total Deposits and Investments | $ 10,340,193 |

### 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, credit 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 |

**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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Riverside County Investment 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 | Reported Amount | Maturity Date |
|---|---|---|
| Riverside County Investment Pool | $ 10,270,965 | 412* |
| Money Market Mutual Funds | 957 | 7/1/2017 |
| Total | $ 10,271,922 | |

*Weighted-average days to maturity

**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. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year end for each investment type.

| Investment Type | Reported Amount | Minimum Legal Rating | Moody's Rating as of Year End |
|---|---|---|---|
| Riverside County Investment Pool | $ 10,270,965 | Not Required | Aaa-bf |
| Money Market Mutual Funds | 957 | Not Required | Not Rated |
| Total | $ 10,271,922 | | |

**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 agency. As of June 30, 2017, none of the District's bank balance was exposed to custodial credit risk.

## 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 reasonable 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 Riverside County Investment Pool is 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 | Reported Amount | Uncategorized |
|---|---|---|
| Riverside County Investment Pool | $ 10,270,965 | $ 10,270,965 |

## 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 | Special Reserve Fund For Capital Outlay Projects | Non-Major Governmental Funds | Total Governmental Activities |
|---|---|---|---|---|
| Federal Government | | | | |
| Categorical aid | $ 1,168,277 | $ - | $ 171,964 | $ 1,340,241 |
| State Government | | | | |
| Categorical aid | - | - | 897 | 897 |
| Lottery | 126,234 | - | - | 126,234 |
| Local Government | | | | |
| Interest | 59,852 | 627 | 755 | 61,234 |
| Other Local Sources | 125,573 | - | 3,309 | 128,882 |
| Total | $ 1,479,936 | $ 627 | $ 176,925 | $ 1,657,488 |

## 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 | $ 479,033 | $ - | $ - | $ 479,033 |
| Capital Assets Being Depreciated | | | | |
| Buildings and improvements | 67,188,815 | 16,985 | - | 67,205,800 |
| Furniture and equipment | 6,324,139 | 52,557 | 43,275 | 6,333,421 |
| Total Capital Assets Being Depreciated | 73,512,954 | 69,542 | 43,275 | 73,539,221 |
| Less Accumulated Depreciation | | | | |
| Buildings and improvements | 19,597,017 | 1,336,217 | | 20,933,234 |
| Furniture and equipment | 4,495,945 | 215,127 | 41,288 | 4,669,784 |
| Total Accumulated Depreciation | 24,092,962 | 1,551,344 | 41,288 | 25,603,018 |
| Governmental Activities Capital Assets, Net | $ 49,899,025 | $ (1,481,802) | $ 1,987 | $ 48,415,236 |

Depreciation expense was charged to governmental functions as follows:

| | | |
|---|---|---|
| **Governmental Activities** | | |
| Instruction | $ | 798,294 |
| Supervision of instruction | | 53,382 |
| Instructional library, media, and technology | | 33,298 |
| School site administration | | 126,991 |
| Home-to-school transportation | | 89,564 |
| Food services | | 62,310 |
| All other pupil services | | 98,645 |
| Data processing | | 8,349 |
| All other general administration | | 105,302 |
| Plant services | | 175,209 |
| Total Depreciation Expenses All Activities | $ | 1,551,344 |

### NOTE 6 - INTERFUND TRANSACTIONS

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

| | Due From | | |
|---|---|---|---|
| Due To | General Fund | Non-Major Governmental Funds | Total |
| General Fund | $ - | $ 200,000 | $ 200,000 |
| Special Reserve Fund for Capital Outlay Projects | 2,352,249 | - | 2,352,249 |
| Total | $ 2,352,249 | $ 200,000 | $ 2,552,249 |

The balance of $2,352,249 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund for capital projects.

The balance of $200,000 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

### Operating Transfers

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

| | Transfer From | | |
|---|---|---|---|
| Transfer To | General Fund | Special Reserve Fund for Capital Outlay Projects | Total Governmental Activities |
| Special Reserve Fund for Capital Outlay Projects | $ 2,592,000 | $ - | $ 2,592,000 |
| COP Debt Service Fund | - | 702,313 | 702,313 |
| Total | $ 2,592,000 | $ 702,313 | $ 3,294,313 |

| | |
|---|---|
| The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital projects. | $ 2,592,000 |
| The Special Reserve Fund for Capital Outlay Projects transferred to the COP Debt Service Fund for current debt service payments. | 702,313 |
| Total | $ 3,294,313 |

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## NOTE 7 - ACCOUNTS PAYABLE

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

| | General Fund | Non-Major Governmental Funds | Total Governmental Activities |
|---|---|---|---|
| Vendor payables | $ 248,102 | $ 14,314 | $ 262,416 |
| State principal apportionment | 991,902 | - | 991,902 |
| Salaries and benefits | 21,553 | - | 21,553 |
| Total | $ 1,261,557 | $ 14,314 | $ 1,275,871 |

## NOTE 8 - UNEARNED REVENUE

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

| | General Fund |
|---|---|
| Federal financial assistance | $ 35,807 |
| State categorical aid | 686 |
| Total | $ 36,492 |

## NOTE 9 - LONG-TERM OBLIGATIONS

### Summary

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

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 | Due in One Year |
|---|---|---|---|---|---|
| General Obligation Bonds | $ 7,600,262 | $ 177,399 | $ 665,000 | $ 7,112,661 | $ 700,000 |
| Premium on issuance | 49,353 | - | 6,169 | 43,184 | - |
| Certificates of Participation | 5,815,000 | 7,500,000 | 6,225,000 | 7,090,000 | 440,000 |
| Premium on issuance | - | 161,950 | 10,792 | 151,158 | - |
| Flex Fund Lease Financing | 2,135,003 | - | 142,961 | 1,992,042 | 149,906 |
| Compensated absences (vacation) | 298,888 | - | 72,312 | 226,576 | - |
| Capital leases | 3,038,026 | - | 345,702 | 2,692,324 | 361,254 |
| OPEB obligation | 640,447 | 554,940 | 185,356 | 1,010,031 | - |
| Total | $ 19,576,979 | $ 8,394,289 | $ 7,653,292 | $ 20,317,976 | $ 1,651,160 |

