

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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JUNE 30, 2018

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*FINANCIAL SECTION*

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

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, 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 Pacific Grove 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 Pacific Grove Unified School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1 and Note 17 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.

## *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 13, budgetary comparison schedules on pages 71 and 72, schedule of changes in the District's total OPEB liability and related ratios on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, 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 Pacific Grove 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)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 10, 2018, on our consideration of the Pacific Grove 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 Pacific Grove 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 Pacific Grove Unified School District's internal control over financial reporting and compliance.

*Vaccines, Trine, Day + Co. LLP*

Fresno, California  
December 10, 2018



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This section of Pacific Grove Unified School District's (2017-2018) 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 as of June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **The Financial Statements**

The financial statements presented herein include all of the activities of the Pacific Grove Unified School District (the "District") using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

*Governmental Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fund Financial Statements* include statements for each of the two categories of funds which are governmental and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Funds* are trust and agency funds. Trust funds focus reporting on net position and changes in net position, and agency funds report only a balance sheet and do not have a measurement focus.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Pacific Grove Unified School District.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### 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 resources, 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing 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, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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**Governmental Funds** - All 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 and scholarships. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$(15.7) million for the fiscal year ended June 30, 2018, and \$(14.7) million for the fiscal year ended June 30, 2017, a decrease of \$1.0 million. Of this amount, \$4.7 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School 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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

Table 1

	Governmental Activities		
	2018	2017, as restated	Variance
<b>Assets</b>			
Current and other assets	\$ 14,160,054	\$ 15,423,142	\$ (1,263,088)
Capital assets (Net of accumulated depreciation)	57,342,564	57,395,862	(53,298)
<b>Total Assets</b>	<u>71,502,618</u>	<u>72,819,004</u>	<u>(1,316,386)</u>
<b>Deferred Outflows of Resources</b>	<u>13,493,214</u>	<u>7,428,181</u>	<u>6,065,033</u>
<b>Liabilities</b>			
Current liabilities	1,432,860	1,281,402	151,458
Long-term obligations	59,493,698	60,253,105	(759,407)
Net pension liability	37,182,407	31,110,818	6,071,589
<b>Total Liabilities</b>	<u>98,108,965</u>	<u>92,645,325</u>	<u>(607,949)</u>
<b>Deferred Inflows of Resources</b>	<u>2,539,737</u>	<u>2,281,480</u>	<u>258,257</u>
<b>Net Position</b>			
Net investment in capital assets	9,461,871	8,500,744	961,127
Restricted	4,698,533	5,250,972	(552,439)
Unrestricted	(29,813,274)	(28,431,336)	(1,381,938)
<b>Total Net Position</b>	<u><u>\$(15,652,870)</u></u>	<u><u>\$(14,679,620)</u></u>	<u><u>\$ (973,250)</u></u>

The \$(15.7) million in net position of governmental activities represents the accumulated results of all past years' operations.

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

Table 2

	Governmental Activities		
	2018	2017	Variance
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 415,716	\$ 393,762	\$ 21,954
Operating grants and contributions	4,565,464	4,777,967	(212,503)
General revenues:			
Federal and State aid not restricted	3,957,804	3,876,363	81,441
Property taxes	28,545,657	27,932,193	613,464
Other general revenues	3,677,396	2,016,980	1,660,416
<b>Total Revenues</b>	<u>41,162,037</u>	<u>38,997,265</u>	<u>2,164,772</u>
<b>Expenses</b>			
Instruction related	27,213,185	24,558,966	2,654,219
Pupil services	4,535,365	4,128,208	407,157
Administration	2,812,932	2,895,722	(82,790)
Plant services	4,264,044	4,274,121	(10,077)
Other	3,309,761	3,339,378	(29,617)
<b>Total Expenses</b>	<u>42,135,287</u>	<u>39,196,395</u>	<u>2,938,892</u>
<b>Change in Net Position</b>	<u>\$ (973,250)</u>	<u>\$ (199,130)</u>	<u>\$ (774,120)</u>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$42.1 million, as compared to \$39.2 million in the prior year. The amount that our taxpayers financed for these activities through local taxes was \$28.5 million because the cost was paid by those who benefited from the programs (\$0.4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$4.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.0 million in unrestricted Federal and State funds and \$3.7 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, pupil services, administration, plant services, 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 provided by that function.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

Table 3

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 22,954,057	\$ 19,885,846	\$ 20,680,200	\$ 17,355,216
Instruction-related activities	4,259,128	3,541,309	3,878,766	3,227,958
Home-to-school transportation	775,575	756,203	710,437	679,576
Pupil services	3,759,790	2,789,070	3,417,771	2,412,409
General administration	2,812,932	2,735,228	2,895,722	2,799,916
Plant services	4,264,044	4,778,863	4,274,121	4,274,121
Ancillary services	298,685	288,561	307,414	299,242
Community services	323,602	323,602	306,665	306,665
Enterprise services	155,861	155,861	466,739	466,739
Interest on long-term obligations	1,978,464	1,978,464	2,040,002	2,040,002
Other outgo	553,149	541,805	218,558	162,822
<b>Total</b>	<b>\$ 42,135,287</b>	<b>\$ 37,774,812</b>	<b>\$ 39,196,395</b>	<b>\$ 34,024,666</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$12.7 million while the prior year reported \$14.1 million, which is a decrease of \$1.4 million (Table 4).

Table 4

	Balances		
	June 30, 2018	June 30, 2017	Variance
Major Governmental Funds			
General	\$ 4,603,929	\$ 5,586,956	\$ (983,027)
Adult Education	2,336,590	1,693,433	643,157
Building	1,504,309	1,864,323	(360,014)
Bond Interest and Redemption	4,123,644	4,433,191	(309,547)
Non-Major Governmental Funds			
Child Development	108,280	83,284	24,996
Cafeteria	13,766	9,929	3,837
Deferred Maintenance	26,040	94,526	(68,486)
Special Reserve Capital Projects	10,636	376,098	(365,462)
<b>Total</b>	<b>\$ 12,727,194</b>	<b>\$ 14,141,740</b>	<b>\$ (1,414,546)</b>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Revenues in the General Fund increased over the prior year, primarily from an increase in property tax revenue. However, expenditures also increased, primarily for District employee salaries, resulting in a decrease to the fund of approximately \$1.0 million. The Adult Education Fund increased from \$1.7 million to \$2.3 million due primarily to increased State revenues. The Building Fund decreased from \$1.9 million to \$1.5 million due to the capital projects expenditures. The Bond Interest and Redemption Fund showed a decrease as well as debt service payments exceeded tax revenues for debt service. The District's non-major funds showed decreases primarily due to projects in the Deferred Maintenance Fund and the Special Reserve Capital Projects Fund.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 6, 2018. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

The District projected a decrease in General Fund balance of approximately \$1.3 million. However, revenues were \$17 thousand more than expected and expenditures were \$0.3 million less than projected, resulting in an actual decrease to the fund of about \$1.0 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2018, the District had \$57.3 million in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. At June 30, 2017, the District's capital assets were \$57.4 million. This amount represents a net decrease (including additions, deductions and depreciation) of \$53 thousand from last year (Table 5).

Table 5

	Governmental Activities		
	2018	2017	Variance
Land and construction in process	\$ 846,308	\$ 353,836	\$ 492,472
Buildings and improvements	55,403,532	55,687,022	(283,490)
Furniture and equipment	1,092,724	1,355,004	(262,280)
<b>Total</b>	<b>\$ 57,342,564</b>	<b>\$ 57,395,862</b>	<b>\$ (53,298)</b>

We present more detailed information about our capital assets in the Notes to Financial Statements.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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### Long-Term Obligations

At the end of this year, the District had \$59.5 million in obligations outstanding versus \$60.3 million last year, a decrease of \$0.8 million. The long-term obligations of the District include the following:

Table 6

	Governmental Activities		
	2018	2017, as restated	Variance
General obligation bonds	\$ 48,765,560	\$ 50,598,074	\$ (1,832,514)
Compensated absences	169,354	137,383	31,971
Capital leases	619,442	161,367	458,075
Other postemployment benefits	9,939,342	9,356,281	583,061
<b>Total</b>	<b>\$ 59,493,698</b>	<b>\$ 60,253,105</b>	<b>\$ (759,407)</b>

The District's S&P bond rating as of the most recent bond issuance was "AA". We present more detailed information regarding our long-term liabilities in the Notes to Financial Statements.

### Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of \$11.4 million, Deferred Inflows from pension activities of \$2.5 million, and a Net Pension Liability of \$37.2 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

### SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

Robert Down and Forest Grove portables were installed.

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

In considering the District Budget for the 2018-2019 year, the District Board and management used the following key assumptions in our revenue and expenditure forecasts:

1. Property tax revenues are budgeted to increase over six percent based on the County Assessor's Property Valuation report.
2. No "basic aid" will be received.
3. Federal income is expected to remain flat.
4. The District will receive an estimated \$398,206 due to new Proposition 30 EPA funding.
5. The District will receive an estimated \$79,086 in one-time State Block Grant
6. The District will receive \$364,644 in one-time mandate claims.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

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

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

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Song Chin-Bendib, Assistant Superintendent, Business Services, at Pacific Grove Unified School District, 435 Hillcrest, Pacific Grove, California, 93950, 831-646-6509 or e-mail at [schinbendib@pgusd.org](mailto:schinbendib@pgusd.org).

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
<b>ASSETS</b>	
Deposits and investments	\$ 13,905,277
Receivables	246,132
Stores inventories	8,645
Nondepreciable capital assets	846,308
Capital assets being depreciated	79,429,624
Accumulated depreciation	(22,933,368)
<b>Total Assets</b>	<b>71,502,618</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows on refunding	1,695,606
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	383,262
Deferred outflows of resources related to pensions	11,414,346
<b>Total Deferred Outflows of Resources</b>	<b>13,493,214</b>
<b>LIABILITIES</b>	
Overdrafts	38,402
Accounts payable	1,277,051
Unearned revenue	117,407
Long-term obligations:	
Current portion of long-term obligations other than pensions	3,200,640
Noncurrent portion of long-term obligations other than pensions	56,293,058
<b>Total Long-Term Obligations</b>	<b>59,493,698</b>
Aggregate net pension liability	37,182,407
<b>Total Liabilities</b>	<b>98,108,965</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	2,539,737
<b>NET POSITION</b>	
Net investment in capital assets	9,461,871
Restricted for:	
Debt service	4,123,644
Educational programs	561,123
Other activities	13,766
Unrestricted	(29,813,274)
<b>Total Net Position</b>	<b>\$ (15,652,870)</b>

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

# PACIFIC GROVE 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
<b>Governmental Activities:</b>			
Instruction	\$ 22,954,057	\$ -	\$ 3,068,211
Instruction-related activities:			
Supervision of instruction	309,340	-	125,346
Instructional library, media, and technology	322,857	-	6,718
School site administration	3,626,931	-	585,755
Pupil services:			
Home-to-school transportation	775,575	-	19,372
Food services	965,058	415,716	199,825
All other pupil services	2,794,732	-	355,179
Administration:			
Data processing	25,453	-	-
All other administration	2,787,479	-	77,704
Plant services	4,264,044	-	105,886
Ancillary services	298,685	-	10,124
Community services	323,602	-	-
Enterprise services	155,861	-	-
Interest on long-term obligations	1,978,464	-	-
Other outgo	553,149	-	11,344
<b>Total Governmental Activities</b>	<b>\$ 42,135,287</b>	<b>\$ 415,716</b>	<b>\$ 4,565,464</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			
<b>Subtotal, General Revenues</b>			
<b>Change in Net Position</b>			
Net Position - Beginning as Restated			
Net Position - Ending			

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

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Net (Expenses)  
Revenues and  
Changes in  
Net Position

---

Governmental  
Activities

---

\$ (19,885,846)

(183,994)

(316,139)

(3,041,176)

(756,203)

(349,517)

(2,439,553)

(25,453)

(2,709,775)

(4,158,158)

(288,561)

(323,602)

(155,861)

(1,978,464)

(541,805)

---

(37,154,107)

---

24,945,648

3,599,844

165

3,957,804

152,008

3,525,388

---

36,180,857

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(973,250)

(14,679,620)

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\$ (15,652,870)

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# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2018

	General Fund	Adult Education Fund	Building Fund
<b>ASSETS</b>			
Deposits and investments	\$ 5,740,059	\$ 2,380,575	\$ 1,504,309
Receivables	136,686	18,340	-
Due from other funds	-	-	-
Stores inventories	-	-	-
<b>Total Assets</b>	<u>\$ 5,876,745</u>	<u>\$ 2,398,915</u>	<u>\$ 1,504,309</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	1,155,409	62,325	-
Due to other funds	-	-	-
Unearned revenue	117,407	-	-
<b>Total Liabilities</b>	<u>1,272,816</u>	<u>62,325</u>	<u>-</u>
<b>Fund Balances:</b>			
Nonspendable	5,000	-	-
Restricted	452,843	-	1,504,309
Committed	-	2,336,590	-
Assigned	1,125,411	-	-
Unassigned	3,020,675	-	-
<b>Total Fund Balances</b>	<u>4,603,929</u>	<u>2,336,590</u>	<u>1,504,309</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,876,745</u>	<u>\$ 2,398,915</u>	<u>\$ 1,504,309</u>

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

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Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 4,123,644	\$ 156,690	\$ 13,905,277
-	91,106	246,132
-	4,016	4,016
-	8,645	8,645
<u>\$ 4,123,644</u>	<u>\$ 260,457</u>	<u>\$ 14,164,070</u>

\$ -	\$ 38,402	\$ 38,402
-	59,317	1,277,051
-	4,016	4,016
-	-	117,407
<u>-</u>	<u>101,735</u>	<u>1,436,876</u>

-	8,645	13,645
4,123,644	113,401	6,194,197
-	26,040	2,362,630
-	10,636	1,136,047
-	-	3,020,675
<u>4,123,644</u>	<u>158,722</u>	<u>12,727,194</u>
<u>\$ 4,123,644</u>	<u>\$ 260,457</u>	<u>\$ 14,164,070</u>

# PACIFIC GROVE 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>\$ 12,727,194</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	\$ 80,275,932	
Accumulated depreciation is	(22,933,368)	
Net Capital Assets		57,342,564
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.		1,695,606
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	3,276,012	
Net change in proportionate share of net pension liability	825,604	
Difference between projected and actual earnings on pension plan investments	360,386	
Differences between expected and actual experience in the measurement of the total pension liability.	472,205	
Changes of assumptions	6,480,139	
Total Deferred Outflows of Resources Related to Pensions		11,414,346
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	(1,237,447)	
Difference between projected and actual earnings on pension plan investments	(712,816)	
Differences between expected and actual experience in the measurement of the total pension liability.	(466,817)	
Changes of assumptions	(122,657)	
Total Deferred Inflows of Resources Related to Pensions		(2,539,737)

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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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 comes due subsequent to the measurement date.

