



**PALO VERDE  
UNIFIED SCHOOL DISTRICT**

---

**ANNUAL FINANCIAL REPORT**

---

**JUNE 30, 2018**

# PALO VERDE UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

---

### ***FINANCIAL SECTION***

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds - Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Fiduciary Funds - Statement of Net Position	23
Notes to Financial Statements	24

### ***REQUIRED SUPPLEMENTARY INFORMATION***

General Fund - Budgetary Comparison Schedule	63
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	64
Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program	65
Schedule of the District's Proportionate Share of the Net Pension Liability	66
Schedule of the District Contributions	67
Note to Required Supplementary Information	68

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	71
Local Education Agency Organization Structure	72
Schedule of Average Daily Attendance	73
Schedule of Instructional Time	74
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	75
Schedule of Financial Trends and Analysis	76
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	78
Note to Supplementary Information	79

### ***INDEPENDENT AUDITOR'S REPORTS***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	82
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	84
Report on State Compliance	86

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**TABLE OF CONTENTS**

**JUNE 30, 2018**

---

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

Summary of Auditor's Results	90
Financial Statement Findings	91
Federal Awards Findings and Questioned Costs	92
State Awards Findings and Questioned Costs	93
Summary Schedule of Prior Audit Findings	95
Management Letter	97

---

---

***FINANCIAL SECTION***

---

---



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

VALUE THE *difference*

## 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, 2018, 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Palo Verde Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District has restated the deferred outflows of resources and long-term obligations as of a result of correction of an error related to the debt refunding. 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, budgetary comparison schedule on page 63, schedule of changes in the District's total OPEB liability and related ratios on page 64, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 65, schedule of the District's proportionate share of net pension liability on page 66, and the schedule of District contributions on page 67, 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, and referenced in the previous paragraph, 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 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, 2018, 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, 2018



## **PALO VERDE Unified School District**

*"Improving Learning...Together"*

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

### **Board of Education**

Samuel Burton  
Norman C. Guith, Ed.D.  
Alfonso Hernandez  
Jamey Mullion  
John Ulmer

Charles Bush  
Superintendent

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, 2018, with comparative information from 2017. 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, 2018. 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 2017-2018 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 3,006 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.



# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

---

### ***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- The District ended 2017-2018 with \$14,052,279 in net position.
- Net position increased by \$38,314 during 2017-2018.
- There were no major projects during 2017-2018.

### ***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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

---

### ***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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

---

### *THE DISTRICT AS A WHOLE*

#### *Net Position*

The District's net position was \$14,052,279 for the fiscal year ended June 30, 2018. Of this amount, \$(23,238,200) 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	
		(As Restated)
	2018	2017
<b>Assets</b>		
Current assets	\$ 14,717,268	\$ 12,054,801
Capital assets	47,226,918	48,415,236
<b>Total Assets</b>	<u>61,944,186</u>	<u>60,470,037</u>
<b>Deferred Outflows of Resources</b>	<u>11,293,521</u>	<u>8,296,996</u>
<b>Liabilities</b>		
Current liabilities	2,205,898	1,479,267
Long-term obligations	20,395,022	21,501,244
Aggregate net pension liability	33,006,639	27,929,638
<b>Total Liabilities</b>	<u>55,607,559</u>	<u>50,910,149</u>
<b>Deferred Inflows of Resources</b>	<u>3,577,869</u>	<u>3,842,919</u>
<b>Net Position</b>		
Net investment in capital assets	33,611,131	33,333,225
Restricted	3,679,348	4,198,715
Unrestricted	(23,238,200)	(23,517,975)
<b>Total Net Position</b>	<u>\$ 14,052,279</u>	<u>\$ 14,013,965</u>

The \$(23,238,200) in the unrestricted net deficit of governmental activities represents the *accumulated* results of all past years' operations.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

---

### *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**

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 195,457	\$ 193,978
Operating grants and contributions	9,235,322	8,920,117
Capital grants and contributions	612	295
General revenues:		
State and Federal revenue limit sources - unrestricted	21,706,715	20,761,527
Property taxes	8,868,697	8,238,088
Other general revenues	487,593	2,963,910
<b>Total Revenues</b>	<u>40,494,396</u>	<u>41,077,915</u>
<b>Expenses</b>		
Instruction-related	26,459,424	25,021,738
Pupil services	5,860,475	5,477,609
Administration	3,008,420	2,190,186
Plant services	4,261,517	3,934,037
Other	866,246	3,974,993
<b>Total Expenses</b>	<u>40,456,082</u>	<u>40,598,563</u>
<b>Change in Net Position</b>	<u>\$ 38,314</u>	<u>\$ 479,352</u>

### *Governmental Activities*

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$40,456,082. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$8,868,697, because the cost was paid by those who benefited and other governments and organizations who subsidized certain programs with grants and contributions of \$9,431,391. We paid for the remaining "public benefit" portion of our governmental activities with \$22,194,308 in State and Federal funds and with other revenues, like interest and general entitlements.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2018**

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, plant services, ancillary services, community services, enterprise services, interest on long-term obligations, and all other services. 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**

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 22,471,043	\$ 17,521,039	\$ 21,472,750	\$ 16,021,215
Instruction-related activities	3,988,381	3,280,468	3,548,988	2,891,198
Home-to-school transportation	1,586,898	1,558,046	1,392,934	1,367,750
Other pupil services	4,273,577	1,642,698	4,084,675	1,447,922
Administration	3,008,420	2,119,107	2,190,186	2,082,644
Plant services	4,108,563	4,057,723	3,934,037	3,888,830
Ancillary services	336,875	328,036	277,726	276,333
Interest on long-term obligations	654,242	654,242	1,485,588	1,485,588
All other services	28,083	(136,668)	2,211,679	2,022,693
<b>Total</b>	<b>\$ 40,456,082</b>	<b>\$ 31,024,691</b>	<b>\$ 40,598,563</b>	<b>\$ 31,484,173</b>

**THE DISTRICT'S FUNDS**

As the District completed this year, our governmental funds reported a combined fund balance of \$12,635,724, which is an increase of \$1,893,286 from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 6,575,643	\$ 36,858,101	\$ 34,372,634	\$ 9,061,110
Special Reserve Fund for Capital Outlay Projects	2,492,890	451,393	1,182,403	1,761,880
Non-Major Governmental Funds	1,673,905	3,398,683	3,259,854	1,812,734
<b>Total</b>	<b>\$ 10,742,438</b>	<b>\$ 40,708,177</b>	<b>\$ 38,814,891</b>	<b>\$ 12,635,724</b>

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

---

### ***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 \$9,061,110.
- Overall revenues were \$36,858,101, and expenditures were \$34,372,634 in the General Fund.
- Redevelopment revenues received for fiscal year 2017-2018 were \$432,821.
- Developer fees collected for fiscal year 2017-2018 totaled \$44,276. Fees are collected based on a residential fee of \$3.48 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 26, 2018.