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on Certificates of Participation are made by the General Fund with the redevelopment money through the COP Debt Service Fund. Payments for the Flex Fund and Capital Leases are made by the Special Reserve Fund for Capital Outlay Projects. The accumulated vacation will be paid by the fund for which the employee worked. Payments for the OPEB obligations are made out of the General Fund.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2016 | Issued | Capital Appreciation | Redeemed | Bonds Outstanding June 30, 2017 |
|---|---|---|---|---|---|---|---|---|
| 07/27/00 | 08/01/25 | 4.15%-8.00% | $ 2,499,773 | $ 2,990,262 | $ - | $ 177,399 | $ 215,000 | $ 2,952,661 |
| 10/04/11 | 09/01/23 | 2.00%-5.00% | 5,760,000 | 4,610,000 | - | - | 450,000 | 4,160,000 |
| | | | | $ 7,600,262 | $ - | $ 177,399 | $ 665,000 | $ 7,112,661 |

**1998 General Obligation Bonds, Series B**

In July 2000, the District issued General Obligation Bonds 1998, Series B, in the amount of $2,499,773, with interest rates ranging from 4.15 to 8.00 percent. The proceeds from the sale of bonds were used to repair and construct school facilities within the District. At June 30, 2017, the principal balance outstanding was $2,952,661.

**2011 General Obligation Refunding Bonds**

During October 2011, the District issued $5,760,000 of General Obligation Refunding Bonds for the purpose of refunding portions of the 1998 Series A and B bonds outstanding. The bonds mature on September 1, 2023, with interest yields ranging from 2.00 to 5.00 percent. At June 30, 2017, the principal balance outstanding was $4,160,000 and unamortized premium was $43,184.

**Debt Service Requirements to Maturity**

The bonds mature through 2026 as follows:

| Fiscal Year | Principal Including Accreted Interest to Date | Current Interest to Maturity | Accreted Interest to Maturity | Total |
|---|---|---|---|---|
| 2018 | $ 691,744 | $ 141,625 | $ 8,256 | $ 841,625 |
| 2019 | 741,003 | 126,131 | 27,120 | 894,254 |
| 2020 | 550,000 | 109,513 | - | 659,513 |
| 2021 | 585,000 | 91,756 | - | 676,756 |
| 2022 | 625,000 | 71,313 | - | 696,313 |
| 2023-2026 | 3,919,914 | 66,938 | 1,345,087 | 5,331,939 |
| Total | $ 7,112,661 | $ 607,276 | $ 1,380,463 | $ 9,100,400 |

**2005 Certificates of Participation**

In June 2005, the Riverside County Schools Financing Corporation (the Corporation) issued $7,860,000 in 2005 Certificates of Participation with interest rates ranging from 2.8 to 4.53 percent. The certificates were issued to finance improvements to school facilities of the District. The District is required to make semi-annual lease payments to the Corporation. The 2005 certificates of participation were refunded with the proceeds of the 2017 certificates of participation and, as of June 30, 2017, the District had no remaining obligation.

**2017 Certificates of Participation Refunding**

In December 2016, the Local Facilities Finance Corporation (the Corporation) issued $7,500,000 in certificates of participation to finance the refunding of the 2005 certificates of participation issuance and for the cost of issuance incurred in connection with the obligation. The certificates bear interest of 3.00 to 4.00 percent and are scheduled to mature on March 1, 2031. At June 30, 2017, the principal balance outstanding was $7,090,000, deferred charge on refunding was $2,136,092, and unamortized premium was $151,158.

The certificates mature through 2031 as follows:

| Fiscal Year | Principal | Current Interest to maturity | Total |
|---|---|---|---|
| 2018 | $ 440,000 | $ 256,094 | $ 696,094 |
| 2019 | 460,000 | 238,494 | 698,494 |
| 2020 | 480,000 | 220,094 | 700,094 |
| 2021 | 500,000 | 200,894 | 700,894 |
| 2022 | 515,000 | 180,894 | 695,894 |
| 2023-2027 | 2,910,000 | 594,620 | 3,504,620 |
| 2028-2031 | 1,785,000 | 152,110 | 1,937,110 |
| Total | $ 7,090,000 | $ 1,843,200 | $ 8,933,200 |

**Flex Fund Leases**

In July 2007, the District entered into a facilities lease agreement with the California School Boards Association Finance Corporation (the Corporation). The District agreed to a site facilities purchase price of $3,000,000 with an effective interest rate of 4.80 percent. The flex fund leases mature on September 1, 2027. At June 30, 2017, the principal balance outstanding was $2,952,661.

The Flex Fund leases have minimum lease payments as follows:

| Fiscal Year | Principal | Current Interest to Maturity | Lease Payment |
|---|---|---|---|
| 2018 | $ 149,906 | $ 93,840 | $ 243,746 |
| 2019 | 157,189 | 86,559 | 243,748 |
| 2020 | 164,824 | 78,923 | 243,747 |
| 2021 | 172,831 | 70,917 | 243,748 |
| 2022 | 181,225 | 62,521 | 243,746 |
| 2023-2027 | 1,047,050 | 171,687 | 1,218,737 |
| 2028 | 119,017 | 2,856 | 121,873 |
| Total | $ 1,992,042 | $ 567,303 | $ 2,559,345 |

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to $226,576.