\$ 383,262

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

(37,182,407)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds, including premiums

\$ (48,765,560)

Compensated absences

(169,354)

Capital leases

(619,442)

Net other postemployment benefits (OPEB) liability

(9,939,342)

Total Long-Term Obligations

(59,493,698)

**Total Net Position - Governmental Activities**

**\$ (15,652,870)**

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Adult Education Fund
<b>REVENUES</b>		
Local Control Funding Formula	\$ 27,410,041	\$ 318,652
Federal sources	795,584	25,722
Other State sources	2,245,338	1,883,967
Other local sources	1,585,712	520,313
<b>Total Revenues</b>	<b>32,036,675</b>	<b>2,748,654</b>
<b>EXPENDITURES</b>		
Current		
Instruction	19,557,953	844,240
Instruction-related activities:		
Supervision of instruction	304,128	-
Instructional library, media and technology	308,608	-
School site administration	2,711,911	640,671
Pupil services:		
Home-to-school transportation	455,838	-
Food services	3,374	-
All other pupil services	2,652,803	-
Administration:		
All other administration	2,582,349	-
Plant services	3,438,142	-
Ancillary services	288,397	-
Community services	794	-
Other outgo	61,421	-
Enterprise services	155,861	-
Facility acquisition and construction	252,259	620,586
Debt service		
Principal	-	-
Interest and other	-	-
<b>Total Expenditures</b>	<b>32,773,838</b>	<b>2,105,497</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(737,163)</b>	<b>643,157</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	-
Other sources	-	-
Transfers out	(245,864)	-
<b>Net Financing Sources (Uses)</b>	<b>(245,864)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(983,027)</b>	<b>643,157</b>
Fund Balance - Beginning	5,586,956	1,693,433
Fund Balance - Ending	\$ 4,603,929	\$ 2,336,590

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

Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 93,372	\$ 27,822,065
-	-	211,832	1,033,138
-	14,169	108,110	4,251,584
22,930	3,627,159	1,119,480	6,875,594
22,930	3,641,328	1,532,794	39,982,381
-	-	142,988	20,545,181
-	-	-	304,128
-	-	-	308,608
-	-	-	3,352,582
-	-	-	455,838
-	-	691,437	694,811
-	-	-	2,652,803
-	-	21,672	2,604,021
-	-	178,184	3,616,326
-	-	-	288,397
-	-	307,530	308,324
-	-	-	61,421
-	-	-	155,861
382,944	-	1,277,027	2,532,816
-	12,378,000	177,630	12,555,630
-	2,498,641	23,010	2,521,651
382,944	14,876,641	2,819,478	52,958,398
(360,014)	(11,235,313)	(1,286,684)	(12,976,017)
-	-	245,864	245,864
-	10,925,766	635,705	11,561,471
-	-	-	(245,864)
-	10,925,766	881,569	11,561,471
(360,014)	(309,547)	(405,115)	(1,414,546)
1,864,323	4,433,191	563,837	14,141,740
\$ 1,504,309	\$ 4,123,644	\$ 158,722	\$ 12,727,194

# PACIFIC GROVE 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

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Total Net Change in Fund Balances - Governmental Funds \$ (1,414,546)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlay in the period.

Capital outlays	\$ 2,492,002	
Depreciation expense	<u>(2,545,300)</u>	
Net Expense Adjustment		(53,298)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position. (635,705)

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 compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$31,971. (31,971)

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. (1,191,262)

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. (199,799)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Sale of general obligation bonds		(10,130,000)
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The accompanying notes are an integral part of these financial statements.

PACIFIC GROVE 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

---

Governmental funds report the effect of premiums, discounts, and deferred amounts on refunding when the debt is first issued, however, the amounts are deferred and amortized on the statement of activities.

Premiums on new issuance	\$ (795,766)
Amortization of premiums	380,280
Deferred amount on current year refunding	630,963
Amortization of deferred amount on refunding	(87,776)

Refunding of debt is reported as other financing uses in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.

9,840,000

Payment of principal on long-term 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	2,538,000
Capital lease obligations	177,630

**Change in Net Position of Governmental Activities**

\$ (973,250)

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



PACIFIC GROVE UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018

---

	Scholarship Trust	Agency Funds
<b>ASSETS</b>		
Deposits and investments	\$ 221,699	\$ 305,196
<b>LIABILITIES</b>		
Due to student groups	-	\$ 305,196
<b>NET POSITION</b>		
Reserved for scholarships	\$ 221,699	

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018

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	Scholarship Trust
ADDITIONS	
Interest	\$ 2,981
DEDUCTIONS	
Scholarships awarded	500
Other expenditures	2,902
Total Deductions	3,402
Change in Net Position	(421)
Net Position - Beginning	222,120
Net Position - Ending	\$ 221,699

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Pacific Grove Unified School District (the District) was organized in 1895 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 two elementary schools, one middle school, one high school, one adult education center, one continuation high school, and three child care centers.

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 Pacific Grove 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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Postemployment Benefits Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$5,860, \$5,860, and \$1,782, respectively.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

**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).

### 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.

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

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

**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).

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

**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 two classifications: agency funds and trust funds. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has a scholarship trust fund and an ASB student body agency fund. 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.

The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position 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 and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**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 LEAs 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 LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the 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 60 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 pools are determined by the program sponsor.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis.

### **Capital Assets and Depreciation**

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. 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/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

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.



# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **Accounts Payable and Long-Term Obligations**

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

### **Premiums**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums are amortized over the life of the debt using the straight-line method.

In governmental fund financial statements, debt premiums are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources.

### **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 CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, 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.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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.

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

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Superintendent or Assistant Superintendent of Business Services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

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

### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$4,698,533 of restricted net position.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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.

### 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 Monterey 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:

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

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

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

In 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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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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.

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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 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, net of overdrafts	\$ 13,866,875
Fiduciary funds	526,895
Total Deposits and Investments	<u>\$ 14,393,770</u>

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

Cash on hand and in banks	\$ 359,285
Cash in revolving	5,000
Investments, net of overdrafts	14,029,485
Total Deposits and Investments	<u>\$ 14,393,770</u>

The Cafeteria Fund and the Special Reserve Capital Outlay Fund ended the year with deficit Cash in County balances of \$14,286 and \$24,116, respectively.

#### Policies and Practices

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

**Investment in County Treasury** - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

### 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 County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 13,819,808	\$ -	\$ 13,819,808	\$ -	\$ -
Certificates of Deposit	136,935	136,935	-	-	-
Corporate Bonds	34,507	-	-	-	34,507
Total	<u>\$ 13,991,250</u>	<u>\$ 136,935</u>	<u>\$ 13,819,808</u>	<u>\$ -</u>	<u>\$ 34,507</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.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			A+	A	Unrated
County Pool	\$ 13,819,808	N/A	\$ -	\$ -	\$ 13,819,808
Certificates of Deposit	136,935	N/A	-	-	136,935
Corporate Bond	34,507	N/A	21,537	12,970	-
Total	<u>\$ 13,991,250</u>		<u>\$ 21,537</u>	<u>\$ 12,970</u>	<u>\$ 13,956,743</u>

N/A - Not applicable

### 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. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, \$202,145 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Corporate Bonds of \$34,507, the District has a custodial credit risk exposure of \$34,507 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
County Pool	\$ 13,819,808	\$ -	\$ -	\$ -	\$ 13,819,808
Certificates of Deposit	136,935	136,935	-	-	-
Corporate Bond	34,507	34,507	-	-	-
Total	<u>\$ 13,991,250</u>	<u>\$ 171,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,819,808</u>

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Adult Education Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 36,864	\$ 18,340	\$ 24,065	\$ 79,269
State Government				
State grants and entitlements	87,884	-	16,506	104,390
Local Sources	11,938	-	50,535	62,473
Total	<u>\$ 136,686</u>	<u>\$ 18,340</u>	<u>\$ 91,106</u>	<u>\$ 246,132</u>

### NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 217,496	\$ -	\$ -	\$ 217,496
Construction in process	136,340	1,842,957	1,350,485	628,812
Total Capital Assets Not Being Depreciated	<u>353,836</u>	<u>1,842,957</u>	<u>1,350,485</u>	<u>846,308</u>
Capital Assets Being Depreciated				
Buildings and improvements	74,701,308	1,986,190	-	76,687,498
Furniture and equipment	2,728,786	13,340	-	2,742,126
Total Capital Assets Being Depreciated	<u>77,430,094</u>	<u>1,999,530</u>	<u>-</u>	<u>79,429,624</u>
Less Accumulated Depreciation				
Buildings and improvements	19,014,286	2,269,680	-	21,283,966
Furniture and equipment	1,373,782	275,620	-	1,649,402
Total Accumulated Depreciation	<u>20,388,068</u>	<u>2,545,300</u>	<u>-</u>	<u>22,933,368</u>
Governmental Activities Capital Assets, Net	<u>\$57,395,862</u>	<u>\$ 1,297,187</u>	<u>\$ 1,350,485</u>	<u>\$ 57,342,564</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

### Governmental Activities

Instruction	\$ 1,298,103
School site administration	101,812
Home-to-school transportation	305,436
Food services	254,530
Data processing	25,453
All other general administration	50,906
Plant services	509,060
Total Depreciation Expenses Governmental Activities	<u>\$ 2,545,300</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 non-major governmental funds are as follows:

	Interfund Receivables	Interfund Payables
Non-Major Governmental Funds		
Child Development	\$ -	\$ 4,016
Cafeteria	4,016	-
Total All Governmental Funds	<u>\$ 4,016</u>	<u>\$ 4,016</u>

The Child Development Non-Major Governmental Fund owes the Cafeteria Non-Major Governmental Fund to correct an error in posting revenue.