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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

---

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### *Capital Assets*

At June 30, 2018, the District had \$47,226,918 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 \$1,188,318. (Table 5) We present more detailed information regarding our capital assets in Note 5 of the financial statements.

**Table 5**

	Governmental Activities	
	2018	2017
(Net of Depreciation)		
Land and construction in process	\$ 479,033	\$ 479,033
Buildings and improvements	45,305,556	46,272,566
Equipment	1,442,329	1,663,637
<b>Total</b>	<b>\$ 47,226,918</b>	<b>\$ 48,415,236</b>

#### *Long-Term Obligations*

At the end of this year, the District had \$20,395,022 in long-term obligations outstanding versus \$21,501,244 last year. Those obligations consisted of the following:

**Table 6**

	Governmental Activities	
	2018	(As Restated) 2017
General obligation bonds (financed with property taxes)	\$ 6,620,885	\$ 7,155,845
Certificates of participation	6,790,361	7,241,158
Compensated absences (vacation)	237,026	226,576
Capitalized lease obligations	2,331,070	2,692,324
Net other postemployment benefits (OPEB) liability	4,415,680	4,185,341
<b>Total</b>	<b>\$ 20,395,022</b>	<b>\$ 21,501,244</b>

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

# PALO VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

---

### *Net Pension Liability (NPL)*

At year end, the Program had an outstanding net pension liability of \$33,006,639, 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	
	2018	2017
Net pension liability	<u>\$ 33,006,639</u>	<u>\$ 27,929,638</u>

### ***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 2017-2018, 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 3,006 students for the 2017-2018 school year, with enrollment projected to decrease to 2,970 for the 2018-2019 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 2017-2018 ADA for the District is approximately 2,844 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.



# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

---

### ***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](mailto:meliton.sanchez@pvusd.us).

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 13,025,882
Receivables	1,525,666
Due from other governmental units	31,466
Stores inventories	134,254
Capital assets	
Land and construction in process	479,033
Other capital assets	73,954,978
Less: Accumulated depreciation	<u>(27,207,093)</u>
Total Capital Assets	<u>47,226,918</u>
<b>Total Assets</b>	<b><u>61,944,186</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	257,075
Deferred outflows of resources related to pensions	10,558,716
Deferred outflows of resources related to postemployment benefits other than pensions	<u>477,730</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>11,293,521</u></b>
<b>LIABILITIES</b>	
Accounts payable	2,065,920
Interest payable	124,354
Unearned revenue	15,624
Long-term obligations	
Current portion of long-term obligations other than pensions	1,597,516
Noncurrent portion of long-term obligations other than pensions	<u>18,797,506</u>
Total Long-Term Obligations	<u>20,395,022</u>
Aggregate net pension liability	<u>33,006,639</u>
<b>Total Liabilities</b>	<b><u>55,607,559</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>3,577,869</u>
<b>NET POSITION</b>	
Net investment in capital assets	33,611,131
Restricted for:	
Debt service	1,175,747
Capital projects	171,683
Educational programs	2,001,261
Other activities	330,657
Unrestricted (Deficit)	<u>(23,238,200)</u>
<b>Total Net Position</b>	<b><u>\$ 14,052,279</u></b>

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, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 22,471,043	\$ -	\$ 4,949,392	\$ 612
Instruction-related activities:				
Supervision of instruction	1,070,920	-	502,175	-
Instructional library, media, and technology	464,387	-	69,407	-
School site administration	2,453,074	-	136,331	-
Pupil services:				
Home-to-school transportation	1,586,898	-	28,852	-
Food services	1,807,559	195,403	1,640,967	-
All other pupil services	2,466,018	-	794,509	-
Administration:				
Data processing	521,539	-	74,086	-
All other administration	2,486,881	-	815,227	-
Plant services	4,012,562	54	50,786	-
Ancillary services	336,875	-	8,839	-
Enterprise services	96,001	-	-	-
Interest on long-term obligations	654,242	-	-	-
Other outgo	28,083	-	164,751	-
<b>Total Governmental Activities</b>	<b>\$ 40,456,082</b>	<b>\$ 195,457</b>	<b>\$ 9,235,322</b>	<b>\$ 612</b>

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
- Restatement
- 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**

\$ (17,521,039)
(568,745)
(394,980)
(2,316,743)
(1,558,046)
28,811
(1,671,509)
(447,453)
(1,671,654)
(3,961,722)
(328,036)
(96,001)
(654,242)
136,668
<u>(31,024,691)</u>
7,603,050
832,826
432,821
21,706,715
103,778
383,815
<u>31,063,005</u>
38,314
17,056,475
(3,042,510)
14,013,965
<u>\$ 14,052,279</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 9,954,007	\$ 1,322,349	\$ 1,749,526
Receivables	1,495,972	6,710	54,450
Due from other funds	-	432,821	272
Stores inventories	123,961	-	10,293
<b>Total Assets</b>	<b>\$ 11,573,940</b>	<b>\$ 1,761,880</b>	<b>\$ 1,814,541</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,064,113	\$ -	\$ 1,807
Due to other funds	433,093	-	-
Unearned revenue	15,624	-	-
<b>Total Liabilities</b>	<b>2,512,830</b>	<b>-</b>	<b>1,807</b>
<b>Fund Balances:</b>			
Nonspendable	139,961	-	10,293
Restricted	2,001,261	-	1,802,441
Assigned	-	1,761,880	-
Unassigned	6,919,888	-	-
<b>Total Fund Balances</b>	<b>9,061,110</b>	<b>1,761,880</b>	<b>1,812,734</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,573,940</b>	<b>\$ 1,761,880</b>	<b>\$ 1,814,541</b>