**Capital Leases**

The District has entered into two capital lease agreements. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

| | Administration Building | Energy Management | Total |
|---|---|---|---|
| Balance, Beginning of Year | $ 999,937 | $ 2,869,942 | $ 3,869,879 |
| Payments/Deductions | (88,189) | (409,991) | (498,180) |
| Balance, End of Year | $ 911,748 | $ 2,459,951 | $ 3,371,699 |

The capital leases have minimum lease payments as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2018 | $ 497,201 |
| 2019 | 497,202 |
| 2020 | 497,202 |
| 2021 | 497,202 |
| 2022 | 504,470 |
| 2023-2027 | 878,422 |
| Total | 3,371,699 |
| Less: Amount Representing Interest | (679,375) |
| Present Value of Minimum Lease Payments | $ 2,692,324 |

**Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2017, was $526,120, and contributions made by the District during the year were $127,397. Interest on the net OPEB obligation and adjustments to the annual required contribution were $28,820 and $(57,959), respectively, which resulted in an increase to the net OPEB obligation of $369,584. As of June 30, 2017, the net OPEB obligation was $1,010,031. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

## NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

| | General Fund | Special Reserve Fund for Capital Outlay Projects | COP Debt Service Fund | Non-Major Governmental Funds | Total |
|---|---|---|---|---|---|
| Nonspendable | | | | | |
| Revolving cash | $ 16,000 | $ - | $ - | $ - | $ 16,000 |
| Stores inventories | 99,244 | - | - | 10,147 | 109,391 |
| Total Nonspendable | 115,244 | - | - | 10,147 | 125,391 |
| Restricted | | | | | |
| Legally restricted programs | 2,701,861 | - | - | 241,520 | 2,943,381 |
| Capital projects | - | - | - | 125,035 | 125,035 |
| Debt services | - | - | 957 | 1,296,246 | 1,297,203 |
| Total Restricted | 2,701,861 | - | 957 | 1,662,801 | 4,365,619 |
| Assigned | | | | | |
| Other assignments | - | 2,492,890 | - | - | 2,492,890 |
| Unassigned | | | | | |
| Remaining unassigned | 3,758,538 | - | - | - | 3,758,538 |
| Total | $ 6,575,643 | $ 2,492,890 | $ 957 | $ 1,672,948 | $ 10,742,438 |

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

### Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit health care plan administered by the Palo Verde Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 25 retirees and beneficiaries currently receiving benefits, and 225 active Plan members.

### Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Palo Verde Teachers Association (PVTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed $127,397 to the Plan, all of which was used for current premiums.

### Annual OPEB Cost and Net OPEB Obligation

The District's annual 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 30 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 | $ 526,120 |
| Interest on net OPEB obligation | 28,820 |
| Adjustment to annual required contribution | (57,959) |
| Annual OPEB cost (expense) | 496,981 |
| Contributions made | (127,397) |
| Increase in net OPEB obligation | 369,584 |
| Net OPEB obligation, beginning of year | 640,447 |
| Net OPEB obligation, end of year | $ 1,010,031 |

### Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Employer Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2015 | $ 335,255 | $ 256,399 | 76% | $ 562,438 |
| 2016 | 334,627 | 256,618 | 77% | 640,447 |
| 2017 | 496,981 | 127,397 | 26% | 1,010,031 |

**Funded Status and Funding Progress**

A schedule of funding progress as of the most recent actuarial valuation is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| May 1, 2017 | $ - | $ 2,387,880 | $ 2,387,880 | $ - | $ 18,455,374 | 12.9% |

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, investment returns, mortality, and the health care 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.

**Actuarial Methods and Assumptions**

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

In the May 1, 2017, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five 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. Health care cost trend rates ranged from an initial five percent. The cost trend rate used for the Dental and Vision programs was five percent. The UAAL is being amortized at a level dollar method.

## NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets; errors and omissions, injuries to employees, life, and health of employees and natural disasters. The District purchases coverage through Riverside Schools Insurance Authority and Southern California Regional Excess Liability Fund Joint Powers Authorities for first party property damage with coverage up to a maximum of $250 million; subject to various sub-limits generally ranging from $500 to $100 million and Member Retained Limits ranging from $250 to $5,000. The District also purchases coverage for general liability claims with coverage up to $1 million per occurrence with excess liability coverage up to $25 million per occurrence and $60 million in the aggregate, all subject to a Member Retained Limit per occurrence. The District self-insures workers' compensation coverage through the Protected Insurance Program for Schools and Community Colleges, a finite risk transfer pooling program, which integrates risk transfer to reinsurers and risk retention from first dollar. The structure provides catastrophic protection up to $150 million per occurrence and frequency protection up to $1 million per occurrence in excess of a 99 percent (99%) undiscounted actuarial confidence level. Employee health benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

### Description

The District's risk management activities are recorded in the General Fund and Protective Insurance Program for Schools (PIPS). Employee life, health, and disability programs are administered by the purchase of commercial insurance. Refer to Note 15 for additional information regarding the JPAs.

For insured programs, there have not been any significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

### 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 Riverside Schools Insurance Authority (RSIA) 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**

For fiscal year 2017, the District participated in the Protective Insurance Program for Schools (PIPS), an insurance purchasing pool. The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the PIPS. Each participant pays its workers ' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the PIPS. Participation in the PIPS is limited to districts that can meet the PIPS selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to PIPS.

**Employee Medical Benefits**

The District has contracted with the Riverside County Employer/Employee Partnership for Benefits (REEP) and California Valued Trust (CVT) to provide employee health benefits. REEP is a shared risk pool comprised of a representative for each member districts for various school districts in Riverside County. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

## NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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 | Collective Net Pension Liability | Collective Deferred Outflows of Resources | Collective Deferred Inflows of Resources | Collective Pension Expense |
|---|---|---|---|---|
| CalSTRS | $ 18,612,934 | $ 5,153,376 | $ 2,838,347 | $ 1,745,157 |
| CalPERS | 9,316,704 | 2,866,770 | 1,004,572 | 1,206,241 |
| Total | $ 27,929,638 | $ 8,020,146 | $ 3,842,919 | $ 2,951,398 |

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 $2,659,336.

**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 | $ 18,612,934 |
| State's proportionate share of the net pension liability associated with the District | 10,596,011 |
| Total | $ 29,208,945 |

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, was 0.0230 percent and 0.0268 percent, respectively, resulting in a net decrease in the proportionate share of 0.0038 percent.