\$ 4,016

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Operating Transfers

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

The General Fund transferred to the Cafeteria Non-Major Governmental Fund to supplement operations.	\$ 50,864
The General Fund transferred to the Special Reserve Capital Outlay Non-Major Governmental Fund for ongoing projects.	195,000
Total	<u>\$ 245,864</u>

### NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consist of the following:

	General Fund	Adult Education Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 246,567	\$ 36,722	\$ 31,969	\$ 315,258
Accrued salaries and benefits	908,842	25,603	27,348	961,793
Total	<u>\$ 1,155,409</u>	<u>\$ 62,325</u>	<u>\$ 59,317</u>	<u>\$ 1,277,051</u>

### NOTE 8 - UNEARNED REVENUE

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

	General Fund
Federal financial assistance	\$ 29,635
State categorical aid	87,772
Total	<u>\$ 117,407</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2017, the District issued \$5,000,000 of Tax and Revenue Anticipation Notes bearing interest at 3.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 29, 2018. By April 30, 2018, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes is as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2017	Additions	Payments	Outstanding June 30, 2018
July 6, 2017	3.00%	June 29, 2018	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

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

	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 46,754,000	\$ 10,130,000	\$ 12,378,000	\$ 44,506,000	\$ 3,000,000
Bond Premiums	3,844,074	795,766	380,280	4,259,560	-
Compensated absences - net	137,383	31,971	-	169,354	-
Capital leases	161,367	635,705	177,630	619,442	200,640
Other postemployment benefits, including Medicare Premium Payment Program	9,356,281	1,053,057	469,996	9,939,342	-
Total	\$ 60,253,105	\$ 12,646,499	\$ 13,405,906	\$ 59,493,698	\$ 3,200,640

Payments on the bonds are made from the Bond Interest and Redemption Fund with local tax revenues. Payments for compensated absences and other postemployment benefits will be made by the fund for which the employee worked. Payments on the capital leases are made from the Special Reserve Capital Outlay Fund.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Bonded Debt

On April 8, 2009, the District issued \$9,500,000 of 2006 Election, Series C General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2010. The Series C Bonds maturing on and after August 1, 2019 were subject to an advanced refunding during the 2016-17 fiscal year with proceeds from the District's 2016 General Obligation Refunding Bonds. The Series C Bonds will be refunded on August 1, 2019. The available balance in the refunding escrow account at June 30, 2018 is \$8,199,853.

On February 9, 2010, the District issued \$9,000,000 of 2006 Election, Series D General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2011. The Series D Bonds maturing on and after August 1, 2021 were subject to an advanced refunding during the 2017-18 fiscal year with proceeds from the District's 2017 General Obligation Refunding Bonds. The Series D Bonds will be refunded on August 1, 2020. The available balance in the refunding escrow account at June 30, 2018 is \$10,363,296. *(This account will refund both the 2006, Series D refunded bonds and the Series 2011 refunded bonds)*

On July 12, 2011, the District issued \$7,780,000 of Taxable General Obligation Bonds, 2006, Series E (Direct-Pay Qualified School Construction Bonds). The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2012. As the issuance is a Qualified School Construction Bond the interest payments are to be paid for with Federal interest subsidies.

On December 6, 2011, the District issued \$4,690,000 of 2011 General Obligation Refunding Bonds. The Bonds were issued to refund all of the outstanding principal of the District's General Obligation Bonds, 1999 Election, Series B, Series C, and Series D. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2012. The 2011 Bonds maturing on and after August 1, 2022 were subject to an advanced refunding during the 2017-18 fiscal year with proceeds from the District's 2017 General Obligation Refunding Bonds. The 2011 Bonds will be refunded on August 1, 2021. The available balance in the refunding escrow account at June 30, 2018 is \$10,363,296. *(This account will refund both the Series 2011 refunded bonds and the 2006, Series D refunded bonds)*

On February 15, 2015, the District issued \$2,370,000 of 2014 Election, Series A General Obligation Ed Tech Bonds (Bank Qualified). The Bonds represent a portion of the \$18,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on November 4, 2014. The Bonds were issued to increase student access to computers; maintain and upgrade educational software; keep pace with 21st century technological innovations; and significantly reduce borrowing costs.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

On June 30, 2015, the District issued \$4,925,000 and \$3,380,000 of 2015 Series A and B General Obligation Refunding Bonds. The Series A Refunding Bonds were issued to refund a portion of the 2005 and 2007 Refunding Bonds. The Series B Refunding Bonds were issued to refund a portion of the 2006 Series A Refunding Bonds. Interest on the Bonds is payable each February 1 and August 1 commencing August 1, 2015.

On July 14, 2016, the District issued \$16,125,000 of 2016 General Obligation Refunding Bonds. The Bonds were issued to refund certain maturities of the District's outstanding General Obligation Bonds, Election of 2006, Series A, Series B, and Series C, and to pay the costs of issuance. Interest on the Bonds is payable each February 1 and August 1 commencing August 1, 2017.

On December 15, 2016, the District issued \$2,103,000 of 2014 Election, Series B General Obligation Ed Tech Bonds (Bank Qualified). The Bonds represent a portion of the \$18,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on November 4, 2014. The Bonds were issued to increase student access to computers; maintain and upgrade educational software; keep pace with 21st century technological innovations; and significantly reduce borrowing costs.

On December 12, 2017, the District issued \$10,130,000 of 2017 General Obligation Refunding Bonds. The Bonds were issued to refund certain maturities of the District's outstanding General Obligation Bonds, Election of 2006, Series D, to refund certain maturities of the District's outstanding 2011 General Obligation Refunding Bonds, and to pay the costs of issuance. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2018.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding Beginning of Year	Issued	Redeemed	Bonds Outstanding End of Year
4/8/2009	8/1/2019	5.0 - 7.0	9,500,000	\$ 645,000	\$ -	\$ 200,000	\$ 445,000
2/9/2010	8/1/2020	2.0 - 5.0	9,000,000	8,115,000	-	7,485,000	630,000
7/12/2011	8/1/2026	5.01	7,780,000	7,052,000	-	390,000	6,662,000
12/6/2011	8/1/2021	2.0 - 4.25	4,690,000	3,430,000	-	2,710,000	720,000
2/15/2015	8/1/2018	1.55	2,370,000	1,659,000	-	803,000	856,000
6/30/2015	8/1/2030	2.0 - 5.0	4,925,000	4,470,000	-	255,000	4,215,000
6/30/2015	8/1/2031	2.0 - 5.0	3,380,000	3,155,000	-	170,000	2,985,000
7/14/2016	8/1/2039	2.0 - 4.0	16,125,000	16,125,000	-	365,000	15,760,000
12/15/2016	8/1/2021	2.29	2,103,000	2,103,000	-	-	2,103,000
12/12/2017	8/1/2037	3.0 - 4.0	10,130,000	-	10,130,000	-	10,130,000
Total				<u>\$ 46,754,000</u>	<u>\$ 10,130,000</u>	<u>\$ 12,378,000</u>	<u>\$ 44,506,000</u>



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### Debt Service Requirements to Maturity