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

---

**Total  
Governmental  
Funds**

\$	13,025,882
	1,557,132
	433,093
	134,254
<u>\$</u>	<u>15,150,361</u>

\$	2,065,920
	433,093
	15,624
<u>\$</u>	<u>2,514,637</u>

	150,254
	3,803,702
	1,761,880
	6,919,888
<u>\$</u>	<u>12,635,724</u>
<u>\$</u>	<u>15,150,361</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 12,635,724</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
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:	\$ 74,434,011	
Accumulated depreciation is the following:	<u>(27,207,093)</u>	
Total Capital Assets		47,226,918
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.		(124,354)
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		257,075
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	2,840,876	
Net change in proportionate share of net pension liability	1,172,215	
Differences between projected and actual earnings on pension plan investments	387,968	
Differences between expected and actual experience in the measurement of the total pension liability	482,381	
Changes of assumptions	<u>5,675,276</u>	
Total Deferred Outflows of Resources Related to Pensions		10,558,716

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, 2018**

---

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	\$ (2,485,378)	
Difference between projected and actual earnings on pension plan investments	(580,368)	
Differences between expected and actual experience in the measurement of the total pension liability	(380,078)	
Changes of assumptions	<u>(132,045)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (3,577,869)

Deferred outflows of resources related to OPEB 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 OPEB at year end consist of amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date.

477,730

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

(33,006,639)

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	(4,714,416)
Unamortized premium on issuance	(177,376)
Certificates of participation	(6,650,000)
Capital leases payable	(2,331,070)
Compensated absences (vacations)	(237,026)
Net other postemployment benefits (OPEB) liability	(4,415,680)

In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:

(1,869,454)

Total Long-Term Obligations

(20,395,022)

**Total Net Position - Governmental Activities**

**\$ 14,052,279**

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, 2018**

	<b>General Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Local Control Funding Formula	\$ 28,317,220	\$ -	\$ -
Federal sources	3,647,348	-	1,503,470
Other State sources	3,294,289	-	113,436
Other local sources	1,599,244	451,393	1,085,683
<b>Total Revenues</b>	<b>36,858,101</b>	<b>451,393</b>	<b>2,702,589</b>
<b>EXPENDITURES</b>			
Current			
Instruction	20,070,178	-	-
Instruction-related activities:			
Supervision of instruction	950,234	-	-
Instructional library, media, and technology	408,903	-	-
School site administration	2,162,722	-	-
Pupil services:			
Home-to-school transportation	1,436,729	-	-
Food services	27,468	-	1,721,709
All other pupil services	2,190,195	-	-
Administration:			
Data processing	486,822	-	-
All other administration	2,266,631	-	-
Plant services	3,887,672	-	426
Ancillary services	323,584	-	-
Other outgo	28,083	-	-
Facility acquisition and construction	133,413	-	-
Debt service			
Principal	-	361,254	1,140,000
Interest and other	-	125,055	397,719
<b>Total Expenditures</b>	<b>34,372,634</b>	<b>486,309</b>	<b>3,259,854</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>2,485,467</b>	<b>(34,916)</b>	<b>(557,265)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	696,094
Transfers out	-	(696,094)	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>(696,094)</b>	<b>696,094</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,485,467</b>	<b>(731,010)</b>	<b>138,829</b>
<b>Fund Balances - Beginning</b>	<b>6,575,643</b>	<b>2,492,890</b>	<b>1,673,905</b>
<b>Fund Balances - Ending</b>	<b>\$ 9,061,110</b>	<b>\$ 1,761,880</b>	<b>\$ 1,812,734</b>

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

---

<b>Total Governmental Funds</b>	
\$	28,317,220
	5,150,818
	3,407,725
	3,136,320
	<u>40,012,083</u>
	20,070,178
	950,234
	408,903
	2,162,722
	1,436,729
	1,749,177
	2,190,195
	486,822
	2,266,631
	3,888,098
	323,584
	28,083
	133,413
	1,501,254
	522,774
	<u>38,118,797</u>
	<u>1,893,286</u>
	696,094
	<u>(696,094)</u>
	-
	1,893,286
	10,742,438
\$	<u><u>12,635,724</u></u>

**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, 2018**

---

<b>Total Net Change in Fund Balances - Governmental Funds</b>		<b>\$ 1,893,286</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
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	\$ (1,604,075)	
Capital outlays	<u>415,757</u>	
Net Expense Adjustment		(1,188,318)
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 less than the amounts earned by \$10,450.		(10,450)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(2,273,381)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		247,391

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, 2018**

---

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	\$ 700,000	
Certificates of participation	440,000	
Capital lease payable	361,254	
Combined adjustment		\$ 1,501,254

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	16,966	
Amortization of deferred amount on refunding	(19,775)	
Combined adjustment		(2,809)

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 \$42,550, and second, \$171,209 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

	(128,659)	
<b>Change in Net Position of Governmental Activities</b>		<b>\$ 38,314</b>

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

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

	<b>Fiduciary Funds Associated Student Bodies</b>
<b>ASSETS</b>	
Deposits and investments	\$ 67,272
<b>LIABILITIES</b>	
Due to student groups	\$ 67,272

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

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### 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).

#### 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 the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**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 to be used for 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 approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). 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), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) 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 resources for, and the retirement 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).

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

**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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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.



# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

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, 2018, 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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

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 which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified 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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### 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 charges on refunding of debt, for pension related items, and for OPEB 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.

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### Fund Balances - Governmental Funds

As of June 30, 2018, 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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

**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 \$3,679,348 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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 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. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

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;

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

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 District has implemented the provisions of this Statement as of June 30, 2018.

### **New Accounting Pronouncements**

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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

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 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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 13,025,882
Fiduciary funds	<u>67,272</u>
Total Deposits and Investments	<u><u>\$ 13,093,154</u></u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 67,272
Cash in revolving	16,000
Investments	<u>13,009,882</u>
Total Deposits and Investments	<u><u>\$ 13,093,154</u></u>

#### Policies and Practices

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



# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average to Maturity in Days/ Maturity Date</u>
Riverside County Investment Pool	\$ 13,008,895	427
Money Market Mutual Funds	987	7/1/2018
Total	<u>\$ 13,009,882</u>	

### 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.

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Minimum Legal Rating</u>	<u>Fitch's Rating as of Year End</u>
Riverside County Investment Pool	\$ 13,008,895	Not Required	AAAf/S1
Money Market Mutual Funds	987	Not Required	Not Rated
Total	<u>\$ 13,009,882</u>		