For the year ended June 30, 2017, the District recognized pension expense of $1,745,157. In addition, the District recognized pension expense and revenue of $1,024,216 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 | $ 2,659,336 | $ - |
| Net change in proportionate share of net pension liability | 1,014,321 | 2,384,306 |
| Difference between projected and actual earnings on pension plan investments | 1,479,719 | - |
| Difference between expected and actual experiences in the measurement of the total pension liability | - | 454,041 |
| Total | $ 5,153,376 | $ 2,838,347 |

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/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2018 | $ 32,282 |
| 2019 | 32,283 |
| 2020 | 860,165 |
| 2021 | 554,989 |
| Total | $ 1,479,719 |

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

| Year Ended June 30, | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2018 | $ (277,385) |
| 2019 | (277,385) |
| 2020 | (277,385) |
| 2021 | (277,385) |
| 2022 | (277,383) |
| Thereafter | (437,103) |
| Total | $ (1,824,026) |

**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's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (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%) | $ 26,788,209 |
| Current discount rate (7.60%) | 18,612,934 |
| 1% increase (8.60%) | 11,823,025 |

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

**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 plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report. 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 provide 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 are 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 $832,355.

**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 $9,316,704. 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, was 0.0472 percent and 0.0535 percent, respectively, resulting in a net decrease in the proportionate share of 0.0063 percent.

For the year ended June 30, 2017, the District recognized pension expense of $1,206,241. 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 | $ 832,355 | $ - |
| Net change in proportionate share of net pension liability | 188,054 | 724,661 |
| Difference between projected and actual earnings on pension plan investments | 1,445,653 | - |
| Difference between expected and actual experiences in the measurement of the total pension liability | 400,708 | - |
| Changes of assumptions | - | 279,911 |
| Total | $ 2,866,770 | $ 1,004,572 |

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/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2018 | $ 202,772 |
| 2019 | 202,773 |
| 2020 | 662,806 |
| 2021 | 377,302 |
| Total | $ 1,445,653 |

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

| Year Ended June 30, | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2018 | $ (23,723) |
| 2019 | (210,748) |
| 2020 | (181,339) |
| Total | $ (415,810) |

**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%) | $ 13,900,574 |
| Current discount rate (7.65%) | 9,316,704 |
| 1% increase (8.65%) | 5,499,730 |

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,061,546 (8.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

**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 not currently a party to any legal proceedings.

## NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Protective Insurance Program for Schools (PIPS), Riverside County Employer/Employee Partnership for Benefits (REEP), California Valued Trust (CVT), and Riverside Schools Insurance Authority (RSIA) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have 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. Audited financial statements are available from the respective entities.

The District has appointed one board member to the governing board of PIPS and REEP.

During the year ended June 30, 2017, the District made payments of $231,215, $1,166,265, $3,486,793, and $308,313 to PIPS, REEP, CVT, and RSIA, respectively, for services received.

### NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District has restated the beginning fund balance in the General Fund. The General Fund restatement was the result of a correction of an error related to Local Control Funding Formula. In addition, the beginning net position of the government-wide financial statements was restated to reflect the correction of an error. As a result, the effect on the current fiscal year is as follows:

| | |
|---|---|
| **Governmental Funds: General Fund** | |
| Fund Balance - Beginning | $ 9,255,917 |
| Correction of an error related to Local Control Funding Formula | (1,324,616) |
| Fund Balance - Beginning as Restated | $ 7,931,301 |
| | |
| **Government-Wide: Statement of Net Position** | |
| Net Position - Beginning | $ 17,901,739 |
| Correction of an error related to Local Control Funding Formula | (1,324,616) |
| Net Position - Beginning as Restated | $ 16,577,123 |

# *REQUIRED SUPPLEMENTARY INFORMATION*

**PALO VERDE UNIFIED SCHOOL DISTRICT**

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

| | Budgeted Amounts | | Actual | Variances - Positive (Negative) Final |
|---|---|---|---|---|
| | **Original** | **Final** | **(GAAP Basis)** | **to Actual** |
| **REVENUES** | | | | |
| Local Control Funding Formula | $ 27,686,972 | $ 26,373,899 | $ 27,777,833 | $ 1,403,934 |
| Federal sources | 2,754,340 | 3,089,184 | 3,098,152 | 8,968 |
| Other State sources | 1,678,242 | 2,605,460 | 2,785,114 | 179,654 |
| Other local sources | 2,252,693 | 1,487,078 | 1,619,895 | 132,817 |
| **Total Revenues** | 34,372,247 | 33,555,621 | 35,280,994 | 1,725,373 |
| **EXPENDITURES** | | | | |
| Current | | | | |
| Certificated salaries | 11,843,238 | 13,206,193 | 13,024,888 | 181,305 |
| Classified salaries | 5,499,481 | 5,883,618 | 5,818,553 | 65,065 |
| Employee benefits | 10,437,008 | 9,026,626 | 8,952,733 | 73,893 |
| Books and supplies | 4,084,617 | 3,149,507 | 2,718,059 | 431,448 |
| Services and operating expenditures | 2,502,517 | 3,817,936 | 3,359,714 | 458,222 |
| Capital outlay | 125,000 | 106,128 | 88,184 | 17,944 |
| Other outgo | 150,000 | 34,635 | 82,521 | (47,886) |
| **Total Expenditures** | 34,641,861 | 35,224,643 | 34,044,652 | 1,179,991 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (269,614) | (1,669,022) | 1,236,342 | 2,905,364 |
| **OTHER FINANCING USES** | | | | |
| Transfers out | (190,000) | (2,392,000) | (2,592,000) | (200,000) |
| **NET CHANGE IN FUND BALANCE** | (459,614) | (4,061,022) | (1,355,658) | 2,705,364 |
| **Fund Balance - Beginning** | 7,931,301 | 7,931,301 | 7,931,301 | - |
| **Fund Balance - Ending** | $ 7,471,687 | $ 3,870,279 | $ 6,575,643 | $ 2,705,364 |

See note to accompanying required supplementary information.