#### 2006 Series C - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 215,000	\$ 22,250	\$ 237,250
2020	230,000	11,500	241,500
Total	<u>\$ 445,000</u>	<u>\$ 33,750</u>	<u>\$ 478,750</u>

#### 2006 Series D - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 200,000	\$ 18,050	\$ 218,050
2020	210,000	11,375	221,375
2021	220,000	3,850	223,850
Total	<u>\$ 630,000</u>	<u>\$ 33,275</u>	<u>\$ 663,275</u>

#### 2006 Series E, Qualified School Construction Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity<sup>1</sup></u>	<u>Total</u>
2019	\$ 455,000	\$ 322,368	\$ 777,368
2020	530,000	297,694	827,694
2021	595,000	269,513	864,513
2022	675,000	237,699	912,699
2023	760,000	201,752	961,752
2024-2027	3,647,000	366,707	4,013,707
Total	<u>\$ 6,662,000</u>	<u>\$ 1,695,733</u>	<u>\$ 8,357,733</u>

<sup>1</sup> The District will receive a federal interest subsidy which is projected to pay for the required interest payments on the bonds.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### 2011 Refunding Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 170,000	\$ 25,400	\$ 195,400
2020	180,000	18,400	198,400
2021	180,000	11,200	191,200
2022	190,000	3,800	193,800
Total	<u>\$ 720,000</u>	<u>\$ 58,800</u>	<u>\$ 778,800</u>

### 2014 Series A - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	<u>\$ 856,000</u>	<u>\$ 6,634</u>	<u>\$ 862,634</u>

### 2015 Series A, Refunding Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 265,000	\$ 185,450	\$ 450,450
2020	270,000	174,850	444,850
2021	280,000	164,050	444,050
2022	300,000	152,850	452,850
2023	300,000	140,850	440,850
2024-2028	1,780,000	460,500	2,240,500
2029-2031	1,020,000	74,000	1,094,000
Total	<u>\$ 4,215,000</u>	<u>\$ 1,352,550</u>	<u>\$ 5,567,550</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 2015 Series B, Refunding Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 170,000	\$ 112,600	\$ 282,600
2020	175,000	105,800	280,800
2021	185,000	98,800	283,800
2022	190,000	91,400	281,400
2023	200,000	83,800	283,800
2024-2028	1,095,000	303,900	1,398,900
2029-2032	970,000	99,000	1,069,000
Total	<u>\$ 2,985,000</u>	<u>\$ 895,300</u>	<u>\$ 3,880,300</u>

### 2016 Series B, Refunding Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019		677,000	\$ 677,000
2020		677,000	677,000
2021		677,000	677,000
2022	30,000	676,400	706,400
2023	295,000	669,900	964,900
2024-2028	3,165,000	2,981,225	6,146,225
2029-2033	4,380,000	2,095,625	6,475,625
2034-2038	6,675,000	908,700	7,583,700
2039-2040	1,215,000	49,100	1,264,100
Total	<u>\$ 15,760,000</u>	<u>\$ 9,411,950</u>	<u>\$ 25,171,950</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 2014 Series B - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 449,000	\$ 48,159	\$ 497,159
2020	921,000	32,758	953,758
2021	604,000	11,369	615,369
2022	129,000	1,477	130,477
Total	<u>\$ 2,103,000</u>	<u>\$ 93,763</u>	<u>\$ 2,196,763</u>

### 2017 General Obligation Refunding Bonds - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 220,000	363,219	\$ 583,219
2020	75,000	358,794	433,794
2021	80,000	356,469	436,469
2022	310,000	349,069	659,069
2023	530,000	332,269	862,269
2024-2028	3,035,000	1,324,644	4,359,644
2029-2033	3,575,000	676,792	4,251,792
2034-2038	2,305,000	149,122	2,454,122
Total	<u>\$ 10,130,000</u>	<u>\$ 3,910,378</u>	<u>\$ 14,040,378</u>

### Related refunding information:

Cash flow requirements of refunded Bonds	\$ 15,941,156
Cash flow requirements of 2017 Refunding Bonds	14,073,976
Cash flow savings	<u>1,867,180</u>
Economic Gain (net present value savings)	<u>\$ 1,114,595</u>

### Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$169,354.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### Capital Leases

The District has entered into agreements to lease portable buildings and buses. 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:

	Equipment
Balance, July 1, 2017	\$ 161,367
Additions	635,705
Payments	(177,630)
Balance, June 30, 2018	<u>\$ 619,442</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 200,640
2020	117,036
2021	117,036
2022	117,035
2023	117,035
Total	<u>668,782</u>
Less: Amount Representing Interest	49,340
Present Value of Minimum Lease Payments	<u>\$ 619,442</u>

### Net Other Postemployment Benefit (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 plan:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	\$ 9,718,910	\$ 383,262	\$ 669,795
Medicare Premium Payment (MPP) Program	220,432	-	(10,647)
Total	<u>\$ 9,939,342</u>	<u>\$ 383,262</u>	<u>\$ 659,148</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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The details of the 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.

#### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefits payments	153
Active employees	264
Total	<u>417</u>

#### *Benefits Provided*

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

#### *Contributions*

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Pacific Grove Teachers Association (PGTA), 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, PGTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$383,262 in benefits.

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

The District's total OPEB liability of \$9,718,910 was measured as of June 30, 2017, as determined by an actuarial valuation as of that date.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *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	3.5 percent
Healthcare cost trend rates	4.0 percent for 2017 and thereafter

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.

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	\$ 9,125,382
Service cost	729,299
Interest	323,758
Benefit payments	(459,529)
Net change in total OPEB liability	593,528
Balance at June 30, 2017	<u>\$ 9,718,910</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### *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:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.5%)	\$ 7,839,379
Current discount rate (3.5%)	9,718,910
1% increase (4.5%)	12,037,997

### *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:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.0%)	\$ 10,624,922
Current healthcare cost trend rate (4.0%)	9,718,910
1% increase (5.0%)	8,939,076

### **OPEB Expense and Deferred Outflows of Resources related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$669,795. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to measurement date of \$383,262.

### **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>.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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 \$220,432 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, respectively, was 0.0524 percent, and 0.0493 percent, resulting in a net increase in the proportionate share of 0.0031 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(10,647).

### 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%



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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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.

### 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%)	\$ 244,033
Current discount rate (3.58%)	220,432
1% increase (4.58%)	197,474

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### *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)	\$ 199,194
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	220,432
1% increase (4.7% Part A and 5.1% Part B)	241,458

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Adult Education Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>						
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Stores inventories	-	-	-	-	8,645	8,645
Total Nonspendable	5,000	-	-	-	8,645	13,645
<b>Restricted</b>						
Legally restricted programs	452,843	-	-	-	108,280	561,123
Food service	-	-	-	-	5,121	5,121
Capital projects	-	-	1,504,309	-	-	1,504,309
Debt service	-	-	-	4,123,644	-	4,123,644
Total Restricted	452,843	-	1,504,309	4,123,644	113,401	6,194,197
<b>Committed</b>						
Adult education program	-	2,336,590	-	-	-	2,336,590
Deferred maintenance	-	-	-	-	26,040	26,040
Total Committed	-	2,336,590	-	-	26,040	2,362,630
<b>Assigned</b>						
Sick leave incentive	40,000	-	-	-	-	40,000
Deferred maintenance	133,415	-	-	-	-	133,415
CalSTRS/CalPERS	946,136	-	-	-	-	946,136
Postemployment benefits	5,860	-	-	-	-	5,860
Capital projects	-	-	-	-	10,636	10,636
Total Assigned	1,125,411	-	-	-	10,636	1,136,047
<b>Unassigned</b>						
Reserve for economic uncertainties	3,020,675	-	-	-	-	3,020,675
Total	\$ 4,603,929	\$ 2,336,590	\$ 1,504,309	\$ 4,123,644	\$ 158,722	\$ 12,727,194

### NOTE 12 - RISK MANAGEMENT

#### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with Monterey County Liability and Property Self-Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Workers' Compensation

For fiscal year 2018, the District participated in the Monterey Educational Risk Management Authority (MERMA), an insurance purchasing pool. The intent of MERMA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in MERMA. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MERMA.