### 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, 2018, 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:

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

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, 2018:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Riverside County Investment Pool	<u>\$ 13,008,895</u>	<u>\$ 13,008,895</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2018, 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	\$ 1,040,656	\$ -	\$ 43,169	\$ 1,083,825
State Government				
State principal apportionment	52,547	-	-	52,547
Categorical aid	172,213	-	3,326	175,539
Lottery	124,894	-	-	124,894
Local Government				
Interest	35,054	6,710	1,326	43,090
Other Local Sources	70,608	-	6,629	77,237
Total	<u>\$ 1,495,972</u>	<u>\$ 6,710</u>	<u>\$ 54,450</u>	<u>\$ 1,557,132</u>

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 479,033	\$ -	\$ -	\$ 479,033
Capital Assets Being Depreciated				
Buildings and improvements	67,205,800	366,238	-	67,572,038
Furniture and equipment	6,333,421	49,519	-	6,382,940
Total Capital Assets Being Depreciated	<u>73,539,221</u>	<u>415,757</u>	<u>-</u>	<u>73,954,978</u>
Less Accumulated Depreciation				
Buildings and improvements	20,933,234	1,333,248	-	22,266,482
Furniture and equipment	4,669,784	270,827	-	4,940,611
Total Accumulated Depreciation	<u>25,603,018</u>	<u>1,604,075</u>	<u>-</u>	<u>27,207,093</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,415,236</u>	<u>\$ (1,188,318)</u>	<u>\$ -</u>	<u>\$ 47,226,918</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

---

Depreciation expense was charged to governmental functions as follows:

**Governmental Activities**

Instruction	\$ 825,429
Supervision of instruction	55,197
Instructional library, media, and technology	34,430
School site administration	131,307
Home-to-school transportation	92,609
Food services	64,428
All other pupil services	101,998
Data processing	8,633
All other general administration	108,881
Plant services	181,163
Total Depreciation Expenses All Activities	<u><u>\$ 1,604,075</u></u>

**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, 2018, between major and non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds are as follows:

<u>Due To</u>	<u>Due From</u>
	General Fund
Special Reserve Fund for Capital Outlay Projects	\$ 432,821
Non-Major Governmental Funds	272
Total	<u><u>\$ 433,093</u></u>

The balance of \$432,821 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund for capital projects.

The balance of \$272 is due to the Cafeteria Non-Major Governmental Fund from the General Fund to cover costs.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

---

**Operating Transfers**

Interfund transfers for the year ended June 30, 2018, consisted of the following:

The Special Reserve Fund for Capital Outlay Projects transferred to the COP Debt Service Non-Major Governmental Fund for current debt service payments.	<u>\$ 696,094</u>
---	-------------------

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, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 481,134	\$ 1,807	\$ 482,941
State principal apportionment	1,571,814	-	1,571,814
Salaries and benefits	11,165	-	11,165
Total	<u>\$ 2,064,113</u>	<u>\$ 1,807</u>	<u>\$ 2,065,920</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2018, consists of the following:

	General Fund
Federal financial assistance	\$ 966
State categorical aid	14,658
Total	<u>\$ 15,624</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	(as Restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Deductions		
General obligation bonds	\$ 7,112,661	\$ 171,209	\$ 700,000	\$ 6,583,870	\$ 760,000
Premium on issuance	43,184	-	6,169	37,015	-
Certificates of participation	7,090,000	-	440,000	6,650,000	460,000
Premium on issuance	151,158	-	10,797	140,361	-
Compensated absences (vacation)	226,576	10,450	-	237,026	-
Capital lease obligations	2,692,324	-	361,254	2,331,070	377,516
Net other postemployment benefits (OPEB) liability	4,185,341	242,413	12,074	4,415,680	-
<b>Total</b>	<b>\$ 21,501,244</b>	<b>\$ 424,072</b>	<b>\$ 1,530,294</b>	<b>\$ 20,395,022</b>	<b>\$ 1,597,516</b>

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 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 net other postemployment benefits (OPEB) liability 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			Bonds
				Outstanding July 1, 2017	Capital Appreciation	Redeemed	Outstanding June 30, 2018
07/27/00	08/01/25	4.15%-8.00%	\$ 2,499,773	\$ 2,952,661	\$ 171,209	\$ 225,000	\$ 2,898,870
10/04/11	09/01/23	2.00%-5.00%	5,760,000	4,160,000	-	475,000	3,685,000
				<b>\$ 7,112,661</b>	<b>\$ 171,209</b>	<b>\$ 700,000</b>	<b>\$ 6,583,870</b>

**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, 2018, the principal balance outstanding was \$2,898,870.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### 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, 2018, the principal balance outstanding was \$3,685,000 and unamortized premium was \$37,015.

### Debt Service Requirements to Maturity

The bonds mature through 2026 as follows:

<u>Fiscal Year</u>	<u>Principal Including Accreted Interest to Date</u>	<u>Current Interest to Maturity</u>	<u>Accreted Interest to Maturity</u>	<u>Total</u>
2019	\$ 754,179	\$ 126,131	\$ 5,821	\$ 886,131
2020	550,000	109,513	-	659,513
2021	585,000	91,756	-	676,756
2022	625,000	71,313	-	696,313
2023	675,000	48,563	-	723,563
2024-2026	3,394,691	18,375	1,195,309	4,608,375
Total	<u>\$ 6,583,870</u>	<u>\$ 465,651</u>	<u>\$ 1,201,130</u>	<u>\$ 8,250,651</u>

### 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, 2018, the principal balance outstanding was \$6,650,000, deferred charge on refunding was \$257,075, and unamortized premium was \$140,361.



# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

The certificates mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to maturity</u>	<u>Total</u>
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	540,000	160,294	700,294
2024-2028	2,885,000	495,544	3,380,544
2031	1,270,000	1,360,892	2,630,892
Total	<u>\$ 6,650,000</u>	<u>\$ 2,857,106</u>	<u>\$ 9,507,106</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$237,026.

### 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:

	<u>Administration Building</u>	<u>Energy Management</u>	<u>Total</u>
Balance, Beginning of Year	\$ 911,748	\$ 2,459,951	\$ 3,371,699
Payments/Deductions	(87,210)	(409,991)	(497,201)
Balance, End of Year	<u>\$ 824,538</u>	<u>\$ 2,049,960</u>	<u>\$ 2,874,498</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 497,202
2020	497,202
2021	497,202
2022	504,470
2023	504,470
2024-2027	373,952
Total	2,874,498
Less: Amount Representing Interest	(543,428)
Present Value of Minimum Lease Payments	<u>\$ 2,331,070</u>

**Net Other Postemployment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 4,236,207	\$ 477,730	\$ 242,413
Medicare Premium Payment (MPP) Program	179,473	-	(12,074)
Total	<u>\$ 4,415,680</u>	<u>\$ 477,730</u>	<u>\$ 230,339</u>

The details of each plan are as follows:

**District Plan**

**Plan Administration**

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefits payments	25
Active employees	225
	<hr/>
	250
	<hr/> <hr/>

### *Benefits Provided*

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

The benefit payment requirements of Plan members and the District are established and may be amended by the District, the Palo Verde Teachers' Association (PVTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, PVTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$255,703 in benefits.