# PALO VERDE UNIFIED SCHOOL DISTRICT

# 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) - Unprojected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| February 1, 2011 | $ - | $ 2,357,967 | $ 2,357,967 | $ - | $ 18,771,532 | 13% |
| May 21, 2014 | - | 2,358,908 | 2,358,908 | - | 18,145,446 | 13% |
| May 1, 2017 | - | 2,387,880 | 2,387,880 | - | 18,455,374 | 13% |

See note to accompanying required supplementary information.

## PALO VERDE UNIFIED SCHOOL DISTRICT

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **CalSTRS** | | | |
| District's proportion of the net pension liability | 0.0230% | 0.0268% | 0.0248% |
| District's proportionate share of the net pension liability | $ 18,612,934 | $ 18,025,989 | $ 14,507,037 |
| State's proportionate share of the net pension liability associated with the District | 10,596,011 | 9,533,761 | 8,759,976 |
| Total | $ 29,208,945 | $ 27,559,750 | $ 23,267,013 |
| District's covered-employee payroll | $ 12,743,243 | $ 19,051,610 | $ 20,506,461 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 146.06% | 94.62% | 133.80% |
| Plan fiduciary net position as a percentage of the total pension liability | 70% | 74% | 77% |
| **CalPERS** | | | |
| District's proportion of the net pension liability | 0.0472% | 0.0535% | 0.0500% |
| District's proportionate share of the net pension liability | $ 9,316,704 | $ 7,891,738 | $ 5,680,647 |
| District's covered-employee payroll | $ 6,062,307 | $ 6,061,708 | $ 6,235,475 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 153.68% | 130.19% | 101.58% |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 79% | 83% |

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

See note to accompanying required supplementary information.

## PALO VERDE UNIFIED SCHOOL DISTRICT

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **CalSTRS** | | | |
| Contractually required contribution | $ 2,659,336 | $ 1,367,350 | $ 1,691,783 |
| Contributions in relation to the contractually required contribution | 2,659,336 | 1,367,350 | 1,691,783 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| District's covered-employee payroll | $ 21,139,396 | $ 12,743,243 | $ 19,051,610 |
| Contributions as a percentage of covered-employee payroll | 12.58% | 10.73% | 8.88% |
| **CalPERS** | | | |
| Contractually required contribution | $ 832,355 | $ 718,202 | $ 713,463 |
| Contributions in relation to the contractually required contribution | 832,355 | 718,202 | 713,463 |
| Contribution deficiency (excess) | $ - | $ - | $ - |
| District's covered-employee payroll | $ 5,993,340 | $ 6,062,307 | $ 6,061,708 |
| Contributions as a percentage of covered-employee payroll | 13.89% | 11.85% | 11.77% |

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

See note to accompanying 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 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 either the CalSTRS or CalPERS plans from the previous valuations.

### Schedule of District 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*

## PALO VERDE UNIFIED SCHOOL DISTRICT

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

| Federal Grantor/Pass-Through Grantor/Program | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|---|---|---|---|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Carl D. Perkins Vocational and Technical Education (Secondary Education) | 84.048 | 14894 | $ 36,388 |
| Passed through Riverside County Special Education Local Plan Area: | | | |
| Special Education Cluster: | | | |
| Basic Local Assistance Entitlement, Part B, Section 611 | 84.027 | 13379 | 446,094 |
| Preschool Grants, Part B, Section 619 (Age 3-4-5) | 84.173 | 13430 | 8,641 |
| Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5) | 84.027A | 13682 | 26,848 |
| Preschool Staff Development, Part B, Section 619 | 84.173A | 13431 | 118 |
| Total Special Education Cluster | | | 481,701 |
| Early Intervention Programs, Part C | 84.181 | 23761 | 966 |
| Title I, Part A, Basic Grants Low Income and Neglected | 84.010 | 14981 | 1,025,610 |
| Title II, Part A, Improving Teacher Quality Local Grants | 84.367 | 14341 | 299,288 |
| English Language Acquisition Grants | | | |
| Title III, Immigrant Education Program | 84.365 | 15146 | 1,607 |
| Title III, English Learner Student Program | 84.365 | 14346 | 23,640 |
| Total English Language Acquisition Grants | | | 25,247 |
| Total U.S. Department of Education | | | 1,869,200 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through California Department of Education (CDE): | | | |
| Child Nutrition Cluster: | | | |
| Especially Needy Breakfast | 10.553 | 13526 | 307,370 |
| National School Lunch Program | 10.555 | 13524 | 941,765 |
| Summer Food Service Program | 10.559 | 13004 | 3,937 |
| Food Distribution | 10.555 | 13524 | 117,228 |
| Total Child Nutrition Cluster | | | 1,370,300 |
| CACFP Claims - Centers and Family Day Care | 10.558 | 13393 | 122,658 |
| NSLP Equipment Assistance Grants | 10.579 | 14906 | 13,253 |
| Total U.S. Department of Agriculture | | | 1,506,211 |
| U.S. DEPARTMENT OF DEFENSE | | | |
| Junior Reserve Officer Training Corps - Air Force | 12.000 | [1] | 42,603 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through California Department of Health Services: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 17,638 |
| Passed through Riverside County Office of Education (RCOE): | | | |
| Head Start | 93.600 | 10016 | 1,126,991 |
| Total U.S. Department of Health and Human Services | | | 1,144,629 |
| Total Federal Programs | | | $ 4,562,643 |

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
## JUNE 30, 2017

### ORGANIZATION

The Palo Verde Unified School District was established on July 1, 1936, and consists of an area comprising approximately 1,027 square miles. The District operates three elementary schools, one high school, and one continuation high school. There were no boundary changes during the year.