### Employee Medical Benefits

The District has contracted with the Monterey County Schools Insurance Group (MCSIG) to provide employee health benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 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:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 26,764,572	\$ 8,192,166	\$ 2,362,594	\$ 2,591,258
CalPERS	10,417,835	3,222,180	177,143	1,876,016
Total	<u>\$ 37,182,407</u>	<u>\$ 11,414,346</u>	<u>\$ 2,539,737</u>	<u>\$ 4,467,274</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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 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.

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		
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%

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### 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 \$2,348,315.

### 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	\$ 26,764,572
State's proportionate share of the net pension liability associated with the District	15,833,695
Total	<u>\$ 42,598,267</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, respectively was 0.0289 percent and 0.0277 percent, resulting in a net increase in the proportionate share of 0.0012 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$2,591,258. In addition, the District recognized pension expense and revenue of \$1,593,813 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	\$ 2,348,315	\$ -
Net change in proportionate share of net pension liability	786,423	1,182,961
Difference between projected and actual earnings on pension plan investments	-	712,816
Differences between expected and actual experience in the measurement of the total pension liability	98,978	466,817
Changes of assumptions	4,958,450	-
Total	<u>\$ 8,192,166</u>	<u>\$ 2,362,594</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (592,589)
2020	448,415
2021	64,658
2022	(633,300)
Total	<u>\$ (712,816)</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 seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 621,975
2020	621,975
2021	621,975
2022	621,975
2023	732,197
Thereafter	973,976
Total	<u>\$ 4,194,073</u>



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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.

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%



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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%)	\$ 39,298,889
Current discount rate (7.10%)	26,764,572
1% increase (8.10%)	16,592,125

### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report 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>.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 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%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$927,697.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### 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 \$10,417,835. 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, respectively was 0.0436 percent and 0.0439 percent, resulting in a net decrease in the proportionate share of 0.0003 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$1,876,016. 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	\$ 927,697	\$ -
Net change in proportionate share of net pension liability	39,181	54,486
Difference between projected and actual earnings on pension plan investments	360,386	-
Differences between expected and actual experience in the measurement of the total pension liability	373,227	-
Changes of assumptions	1,521,689	122,657
Total	<u>\$ 3,222,180</u>	<u>\$ 177,143</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 of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (9,765)
2020	415,807
2021	151,692
2022	(197,348)
Total	<u>\$ 360,386</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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/(Inflows) of Resources
2019	\$ 609,496
2020	631,803
2021	515,655
Total	<u>\$ 1,756,954</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

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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 15,327,973
Current discount rate (7.15%)	10,417,835
1% increase (8.15%)	6,344,464

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security.

### 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 \$1,286,165 (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. On behalf payments have been included in the calculation of available reserves.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Sick Leave

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; the certificated, management, and classified employees do gain a vested right to accumulated sick leave. In addition, certificated, management, and confidential employees are paid an incentive amount for any sick leave balance at year-end and at termination of employment, subject to a contracted sick leave incentive program. Therefore, the value of accumulated sick leave incentive payments are recognized in the District's financial statements.

### 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 not currently a party to any legal proceedings.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Monterey County Schools' Insurance Group (MCSIG), Monterey County Liability and Property Self-Insurance Authority (MCLPSIA), the Monterey Educational Risk Management Authority (MERMA) 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 JPA's 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 member to the governing board of MCSIG.

During the year ended June 30, 2018, the District made payment of \$873,190 to MCSIG for medical, dental, vision, and life insurance.

The District has appointed one member to the governing board of MCLPSIA.

During the year ended June 30, 2018, the District made payment of \$204,617 to MCLPSIA for liability and property insurance.

The District has appointed one member to the governing board of MERMA.

During the year ended June 30, 2018, the District made payment of \$414,062 to MERMA for workers' compensation insurance.

### NOTE 16 - SUBSEQUENT EVENTS

The District issued \$5,000,000 of Tax and Revenue Anticipation Notes dated July 12, 2018. The notes mature on June 28, 2019, and yield three percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 1, 2019, until 100 percent of principal and interest due is on account in April 2019.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 17 - 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. As a result, the effect on the current fiscal year is as follows:

#### Government-Wide Financial Statements

Net Position - Beginning	\$ (7,683,975)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(6,995,645)</u>
Net Position - Beginning as Restated	<u><u>\$ (14,679,620)</u></u>



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*REQUIRED SUPPLEMENTARY INFORMATION*

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# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>REVENUES</b>				
Local Control Funding Formula	\$ 27,218,660	\$ 27,535,652	\$ 27,410,041	\$ (125,611)
Federal sources	678,877	703,367	795,584	92,217
Other State sources	1,737,405	2,228,352	2,245,338	16,986
Other local sources	941,015	1,552,134	1,585,712	33,578
<b>Total Revenues <sup>1</sup></b>	<b>30,575,957</b>	<b>32,019,505</b>	<b>32,036,675</b>	<b>17,170</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	15,280,295	16,073,947	16,068,126	5,821
Classified salaries	5,400,439	5,730,563	5,892,950	(162,387)
Employee benefits	5,798,117	6,193,144	6,170,055	23,089
Books and supplies	1,026,711	1,912,214	1,414,681	497,533
Services and operating expenditures	2,564,328	3,148,618	3,114,215	34,403
Other outgo	140,202	155,839	39,749	116,090
Capital outlay	12,529	87,529	74,062	13,467
Debt service - principal	51,661	-	-	-
Debt service - interest	2,510	-	-	-
<b>Total Expenditures <sup>1</sup></b>	<b>30,276,792</b>	<b>33,301,854</b>	<b>32,773,838</b>	<b>528,016</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>299,165</b>	<b>(1,282,349)</b>	<b>(737,163)</b>	<b>545,186</b>
<b>Other Financing Uses</b>				
Transfers out	(42,382)	(53,401)	(245,864)	(192,463)
<b>NET CHANGE IN FUND BALANCES</b>	<b>256,783</b>	<b>(1,335,750)</b>	<b>(983,027)</b>	<b>352,723</b>
<b>Fund Balance - Beginning</b>	<b>5,586,956</b>	<b>5,586,956</b>	<b>5,586,956</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 5,843,739</b>	<b>\$ 4,251,206</b>	<b>\$ 4,603,929</b>	<b>\$ 352,723</b>

<sup>1</sup> Due to the consolidation of Fund 20, Special Reserve Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## ADULT FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
<b>REVENUES</b>				
Local Control Funding Formula	\$ 135,000	\$ 184,527	\$ 318,652	\$ 134,125
Federal sources	34,558	25,722	25,722	-
Other State sources	1,190,051	1,509,245	1,883,967	374,722
Other local sources	550,000	572,851	520,313	(52,538)
<b>Total Revenues</b>	<b>1,909,609</b>	<b>2,292,345</b>	<b>2,748,654</b>	<b>456,309</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	618,559	621,904	585,396	36,508
Classified salaries	313,368	408,292	377,761	30,531
Employee benefits	228,742	305,287	234,137	71,150
Books and supplies	168,124	306,371	170,777	135,594
Services and operating expenditures	75,000	263,205	204,409	58,796
Capital outlay	-	385,117	533,017	(147,900)
<b>Total Expenditures</b>	<b>1,403,793</b>	<b>2,290,176</b>	<b>2,105,497</b>	<b>184,679</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>505,816</b>	<b>2,169</b>	<b>643,157</b>	<b>640,988</b>
<b>Fund Balance - Beginning</b>	<b>1,693,433</b>	<b>1,693,433</b>	<b>1,693,433</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 2,199,249</b>	<b>\$ 1,695,602</b>	<b>\$ 2,336,590</b>	<b>\$ 640,988</b>

See accompanying note to required supplementary information.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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	2018
<b>Total OPEB Liability</b>	
Service cost	\$ 729,299
Interest	323,758
Benefit payments	(459,529)
<b>Net change in total OPEB liability</b>	593,528
<b>Total OPEB liability - beginning</b>	9,125,382
<b>Total OPEB liability - ending</b>	<u>\$ 9,718,910</u>
 <b>Covered payroll</b>	 N/A <sup>1</sup>
 <b>District's total OPEB liability as a percentage of covered payroll</b>	 N/A <sup>1</sup>

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<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 accompanying note to required supplementary information.