### **Total OPEB Liability of the District**

The District's total OPEB liability of \$4,236,207 was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of that date.

### *Actuarial Assumptions*

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.50 percent
Health care cost trend rates	4.00 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 3,993,794
Service cost	356,737
Interest	141,379
Benefit payments	(255,703)
Net change in total OPEB liability	242,413
Balance at June 30, 2017	<u>\$ 4,236,207</u>

### *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	Total OPEB Liability
1% decrease (2.50%)	\$ 4,532,232
Current discount rate (3.50%)	4,236,207
1% increase (4.50%)	3,965,839

### *Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3.00%)	\$ 3,060,557
Current healthcare cost trend rate 4.00%)	4,236,207
1% increase (5.00%)	5,677,059

### OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$242,413. At June 30, 2018, the District reported deferred outflows of resources for amounts paid for OPEB as benefits become due subsequent to measurement date of \$477,730, which are reported as a reduction to the net OPEB liability in the subsequent year.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

### **Medicare Premium Payment (MPP) Program**

#### **Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

#### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB**

At June 30, 2018, the District reported a liability of \$179,473 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0427 percent and 0.0409, respectively, resulting in an net increase in the proportionate share of 0.0018 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(12,074).

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net OPEB 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 OPEB Liability
1% decrease (2.58%)	\$ 198,690
Current discount rate (3.58%)	179,473
1% increase (4.58%)	160,782

### *Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates*

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 162,182
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	179,473
1% increase (4.7% Part A and 5.1% Part B)	196,592

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

---

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 16,000	\$ -	\$ -	\$ 16,000
Stores inventories	123,961	-	10,293	134,254
Total Nonspendable	<u>139,961</u>	<u>-</u>	<u>10,293</u>	<u>150,254</u>
<b>Restricted</b>				
Legally restricted programs	2,001,261	-	330,657	2,331,918
Capital projects	-	-	171,683	171,683
Debt service	-	-	1,300,101	1,300,101
Total Restricted	<u>2,001,261</u>	<u>-</u>	<u>1,802,441</u>	<u>3,803,702</u>
<b>Assigned</b>				
Debt service	-	1,761,880	-	1,761,880
<b>Unassigned</b>				
Remaining unassigned	6,919,888	-	-	6,919,888
Total	<u>\$ 9,061,110</u>	<u>\$ 1,761,880</u>	<u>\$ 1,812,734</u>	<u>\$ 12,635,724</u>

**NOTE 11 - 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).



# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

For the fiscal year ended June 30, 2018, 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:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 21,791,461	\$ 7,190,668	\$ 2,947,368	\$ 3,150,999
CalPERS	11,215,178	3,368,048	630,501	1,963,258
Total	<u>\$ 33,006,639</u>	<u>\$ 10,558,716</u>	<u>\$ 3,577,869</u>	<u>\$ 5,114,257</u>

The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

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

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

### 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, 2018, are presented above and the District's total contributions were \$1,900,743.

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

At June 30, 2018, 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	\$ 21,791,461
State's proportionate share of the net pension liability associated with the District	12,891,644
Total	<u>\$ 34,683,105</u>

The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, was 0.0236 percent and 0.0230 percent, respectively, resulting in a net increase in the proportionate share of 0.0006 percent.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$3,150,999. In addition, the District recognized pension expense and revenue of \$1,297,668 for support provided by the State. At June 30, 2018, 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	\$ 1,900,743	\$ -
Net change in proportionate share of net pension liability	1,172,215	1,986,922
Difference between projected and actual earnings on pension plan investments	-	580,368
Difference between expected and actual experiences in the measurement of the total pension liability	80,587	380,078
Changes of assumptions	4,037,123	-
Total	<u>\$ 7,190,668</u>	<u>\$ 2,947,368</u>

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
2019	\$ (482,482)
2020	365,095
2021	52,645
2022	(515,626)
Total	<u>\$ (580,368)</u>

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 of Resources
2019	\$ 467,039
2020	467,039
2021	467,039
2022	467,042
2023	308,353
Thereafter	746,413
Total	<u>\$ 2,922,925</u>

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, 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 7.10 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 (7.10 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 (6.10%)	\$ 31,996,783
Current discount rate (7.10%)	21,791,461
1% increase (8.10%)	13,509,151

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report. These reports and CalPERS audited financial information are publicly 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, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

### 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, 2018, are presented above and the total District contributions were \$940,133.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$11,215,178. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, was 0.0470 percent and 0.0472 percent, respectively, resulting in a net decrease in the proportionate share of 0.0002 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$1,963,258. At June 30, 2018, 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	\$ 940,133	
Net change in proportionate share of net pension liability	-	498,456
Difference between projected and actual earnings on pension plan investments	387,968	-
Difference between expected and actual experiences in the measurement of the total pension liability	401,794	-
Changes of assumptions	1,638,153	132,045
Total	<u>\$ 3,368,048</u>	<u>\$ 630,501</u>

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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

---

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
2019	\$ (10,513)
2020	447,630
2021	163,301
2022	(212,450)
Total	<u>\$ 387,968</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 of Resources
2019	\$ 410,426
2020	439,817
2021	559,203
Total	<u>\$ 1,409,446</u>

### 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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service



**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 16,501,121
Current discount rate (7.15%)	11,215,178
1% increase (8.15%)	6,830,046

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

### **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 \$1,048,355 (9.328 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 12 - 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, 2018.

#### **Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect of the overall financial position of the District at June 30, 2018.

### **NOTE 13 - 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.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

---

During the year ended June 30, 2018, the District made payments of \$1,229,895, \$317,572, \$3,763,329, and \$259,408 to PIPS, REEP, CVT, and RSIA, respectively, for services received.

### NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Additionally, the District has restated the deferred outflows of resources and long-term obligations as of a result of correction of an error related to the debt refunding. As a result, the effect on the current fiscal year is as follows:

#### Government-Wide Financial Statements

Net Position - Beginning	\$ 17,056,475
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(3,175,310)
Overstatement of deferred outflows of resources related to debt refunding	(1,859,242)
Overstatement of long-term obligations related to debt refunding	<u>1,992,042</u>
Net Position - Beginning as Restated	<u><u>\$ 14,013,965</u></u>

### NOTE 15 - SUBSEQUENT EVENTS

In July 2018, the District approved the charter petition for SCALE Leadership Academy - East (charter # 2019). The charter school will be located at 811 W. Chanslorway, Blythe, California 92225, petitioned through Palo Verde Unified School District and was authorized for a five-year period ending 2023. The charter school opened on July 1, 2018, and currently serves students in grades kindergarten through twelve. The charter school offers tuition-free high quality public education, individualized programs, and a small learning environment with rigorous standards based academic program focusing on a collegiate atmosphere.

---

---

***REQUIRED SUPPLEMENTARY INFORMATION***

---

---

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 27,950,588	\$ 28,308,941	\$ 28,317,220	\$ 8,279
Federal sources	3,340,052	4,252,321	3,647,348	(604,973)
Other State sources	2,013,138	2,939,614	3,294,289	354,675
Other local sources	1,365,975	1,398,446	1,599,244	200,798
<b>Total Revenues</b>	<u>34,669,753</u>	<u>36,899,322</u>	<u>36,858,101</u>	<u>(41,221)</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	13,958,985	13,743,708	13,632,339	111,369
Classified salaries	6,260,078	6,002,478	5,886,756	115,722
Employee benefits	10,223,436	10,006,272	9,639,502	366,770
Books and supplies	1,991,796	1,957,134	1,228,426	728,708
Services and operating expenditures	3,856,491	3,955,244	3,987,643	(32,399)
Capital outlay	240,000	250,152	182,932	67,220
Other outgo	38,715	38,715	(184,964)	223,679
<b>Total Expenditures</b>	<u>36,569,501</u>	<u>35,953,703</u>	<u>34,372,634</u>	<u>1,581,069</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,899,748)	945,619	2,485,467	1,539,848
<b>Fund Balance - Beginning</b>	<u>6,575,643</u>	<u>6,575,643</u>	<u>6,575,643</u>	-
<b>Fund Balance - Ending</b>	<u>\$ 4,675,895</u>	<u>\$ 7,521,262</u>	<u>\$ 9,061,110</u>	<u>\$ 1,539,848</u>

See note to accompanying required supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY  
AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 356,737
Interest	141,379
Benefit payments	<u>(255,703)</u>
<b>Net change in total OPEB liability</b>	242,413
<b>Total OPEB liability - beginning</b>	<u>3,993,794</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 4,236,207</u></u>
<b>Covered payroll</b>	<u>N/A<sup>1</sup></u>
<b>District's total OPEB liability as a percentage of covered payroll</b>	<u>N/A<sup>1</sup></u>

<sup>1</sup>The District's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See note to accompanying required supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET  
OPEB LIABILITY - MPP PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2018**

---

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.0427%</u>
District's proportionate share of the net OPEB liability	\$ 179,473
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>CalSTRS</b>			
District's proportion of the net pension liability	<u>0.0236%</u>	<u>0.0230%</u>	<u>0.0268%</u>
District's proportionate share of the net pension liability	\$ 21,791,461	\$ 18,612,934	\$ 18,025,989
State's proportionate share of the net pension liability associated with the District	<u>12,891,644</u>	<u>10,596,011</u>	<u>9,533,761</u>
Total	<u>\$ 34,683,105</u>	<u>\$ 29,208,945</u>	<u>\$ 27,559,750</u>
District's covered-employee payroll	<u>\$ 12,701,033</u>	<u>\$ 12,743,243</u>	<u>\$ 19,051,610</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>171.57%</u>	<u>146.06%</u>	<u>94.62%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>
<b>CalPERS</b>			
District's proportion of the net pension liability	<u>0.0470%</u>	<u>0.0472%</u>	<u>0.0535%</u>
District's proportionate share of the net pension liability	<u>\$ 11,215,178</u>	<u>\$ 9,316,704</u>	<u>\$ 7,891,738</u>
District's covered-employee payroll	<u>\$ 5,993,340</u>	<u>\$ 6,062,307</u>	<u>\$ 6,061,708</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>187.13%</u>	<u>153.68%</u>	<u>130.19%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>

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

See note to accompanying required supplementary information.



---

2015

0.0248%

\$ 14,507,037

8,759,976

\$ 23,267,013

\$ 20,506,461

133.80%

77%

0.0500%

\$ 5,680,647

\$ 6,235,475

101.58%

83%

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>CalSTRS</b>			
Contractually required contribution	\$ 1,900,743	\$ 1,597,790	\$ 1,367,350
Contributions in relation to the contractually required contribution	<u>1,900,743</u>	<u>1,597,790</u>	<u>1,367,350</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 13,171,249</u>	<u>\$ 12,701,033</u>	<u>\$ 12,743,243</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 940,133	\$ 832,355	\$ 718,202
Contributions in relation to the contractually required contribution	<u>940,133</u>	<u>832,355</u>	<u>718,202</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 6,053,268</u>	<u>\$ 5,993,340</u>	<u>\$ 6,062,307</u>
Contributions as a percentage of covered-employee payroll	<u>15.53%</u>	<u>13.89%</u>	<u>11.85%</u>

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

See note to accompanying required supplementary information.

---

2015

\$ 1,691,783

1,691,783

\$ -

\$ 19,051,610

8.88%

\$ 713,463

713,463

\$ -

\$ 6,061,708

11.77%

# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

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

#### **Schedule of Changes in the District's Total OPEB Liability and Related Ratios**

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

*Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuation for other postemployment benefits.

*Changes of Assumptions* – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

#### **Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program**

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.