### GOVERNING BOARD

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Mrs. Jamey Mullion | President | 2019 |
| Mr. Alfonso (Sonny) Hernandez | Clerk | 2019 |
| Dr. Norman Guith | Member | 2017 |
| Mr. John Ulmer | Member | 2017 |
| Mr. Samuel Burton | Member | 2017 |

### ADMINISTRATION

| | |
|---|---|
| Mr. Charles Bush | Superintendent |
| Mrs. Val Braden | Director of Business Services (resigned in April 2017) |
| Mr. Meliton Sanchez | Director of Business Services (started in July 2017) |
| Mr. Jeremy James | Director of Human Resources |
| Ms. Tracie Kern | Director of Curriculum and Instruction |
| Ms. Lois Shaffer | Director of Data and Accountability |
| Mr. Marty Braden | Director of Facilities and Operations (resigned in April 2017) |

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

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

| | Final Report | |
|---|---|---|
| | Second Period Report | Annual Report |
| Regular ADA | | |
| Transitional kindergarten through third | 861.17 | 856.96 |
| Fourth through sixth | 668.72 | 664.82 |
| Seventh and eighth | 434.61 | 430.89 |
| Ninth through twelfth | 892.53 | 875.70 |
| Total Regular ADA | 2,857.03 | 2,828.37 |
| | | |
| Extended Year Special Education | | |
| Transitional kindergarten through third | 0.40 | 0.40 |
| Fourth through sixth | 3.60 | 3.60 |
| Seventh and eighth | 1.02 | 1.02 |
| Ninth through twelfth | 1.72 | 1.72 |
| Total Extended Year Special Education | 6.74 | 6.74 |
| Total ADA | 2,863.77 | 2,835.11 |

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

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

| Grade Level | 1986-87 Minutes Requirement | 2016-17 Actual Minutes | Number of Days Traditional Calendar | Number of Days Multitrack Calendar | Status |
|---|---|---|---|---|---|
| Kindergarten | 36,000 | 52,650 | 180 | N/A | Complied |
| Grades 1 - 3 | 50,400 | | | | |
| Grade 1 | | 54,000 | 180 | N/A | Complied |
| Grade 2 | | 54,000 | 180 | N/A | Complied |
| Grade 3 | | 54,000 | 180 | N/A | Complied |
| Grades 4 - 6 | 54,000 | | | | |
| Grade 4 | | 54,000 | 180 | N/A | Complied |
| Grade 5 | | 56,025 | 180 | N/A | Complied |
| Grade 6 | | 56,025 | 180 | N/A | Complied |
| Grades 7 - 8 | 54,000 | | | | |
| Grade 7 | | 54,675 | 180 | N/A | Complied |
| Grade 8 | | 54,675 | 180 | N/A | Complied |
| Grades 9 - 12 | 64,800 | | | | |
| Grade 9 | | 68,563 | 180 | N/A | Complied |
| Grade 10 | | 68,573 | 180 | N/A | Complied |
| Grade 11 | | 68,573 | 180 | N/A | Complied |
| Grade 12 | | 68,573 | 180 | N/A | Complied |

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.

# PALO VERDE 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 | $ 34,669,753 | $ 35,280,994 | $ 34,896,687 | $ 31,815,336 |
| Other sources and transfers in | - | - | - | 1,741,966 |
| Total Revenues and Other Sources | 34,669,753 | 35,280,994 | 34,896,687 | 33,557,302 |
| Expenditures | 36,569,501 | 34,044,652 | 33,547,333 | 31,437,911 |
| Other uses and transfers out | - | 2,592,000 | - | - |
| Total Expenditures and Other Uses | 36,569,501 | 36,636,652 | 33,547,333 | 31,437,911 |
| INCREASE (DECREASE) IN FUND BALANCE | $ (1,899,748) | $ (1,355,658) | $ 1,349,354 | $ 1,503,114 |
| ENDING FUND BALANCE | $ 4,675,895 | $ 6,575,643 | $ 7,931,301 | $ 7,461,291 |
| AVAILABLE RESERVES [2] | $ 2,367,327 | $ 3,758,538 | $ 1,199,547 | $ 961,625 |
| AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO | 6.5% | 10.3% | 3.6% | 3.1% |
| LONG-TERM OBLIGATIONS | N/A | $ 20,317,976 | $ 19,576,979 | $ 20,873,298 |
| K-12 AVERAGE DAILY ATTENDANCE AT P-2 | 2,834 | 2,864 | 2,895 | 2,945 |

The General Fund balance has decreased by $885,648 over the past two years. The fiscal year 2017-2018 budget projects a further decrease of $1,899,748 (28.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have decreased by $555,322 over the past two years.

Average daily attendance has decreased by 81 over the past two years. Additional decline of 30 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 amounts reserved for economic uncertainties contained with the General Fund.

See accompanying note to supplementary information.

## PALO VERDE UNIFIED SCHOOL DISTRICT

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

| | Cafeteria Fund | Capital Facilities Fund | County School Facilities Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Deposits and investments | $ 280,198 | $ 87,182 | $ 36,564 |
| Receivables | 175,636 | 1,198 | 91 |
| Stores inventories | 10,147 | - | - |
| **Total Assets** | $ 465,981 | $ 88,380 | $ 36,655 |
| **LIABILITIES AND FUND BALANCES** | | | |
| **Liabilities:** | | | |
| Accounts payable | $ 14,314 | $ - | $ - |
| Due to other funds | 200,000 | - | - |
| **Total Liabilities** | 214,314 | - | - |
| **Fund Balances:** | | | |
| Nonspendable | 10,147 | - | - |
| Restricted | 241,520 | 88,380 | 36,655 |
| **Total Fund Balances** | 251,667 | 88,380 | 36,655 |
| **Total Liabilities and Fund Balances** | $ 465,981 | $ 88,380 | $ 36,655 |

See accompanying note to supplementary information.

| Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|---|---|
| $ 1,296,246 | $ 1,700,190 |
| - | 176,925 |
| - | 10,147 |
| $ 1,296,246 | $ 1,887,262 |
| | |
| $ - | $ 14,314 |
| - | 200,000 |
| - | 214,314 |
| | |
| - | 10,147 |
| 1,296,246 | 1,662,801 |
| 1,296,246 | 1,672,948 |
| | |
| $ 1,296,246 | $ 1,887,262 |

## PALO VERDE UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS
## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## FOR THE YEAR ENDED JUNE 30, 2017

| | Cafeteria Fund | Capital Facilities Fund | County School Facilities Fund |
|---|---|---|---|
| **REVENUES** | | | |
| Federal sources | $ 1,506,211 | $ - | $ - |
| Other State sources | 102,499 | - | - |
| Other local sources | 196,400 | 46,292 | 293 |
| **Total Revenues** | 1,805,110 | 46,292 | 293 |
| **EXPENDITURES** | | | |
| Current | | | |
| Pupil services: | | | |
| Food services | 1,736,113 | - | - |
| Plant services | 1,599 | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest and other | - | - | - |
| **Total Expenditures** | 1,737,712 | - | - |
| **Excess of Revenues Over Expenditures** | 67,398 | 46,292 | 293 |
| **NET CHANGE IN FUND BALANCES** | 67,398 | 46,292 | 293 |
| **Fund Balances - Beginning** | 184,269 | 42,088 | 36,362 |
| **Fund Balances - Ending** | $ 251,667 | $ 88,380 | $ 36,655 |

See accompanying note to supplementary information.

| Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|---|---|
| | |
| $ - | $ 1,506,211 |
| 5,621 | 108,120 |
| 864,558 | 1,107,543 |
| 870,179 | 2,721,874 |
| | |
| - | 1,736,113 |
| - | 1,599 |
| | |
| 665,000 | 665,000 |
| 154,075 | 154,075 |
| 819,075 | 2,556,787 |
| | |
| 51,104 | 165,087 |
| | |
| 51,104 | 165,087 |
| 1,245,142 | 1,507,861 |
| $ 1,296,246 | $ 1,672,948 |

## 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of 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 consist primarily of Medi-Cal Billing Options funds which have been recorded in the current period as revenues that have not been expended as of June 30, 2017. These unspent balances are reported as legally restricted ending balances within the General Fund.

| Description | CFDA Number | Amount |
|---|---|---|
| Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance: | | $ 4,604,363 |
| Medi-Cal Billing Option | 93.778 | (41,720) |
| Total Schedule of Expenditures of Federal Awards | | $ 4,562,643 |

### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and 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.

# NOTE TO SUPPLEMENTARY INFORMATION
# JUNE 30, 2017

**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 requirements, as required by *Education Code* Section 46201.

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

**Schedule of Financial Trends and Analysis**

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

**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 are 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
Palo Verde Unified School District
Blythe, 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 Palo Verde 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 Palo Verde Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2017.

***Emphasis of Matter - Correction of an Error***

As discussed in Note 16 to the financial statements, in 2017, the District has restated beginning fund balance in the General Fund. The General Fund restatement was the result of a correction of an error related to Local Control Funding Formula. In addition, the beginning net position of the government-wide financial statements was restated to reflect the correction of an error. 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 Palo Verde 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 Palo Verde Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Palo Verde 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.



10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

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 Palo Verde 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*.

We noted certain matters that we reported to management of Palo Verde Unified School District in a separate letter dated December 14, 2017.

**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

Rancho Cucamonga, California
December 14, 2017

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

Governing Board
Palo Verde Unified School District
Blythe, California

**Report on Compliance for Each Major Federal Program**

We have audited Palo Verde Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palo Verde Unified School District's major Federal programs for the year ended June 30, 2017. Palo Verde 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 Palo Verde 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 Palo Verde 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 Palo Verde Unified School District's compliance.



10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

***Opinion on Each Major Federal Program***

In our opinion, Palo Verde 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 Palo Verde 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 Palo Verde 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 Palo Verde 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

Rancho Cucamonga, California
December 14, 2017

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants



# INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Palo Verde Unified School District
Blythe, California

## Report on State Compliance

We have audited Palo Verde Unified School District's (the 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 Palo Verde Unified School 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 Palo Verde Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 Palo Verde Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Palo Verde Unified School District's compliance with those requirements.

### *Basis for Qualified Opinion on Proper Expenditure of Education Protection Account Funds*

As described in the accompanying schedule of findings and questioned costs, Palo Verde Unified School District did not comply with requirements regarding Proper Expenditure of Education Protection Account Funds, as identified in finding 2017-001. Compliance with such requirements is necessary, in our opinion, for Palo Verde Unified School District to comply with the requirements applicable to that program.



10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

***Qualified Opinion on Proper Expenditure of Education Protection Account Funds***

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

***Unmodified Opinion on Each of the Other Programs***

In our opinion, Palo Verde 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, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Palo Verde 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 | No, see below |
| Continuation Education | Yes, see below |
| 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 | No, see below |
| After School Education and Safety Program: | |
| General Requirements | No, see below |
| After School | No, see below |
| Before School | No, see below |
| Proper Expenditure of Education Protection Account Funds | Yes |
| Unduplicated Local Control Funding Formula Pupil Counts | Yes |
| Local Control Accountability Plan | Yes |
| Independent Study - Course Based | No, see below |
| Immunizations | Yes, see below |

| | Procedures Performed |
|---|---|
| CHARTER SCHOOLS | |
| Attendance | No, see below |
| Mode of Instruction | No, see below |
| Non Classroom-Based Instruction/Independent Study for Charter Schools | No, see below |
| Determination of Funding for Non Classroom-Based Instruction | No, see below |
| Annual Instruction Minutes Classroom-Based | No, see below |
| Charter School Facility Grant Program | No, see below |

We did not perform procedures specific to Independent Study as the ADA fell below the threshold that required testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

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 offer a Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District did not have expenditures for California Clean Energy Jobs Act; therefore, we did not perform any procedures related to California Clean Energy Jobs Act.

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

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform the remaining procedures.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2017

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

## PALO VERDE UNIFIED SCHOOL DISTRICT

## 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 weaknesses identified? | No |
| Significant deficiencies identified? | 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 Number | Name of Federal Program or Cluster |
|---|---|
| 93.600 | Head Start |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 |
| Auditee qualified as low-risk auditee? | Yes |

**STATE AWARDS**

| | |
|---|---|
| Type of auditor's report issued on compliance for State programs: | Unmodified |

Unmodified for all programs except for the following program which was qualified:

| Name of Program |
|---|
| Proper Expenditure of Education Protection Account Funds |

## 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 finding represents instances of noncompliance and questioned costs relating to State program laws and regulations. The finding has been coded as follows:

| Five Digit Code | AB 3627 Finding Type |
|---|---|
| 40000 | State Compliance |

**2017-001 40000**

**Criteria or Specific Requirements**

According to the California Department of Education's guide on use of Education Protection Act (EPA) funds and Article XIII, Section 36(e) of the California Constitution, a district shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs.