*Changes of Assumptions* – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018**

---

### **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 of Assumptions* – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

### **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, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Carl D. Perkins Vocational and Technical Education (Secondary Education)	84.048	14894	\$ 31,666
Passed through Riverside County Special Education Local Plan Area:			
Special Education Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	434,515
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	5,838
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	11,415
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	49,184
Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	29,857
Preschool Staff Development, Part B, Section 619	84.173A	13431	109
Total Special Education Cluster			<u>530,918</u>
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	1,100,948
Title II, Part A, Supporting Effective Instruction	84.367	14341	583,695
English Language Acquisition Grants			
Title III, Immigrant Education Program	84.365	15146	842
Title III, English Learner Student Program	84.365	14346	24,901
Total English Language Acquisition Grants			<u>25,743</u>
Total U.S. Department of Education			<u>2,272,970</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	319,368
National School Lunch Program	10.555	13524	950,875
Meal Supplement	10.555	13396	3,424
Summer Food Service Program	10.559	13004	8,910
Food Distribution	10.555	13524	104,651
Total Child Nutrition Cluster			<u>1,387,228</u>
CACFP Claims - Centers and Family Day Care	10.558	13393	116,242
Total U.S. Department of Agriculture			<u>1,503,470</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	43,346
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	26,152
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	1,304,913
Total U.S. Department of Health and Human Services			<u>1,331,065</u>
Total Federal Programs			<u>\$ 5,150,851</u>

[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, 2018**

---

### **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**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Alfonso (Sonny) Hernandez	President	2020
Jamey Mullion	Vice President	2020
Martha Gutierrez	Clerk	2022
Dr. Norman Guith	Member	2022
Samuel Burton	Member	2020

### **ADMINISTRATION**

Charles Bush	Superintendent
Meliton Sanchez	Director of Business Services
Jeremy James	Director of Human Resources
Tracie Kern	Director of Curriculum and Instruction
Lois Shaffer	Director of Data and Accountability

See accompanying note to supplementary information.



**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2018**

---

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	867.59	868.54
Fourth through sixth	655.81	654.70
Seventh and eighth	445.64	444.83
Ninth through twelfth	872.57	855.62
Total Regular ADA	<u>2,841.61</u>	<u>2,823.69</u>
Extended Year Special Education		
Transitional kindergarten through third	1.14	1.14
Fourth through sixth	0.26	0.26
Ninth through twelfth	0.60	0.60
Total Extended Year Special Education	<u>2.00</u>	<u>2.00</u>
Total ADA	<u><u>2,843.61</u></u>	<u><u>2,825.69</u></u>

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

---

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	54,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,675	180	N/A	Complied
Grade 2		54,675	180	N/A	Complied
Grade 3		56,025	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,025	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		56,025	180	N/A	Complied
Grade 8		56,025	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		67,120	180	N/A	Complied
Grade 10		67,120	180	N/A	Complied
Grade 11		67,120	180	N/A	Complied
Grade 12		67,120	180	N/A	Complied

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

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

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 8,823,995
Increase in:	
Accounts payable	213,045
Unearned revenue	<u>24,070</u>
Balance, June 30, 2018, Audited Financial Statements	<u><u>\$ 9,061,110</u></u>

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND</b>				
Revenues	\$ 37,831,611	\$ 36,858,101	\$ 35,280,994	\$ 34,896,687
Expenditures	38,255,356	34,372,634	34,044,652	33,547,333
Other uses and transfers out	-	-	2,592,000	-
Total Expenditures and Other Uses	38,255,356	34,372,634	36,636,652	33,547,333
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	\$ (423,745)	\$ 2,485,467	\$ (1,355,658)	\$ 1,349,354
<b>ENDING FUND BALANCE</b>	\$ 8,637,365	\$ 9,061,110	\$ 6,575,643	\$ 7,931,301
<b>AVAILABLE RESERVES <sup>2</sup></b>	\$ 1,872,552	\$ 6,919,888	\$ 3,758,538	\$ 1,199,547
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	4.9%	20.1%	10.3%	3.6%
<b>LONG-TERM OBLIGATIONS <sup>3</sup></b>	N/A	\$ 20,395,022	\$ 21,501,244	\$ 19,576,979
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	2,780	2,844	2,864	2,895

The General Fund balance has increased by \$1,129,809 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$423,745 (4.68 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 2018-2019 fiscal year. Total long-term obligations have increased by \$818,043 over the past two years.

Average daily attendance has decreased by 51 over the past two years. Additional decline of 64 ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 278,527	\$ 133,809	\$ 37,089
Receivables	53,665	606	179
Due from other funds	272	-	-
Stores inventories	10,293	-	-
<b>Total Assets</b>	<u>\$ 342,757</u>	<u>\$ 134,415</u>	<u>\$ 37,268</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,807	\$ -	\$ -
<b>Fund Balances:</b>			
Nonspendable	10,293	-	-
Restricted	330,657	134,415	37,268
<b>Total Fund Balances</b>	<u>340,950</u>	<u>134,415</u>	<u>37,268</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 342,757</u>	<u>\$ 134,415</u>	<u>\$ 37,268</u>

See accompanying note to supplementary information.

---

<b>Bond Interest and Redemption Fund</b>	<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 1,299,114	\$ 987	\$ 1,749,526
-	-	54,450
-	-	272
-	-	10,293
<u>\$ 1,299,114</u>	<u>\$ 987</u>	<u>\$ 1,814,541</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,807</u>
-	-	10,293
<u>1,299,114</u>	<u>987</u>	<u>1,802,441</u>
<u>1,299,114</u>	<u>987</u>	<u>1,812,734</u>
<u>\$ 1,299,114</u>	<u>\$ 987</u>	<u>\$ 1,814,541</u>

**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, 2018**

	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 1,503,470	\$ -	\$ -
Other State sources	108,210	-	-
Other local sources	199,738	46,035	613
<b>Total Revenues</b>	<u>1,811,418</u>	<u>46,035</u>	<u>613</u>
<b>EXPENDITURES</b>			
Current			
Pupil services:			
Food services	1,721,709	-	-
Plant services	426	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<u>1,722,135</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues Over Expenditures</b>	<u>89,283</u>	<u>46,035</u>	<u>613</u>
<b>OTHER FINANCING SOURCES</b>			
Transfers in	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	89,283	46,035	613
<b>Fund Balances - Beginning</b>	251,667	88,380	36,655
<b>Fund Balances - Ending</b>	<u>\$ 340,950</u>	<u>\$ 134,415</u>	<u>\$ 37,268</u>

See accompanying note to supplementary information.