**Condition**

During the 2016-2017 fiscal year, the District charged expenditures to school administration, which is not allowable under the California Department of Education's guide on use of Education Protection Act (EPA) funds and Article XIII, Section 36(e) of the California Constitution.

**Questioned Costs**

There was $7,035 charged to school administrative salaries that does not comply with the regulatory requirements.

**Context**

The condition identified resulted from our review of the expenditure detail report for resource 1400 from July 1, 2016 through June 30, 2017. The auditor noted $7,035 was charged to function 2700 - School Administration.

**Effect**

As a result of the condition identified, the District was not compliant with California Department of Education's guide on use of Education Protection Act (EPA) funds and Article XIII, Section 36(e) of the California Constitution for the 2016-2017 fiscal year.

**Cause**

It appears that the condition identified has materialized as a result of misinformation given to Felix J. Appleby Elementary and Ruth Brown Elementary regarding the requirements under California Department of Education's guide on use of Education Protection Act (EPA) funds and Article XIII, Section 36(e) of the California Constitution.

**Recommendation**

The District should not charge Education Protection Account funds to administrative salaries, administrative benefits, or any other administrative costs. These costs are often charged to function 2100, 2110, 2120, 2130, 2140, 2150, 2200, 2700, and 7100-7999 and should be avoided. The District should review the expenditure detail for resource 1400 on a reoccurring basis to ensure compliance with regulatory requirements.

**Corrective Action Plan**

The District will ensure we review an expenditure detail of resource 1400 on a reoccurring basis to ensure the appropriate expenditures are being charged to the program.

## 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.

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

Governing Board
Palo Verde Unified School District
Blythe, California

In planning and performing our audit of the financial statements of Palo Verde Unified School District (the District) for the year ended June 30, 2017, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2017, on the government-wide financial statements of the District.

***PALO VERDE HIGH SCHOOL***

*Associated Student Body – Prohibited Disbursement*

**Observation**

It was noted that students were directly being paid scholarships from the ASB. Also, we could not determine when scholarships issued during the school year were approved by the ASB through meeting minutes.

**Recommendation**

According to the Associated Study Body, Accounting Manual, Fraud Prevention Guide and Desk Reference, "scholarships paid from student body fundraisers rather than from outside donations are normally not allowable because they do not benefit a group of students. School district governing boards may sometimes approve fundraisers specifically to raise scholarship funds, or may approve a club whose sole purpose is to raise scholarship funds. If governing board approval has been received, a separate trust account should be opened within the ASB specifically for these donations, with board approval, and then closed after the scholarship(s) are paid. It is critical that the board approves this fundraising and to clearly document that the only funds raised for scholarships are those that were fundraised and paid out for that specific purpose. No funds from other clubs or accounts should be used for scholarships.

If scholarships are to be allowed, the district should set guidelines regarding how many will be allowed annually. There should be established selection criteria for all scholarships. Cash awards are not allowed; rather, scholarship checks should be made payable to an institution of higher learning or a college bookstore to be used toward tuition or books and supplies.

The normal rules regarding prior approval also apply to scholarship disbursements: as is the case with all ASB expenditures, the approval should be documented on the expenditure approval form by the signatures of the student representative, advisor, and principal/school administrator and noted in the club meeting minutes."



10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

*Associated Student Body – Prohibited Expenditure*

**Observation**

We noted two disbursements, 14469 and 14470, were used to purchase a total of $500 worth of gift cards.

**Recommendation**

According to the Associated Study Body, Accounting Manual, Fraud Prevention Guide and Desk Reference, "Expenditure of student funds are not usually allowable because they do not directly promote the general welfare, moral or educational experience of the students, or are considered a gift of public funds." Gift cards are difficult to track once they have been purchased and could be considered a gift of public funds or could be used to purchase other prohibited items. Purchases through vendors should be paid for directly by the ASB bookkeeper after all invoice and receipts have been reviewed and documented.

*Associated Student Body – Timely Deposits*

**Observation**

Deposits made by the student store were not being performed in a timely manner. Student store sales from September 6, 2016 through November 10, 2016, were deposited at the same time in November.

**Recommendation**

According to the Associated Study Body, Accounting Manual, Fraud Prevention Guide and Desk Reference, "At the end of each day, the total value of all sales is compared to the cash collected. The ASB advisor and the students should immediately determine the reason for any significant differences reported on the Student Store Daily Sales Form. Procedures should be established for daily reconciliation of cash registers/cash box collections and total sales receipts." All ASB funds should be deposited in the bank in a timely manner.

*Associated Student Body – Cash On-Site*

**Observation**

Cash being held at the school to fund change drawers during events is not maintained as an asset account on the balance sheet.

**Recommendation**

According to the policies and procedures outlined in the Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference, prepared by the California Department of Education, a change account is normally checked out from the bookkeeper for individual fundraisers or activities and should be used solely for making change. Expenditures should not be made from this account under any circumstances. When the fundraiser is complete, the change account should be deposited back into the bank account. If it is not deposited, it should be accounted for as an asset on the balance sheet.

Governing Board
Palo Verde Unified School District

*Associated Student Body – Bookkeeping*

**Observation**

The ASB bookkeeper was unable to provide backup for check 14539. The auditor noted that the disbursement information for check 14543 has details that apply to check 14539 in the general ledger. Also, the detailed information for check 14542 has information for check 14543 in the general ledger.

**Recommendation**

It is important to keep disbursement information as it applies to the corresponding check numbers. Checks should be voided in the check register if needed and update the general ledger as appropriate.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2017