---

<b>Bond Interest and Redemption Fund</b>	<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	1,503,470
5,226	-	113,436
839,267	30	1,085,683
<u>844,493</u>	<u>30</u>	<u>2,702,589</u>
-	-	1,721,709
-	-	426
700,000	440,000	1,140,000
141,625	256,094	397,719
<u>841,625</u>	<u>696,094</u>	<u>3,259,854</u>
<u>2,868</u>	<u>(696,064)</u>	<u>(557,265)</u>
-	696,094	696,094
2,868	30	138,829
1,296,246	957	1,673,905
<u>\$ 1,299,114</u>	<u>\$ 987</u>	<u>\$ 1,812,734</u>



# PALO VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

---

### 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 prior period as revenues that were not expended. These amounts were spent as of June 30, 2018.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 5,150,818
Medi-Cal Billing Option	93.778	<u>33</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 5,150,851</u></u>

#### 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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018**

---

### **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, 2018, 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, 2018.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District has restated the deferred outflows of resources and long-term obligations as of a result of correction of an error related to the debt refunding. 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.

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.

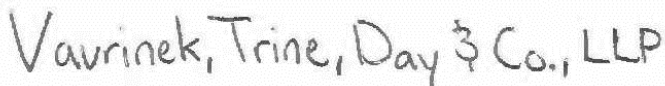
### **Compliance and Other Matters**

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, 2018.

### **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.



Rancho Cucamonga, California  
December 14, 2018



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

VALUE THE *difference*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT 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, 2018. 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.

### ***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, 2018.

### **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, 2018



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

VALUE THE *difference*

## 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 *2017-2018 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, 2018.

### ***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 *2017-2018 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 Unduplicated Local Control Funding Formula Pupil Counts***

As described in the accompanying schedule of findings and questioned costs, Palo Verde Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts, as identified in finding 2018-001. Compliance with such requirements is necessary, in our opinion, for Palo Verde Unified School District to comply with the requirements applicable to that program.



***Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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, 2018.

***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, 2018, 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:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
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
Apprenticeship: Related and Supplemental Instruction	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below

	Procedures Performed
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

**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 does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before 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 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, 2018

---

---

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

---

---

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low Income and Neglected</u>

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

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>Unduplicated Local Control Funding Formula Pupil Counts</u>

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

None reported.

**PALO VERDE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

---

None reported.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

---

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

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

### 2018-001 Code

40000 – Unduplicated Local Control Funding Formula Pupil Counts

#### Criteria or Specific Requirements

California *Education Code* Section 42238.02(b)(4) states school districts should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System (CALPADS).

#### Condition

The Unduplicated Local Control Funding Formula (LCFF) Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported 12 students as having designation of free or reduced on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

#### Questioned Costs

The District over claimed the total eligible pupils by 12, resulting in a decrease of approximately \$9,007 in Local Control Funding Formula (LCFF) funding.

#### Context

The condition was identified as a result of selecting a sample of students from (the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance with the 2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Section) 19489(a)(1).

The initial sample of FRPM only students was selected from three school sites, which resulted in exceptions noted for one of these sites. For 40 students selected, one had their status changed to paid after the verification process had been performed by the Nutrition Services Department. The auditor requested that the District identify all remaining students who had their status changed to paid due to the verification process. The District's review of all remaining students resulted in total of 12 students identified that were incorrectly designated as having free or reduced status on the "1.18 – FRPM/English Learner/Foster Youth – Student List" report.

# PALO VERDE UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

---

### Effect

As a result of our testing, it appears that the District did not properly update the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report to align the reporting with the most current free and reduced eligibility information from the District's Nutrition Services Department. The following schedule identifies the exceptions District-wide.

Total Enrollment	Unduplicated FRPM/EL/Foster Youth Total	Adjustment by Auditor	Adjusted Total Unduplicated Pupil Count	Total Adjusted Enrollment
9,278	6,888	(12)	6,876	9,278

### Cause

The primary cause for inaccurate reporting of FRPM students appears to be early upload of verification data into CalPADS. The Nutrition Department finished verification in mid-November but the upload of changes in statuses due to verification was completed at the end of October.

### Recommendation

The District should emphasize the importance of completing Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measure are taking place to ensure that CALPADS information is being updated.

### Corrective Action Plan

The District will update CALPADS throughout the year to ensure that the students' designations are accurately reflected in the system and matches the Free and Reduced meal application status and English Learner status.



# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018**

---

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### ***State Awards Finding***

#### **2017-001 Code**

40000 - Proper Expenditure of Education Protection Account Funds

#### **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.

# **PALO VERDE UNIFIED SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018**

---

### **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.

### **Current Status**

Implemented.



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, 2018, 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, 2018, on the government-wide financial statements of the District.

***CURRENT YEAR OBSERVATIONS***

***DISTRICT OFFICE***

***Financial Accounting Controls – Revolving Account Reconciliation***

**Observation**

We identified the following deficiencies in internal controls over the District's financial accounting and reporting:

- The District is not performing fund reconciliation over their revolving cash account to reconcile back to the imprest amount for the account.
- Review of the revolving account is not being done in a timely manner.

**Recommendation**

The District should review and implement procedures and internal controls related to the revolving cash account to ensure the accuracy of amounts for financial reporting. A lack of proper internal controls increases the likelihood of misstatement due to error or fraud and decreases the likelihood of accurate financial reporting.

**PALO VERDE HIGH SCHOOL**

***Associated Student Body – Cash On-Site***

**Observation**

The site maintains a change fund of cash being held at the school to fund change drawers during events which is not maintained as an asset account on the balance sheet thereby understating the total assets. The change fund that is maintained by the school site is \$800.

### **Recommendation**

According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a change fund 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 fund 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.

### ***Associated Student Body – Ticket Reports***

#### **Observation**

Ticket sales reports are not reviewed before submission to the student body bookkeeper for deposit of the funds relating to the report. Ticket sales reports are also not verified for accuracy by the bookkeeper after they have been submitted by the seller.

#### **Recommendation**

The sales report should be carefully reviewed before it is forwarded to the bookkeeper. The mathematical accuracy of the sales recap should be double checked and the cash shortage and overage should be clearly documented. Should the cash variance be large, an explanation should be stated on the form.

### ***Associated Student Body – Prohibited Disbursement***

#### **Observation**

Auditor noted during disbursement testing that students were directly being paid scholarships. Auditor also determined that scholarships given by the ASB program were not approved by the District's governing board during the current fiscal year.

#### **Recommendation**

The site should implement the practices regarding their scholarship funds as noted in the Fiscal Crisis and Management Assistance Team's manual titled, ASB 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."

***PRIOR YEAR OBSERVATIONS***

***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."

**Current Status**

Not implemented, see current year observation and recommendations.

***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.

**Current Status**

Implemented.

*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.

**Current Status**

Implemented.

*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.

**Current Status**

Implemented.

***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.

**Current Status**

Implemented.

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, 2018