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PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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Year ended June 30,	2018
District's proportion of the net OPEB liability	0.0524%
District's proportionate share of the net OPEB liability	\$ 220,432
District's covered-employee payroll	N/A <sup>1</sup>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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<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 accompanying note to required supplementary information.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
<b>CalSTRS</b>		
District's proportion of the net pension liability	0.0289%	0.0277%
District's proportionate share of the net pension liability	\$ 26,764,572	\$ 22,436,743
State's proportionate share of the net pension liability associated with the District	15,833,695	12,772,837
Total	\$ 10,930,877	\$ 9,663,906
District's covered - employee payroll	\$ 15,413,665	\$ 14,180,214
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	173.64%	158.23%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
<b>CalPERS</b>		
District's proportion of the net pension liability	0.0436%	0.0439%
District's proportionate share of the net pension liability	\$ 10,417,835	\$ 8,674,075
District's covered - employee payroll	\$ 5,574,618	\$ 5,296,801
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	186.88%	163.76%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.0296%</u>	<u>0.0301%</u>
\$ 19,898,672	\$ 17,586,270
<u>10,524,204</u>	<u>10,619,349</u>
<u>\$ 9,374,468</u>	<u>\$ 6,966,921</u>
<u>\$ 13,253,423</u>	<u>\$ 13,630,242</u>
<u>150.14%</u>	<u>129.02%</u>
<u>74%</u>	<u>77%</u>
<u>0.0434%</u>	<u>0.0440%</u>
<u>\$ 6,396,296</u>	<u>\$ 4,991,661</u>
<u>\$ 4,768,252</u>	<u>\$ 4,431,236</u>
<u>134.14%</u>	<u>112.65%</u>
<u>79%</u>	<u>83%</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

	2018	2017
<b>CalSTRS</b>		
Contractually required contribution	\$ 2,348,315	\$ 1,939,039
Contributions in relation to the contractually required contribution	2,348,315	1,939,039
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 16,273,839</u>	<u>\$ 15,413,665</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 927,697	\$ 774,203
Contributions in relation to the contractually required contribution	927,697	774,203
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 5,973,196</u>	<u>\$ 5,574,618</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

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2016	2015
\$ 1,521,537	\$ 1,176,904
1,521,537	1,176,904
<u>\$ -</u>	<u>\$ -</u>
\$ 14,180,214	\$ 13,253,423
<u>10.73%</u>	<u>8.88%</u>
\$ 627,512	\$ 561,271
627,512	561,271
<u>\$ -</u>	<u>\$ -</u>
\$ 5,296,801	\$ 4,768,252
<u>11.847%</u>	<u>11.771%</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedules**

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.

These schedules present 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, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

#### **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.

#### **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.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018

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**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.

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*SUPPLEMENTARY INFORMATION*

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# PACIFIC GROVE 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
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education:			
Special Education, Basic Local Assistance	84.027	13379	\$ 356,711
Adult Education - Adult Ed Secondary Ed	84.002	13978	13,010
Adult Education - Basic Education	84.002A	14508	12,712
Vocational Education Technology Secondary	84.048	14894	21,112
Title I, Part A - Basic Grants	84.010	14329	162,825
Title II, Part A - Supporting Effective Instruction	84.367	14341	33,429
Title III - English Language Acquisition - LEP	84.365	14346	10,935
Title III - English Language Acquisition - IEP	84.365	15146	11,215
Total U.S. Department of Education			<u>621,949</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Activities	93.778	10060	150,579
Medical Billing Option	93.778	10013	48,778
Total U.S. Department of Health and Human Services			<u>199,357</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	147,880
Especially Needy Breakfast	10.553	13526	34,378
Food Distribution - Commodities	10.555	13391	29,574
Subtotal - Child Nutrition Cluster			<u>211,832</u>
Total U.S. Department of Agriculture			<u>211,832</u>
Total Expenditures of Federal Awards			<u>\$ 1,033,138</u>

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Pacific Grove Unified School District was organized in 1895 and consists of an area comprising approximately 12 square miles. The District operates two elementary schools, one middle school, one high school, one adult education center, one continuation high school, and three child care centers. There were no boundary changes during the year.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
John Paff	President	2018
Brian Swanson	Clerk	2020
Debbie Crandell	Member	2020
Bill Phillips	Member	2018
Cristy Dawson	Member	2018

### ADMINISTRATION

Ralph Porras	Superintendent
Song Chin-Bendib	Assistant Superintendent, Business
Billie Mankey	Director, Human Resources
Ani Silva	Director, Curriculum/Special Projects
Clare Davies	Director, Student Services
Bruce Cates	Director, Information Technology
Matt Kelly	Director, Maintenance and Transportation
Matthew Binder	Director, Education Technology
Dianne Hobson	Director, Nutrition

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	603.50	601.71
Fourth through sixth	444.24	444.07
Seventh and eighth	328.42	328.61
Ninth through twelfth	605.13	601.55
Total Regular ADA	1,981.29	1,975.94
Extended Year Special Education		
Transitional kindergarten through third	-	0.71
Fourth through sixth	-	0.65
Seventh and eighth	-	0.69
Ninth through twelfth	-	0.54
Total Extended Year Special Education	-	2.59
Total ADA	1,981.29	1,978.53

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-1987	2017-2018	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	47,885	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,015	180	N/A	Complied
Grade 2		54,015	180	N/A	Complied
Grade 3		54,015	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,015	180	N/A	Complied
Grade 5		54,015	180	N/A	Complied
Grade 6		63,940	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		63,940	180	N/A	Complied
Grade 8		63,940	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		69,035	180	N/A	Complied
Grade 10		69,035	180	N/A	Complied
Grade 11		69,035	180	N/A	Complied
Grade 12		69,035	180	N/A	Complied

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

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

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There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

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# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
GENERAL FUND <sup>3</sup>				
Revenues	\$ 33,363,327	\$ 32,034,891	\$ 30,493,574	\$ 29,883,288
Other financing sources	-	-	158,410	-
Total Revenues and Other sources	33,363,327	32,034,891	30,651,984	29,883,288
Expenditures	33,143,657	32,773,044	30,435,285	28,275,427
Other financing uses and transfers out	59,611	50,864	69,711	52,984
Total Expenditures and Other Uses	33,203,268	32,823,908	30,504,996	28,328,411
INCREASE IN FUND BALANCE	\$ 160,059	\$ (789,017)	\$ 146,988	\$ 1,554,877
ENDING FUND BALANCE	\$ 4,758,920	\$ 4,598,861	\$ 5,387,878	\$ 5,240,890
AVAILABLE RESERVES <sup>2</sup>	\$ 2,063,641	\$ 3,020,675	\$ 4,618,310	\$ 4,697,365
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	6.2%	9.2%	15.1%	16.6%
LONG-TERM OBLIGATIONS <sup>4</sup>	Not Available	\$ 59,493,698	\$ 60,253,105	\$ 51,190,117
AVERAGE DAILY ATTENDANCE AT P-2	1,981	1,981	1,984	1,991

The General Fund balance has decreased by \$642,029 over the past two years. The fiscal year 2018-2019 budget projects an increase of \$160,059 (3.48 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 and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$8,303,581 over the past two years.

Average daily attendance has decreased by ten over the past two years. No change of 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 unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Retiree Benefits Fund as required by GASB Statement No. 54.

<sup>4</sup> The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.



# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>ASSETS</b>			
Deposits and investments	\$ 114,676	\$ -	\$ 42,014
Receivables	14,795	25,776	-
Due from other funds	-	4,016	-
Stores inventories	-	8,645	-
<b>Total Assets</b>	<u>\$ 129,471</u>	<u>\$ 38,437</u>	<u>\$ 42,014</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ 14,286	\$ -
Accounts payable	17,175	10,385	15,974
Due to other funds	4,016	-	-
<b>Total Liabilities</b>	<u>21,191</u>	<u>24,671</u>	<u>15,974</u>
<b>Fund Balances:</b>			
Nonspendable	-	8,645	-
Restricted	108,280	5,121	-
Committed	-	-	26,040
Assigned	-	-	-
<b>Total Fund Balances</b>	<u>108,280</u>	<u>13,766</u>	<u>26,040</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 129,471</u>	<u>\$ 38,437</u>	<u>\$ 42,014</u>

See accompanying note to supplementary information.

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Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ -	\$ 156,690
50,535	91,106
-	4,016
-	8,645
<u>\$ 50,535</u>	<u>\$ 260,457</u>

\$ 24,116	\$ 38,402
15,783	59,317
-	4,016
<u>39,899</u>	<u>101,735</u>
-	8,645
-	113,401
-	26,040
10,636	10,636
<u>10,636</u>	<u>158,722</u>
<u>\$ 50,535</u>	<u>\$ 260,457</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>REVENUES</b>			
Local Control Funding Formula	\$ -	\$ -	\$ 93,372
Federal sources	-	211,832	-
Other State sources	91,248	16,862	-
Other local sources	419,342	415,716	402
<b>Total Revenues</b>	<b>510,590</b>	<b>644,410</b>	<b>93,774</b>
<b>EXPENDITURES</b>			
Current			
Instruction	142,988	-	-
Pupil services:			
Food services	-	691,437	-
Administration:			
All other administration	21,672	-	-
Plant services	-	-	162,260
Community services	307,530	-	-
Facility acquisition and construction	13,404	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>485,594</b>	<b>691,437</b>	<b>162,260</b>
<b>Excess (Deficiency) of Revenues</b>			
<b>Over Expenditures</b>	<b>24,996</b>	<b>(47,027)</b>	<b>(68,486)</b>
<b>Other Financing Sources</b>			
Transfers in	-	50,864	-
Other sources	-	-	-
<b>Total Financing Sources</b>	<b>-</b>	<b>50,864</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>24,996</b>	<b>3,837</b>	<b>(68,486)</b>
<b>Fund Balance - Beginning</b>	<b>83,284</b>	<b>9,929</b>	<b>94,526</b>
<b>Fund Balance - Ending</b>	<b>\$ 108,280</b>	<b>\$ 13,766</b>	<b>\$ 26,040</b>

See accompanying note to supplementary information.

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Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
\$ -	\$ 93,372
-	211,832
-	108,110
284,020	1,119,480
<u>284,020</u>	<u>1,532,794</u>
-	142,988
-	691,437
-	21,672
15,924	178,184
-	307,530
1,263,623	1,277,027
177,630	177,630
23,010	23,010
<u>1,480,187</u>	<u>2,819,478</u>
<u>(1,196,167)</u>	<u>(1,286,684)</u>
195,000	245,864
635,705	635,705
<u>830,705</u>	<u>881,569</u>
(365,462)	(405,115)
376,098	563,837
<u>\$ 10,636</u>	<u>\$ 158,722</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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### 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.

#### **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.

#### **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 1986-1987 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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

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

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*INDEPENDENT AUDITOR'S REPORTS*

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

VALUE THE *difference*

**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  
Pacific Grove Unified School District  
Pacific Grove, 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 Pacific Grove 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 Pacific Grove Unified School District's basic financial statements, and have issued our report thereon dated December 10, 2018.

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

As discussed in Note 1 and Note 17 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Pacific Grove 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 Pacific Grove Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pacific Grove 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 Pacific Grove 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 Pacific Grove Unified School District in a separate letter dated December 10, 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.

*Varrinck, Trine, Page & Co. LLP*

Fresno, California  
December 10, 2018



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

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

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

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

We have audited Pacific Grove 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 Pacific Grove Unified School District's major Federal programs for the year ended June 30, 2018. Pacific Grove 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 Pacific Grove 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 Pacific Grove 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 Pacific Grove Unified School District's compliance.

## *Opinion on Each Major Federal Program*

In our opinion, Pacific Grove 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 Pacific Grove 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 Pacific Grove 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 Pacific Grove 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.

*Varinick, Trine, Day & Co. LLP*

Fresno, California  
December 10, 2018



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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

### Report on State Compliance

We have audited Pacific Grove 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 Pacific Grove 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 Pacific Grove 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 Pacific Grove 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 Pacific Grove Unified School District's compliance with those requirements.

### *Unmodified Opinion*

In our opinion, Pacific Grove 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.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Pacific Grove Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
<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	No (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)
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)
<b>CHARTER SCHOOLS</b>	
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 for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform procedures for Continuation Education because the ADA from the program was under the level that requires testing.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

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

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

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

We did not perform procedures for the After/Before School Education and Safety Program because the District does not offer the program.

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

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

*Varrinck, Trine, Day & Co. LLP*

Fresno, California  
December 10, 2018



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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency 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?	
Identification of major Federal programs:	<u>No</u>

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Special Education, Basic Local Assistance</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 programs:	<u>Unmodified</u>
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PACIFIC GROVE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018

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None reported.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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None reported.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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None reported.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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

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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 Findings and Questioned Costs*

2017-001      40000

#### *PACIFIC GROVE UNIFIED SCHOOL DISTRICT*

##### *Unduplicated Local Control Funding Formula Pupil Count*

###### **Criteria**

Under the Local Control Funding Formula, school districts receive supplemental funding known as the Supplement Grant and Concentration Grant. The amount of funding received is generated by the number of students who are either English Learners (EL) or participants in the Free/Reduced Meal Program in accordance with *Education Code* Sections 2574(b)(3)(C), 42238.02(b)(3)(b), and 41020.

###### **Condition**

During our audit of the unduplicated local control funding formula pupil count, several students were incorrectly reported as EL on the CalPads report, while being recorded in the District's attendance system, Powerschools, as not being EL.

###### **Effect**

In our initial sample, four students were identified with the discrepancy. Our sample size was expanded to include the entire population of students reported on the CalPads 1.18 as not direct certified, not foster, not homeless, not free/reduce meals participant, not migrant, and identified as EL. As a result of the 100 percent testing performed, we identified 24 students incorrectly reported as EL to CalPads.

The table below summarizes the effect of students who were incorrectly reported.

#### **Pacific Grove Unified School District (excluding County programs)**

Certified total enrollment	2,078
Certified total unduplicated pupil count	434
Unduplicated pupil count adjustment based on eligibility for EL funding	(24)
Adjusted total enrollment	2,078
Adjusted total unduplicated pupil count	410



# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

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

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### **Cause**

It appears that the cause is in the process for updating student transfers within the CalPads system. Students who were classified with an EL designation in Calpads at their previous school district, but have been reclassified with a non-EL designation at their current school district will not be reclassified properly in the CalPads system unless the student's previous school district makes the update in CalPads.

### **Questioned Cost**

Due to the District's Minimum State Aid Guarantee being funded on the 2012-2013 State Categorical Programs, there is no questioned cost associated with this condition.

### **Recommendation**

The District must have procedures in place to communicate with the previous school district of the student to ensure the proper designation in CalPads is accurate when changes to that designation occur.

### **Current Status**

Implemented.



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Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

In planning and performing our audit of the financial statements of Pacific Grove 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 10, 2018, on the government-wide financial statements of the District.

#### ***PACIFIC GROVE HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

##### ***Stale Dated Checks***

###### **Observation**

During our audit of the ASB's bank reconciliations, we discovered that multiple checks which were over one year old had not been written off. Some of these outstanding checks dated back to 2015.

###### **Recommendation**

Because the probability of these checks clearing the account is very low, outstanding checks over one year old should be credited back to the appropriate account and taken off the subsequent bank reconciliation.

##### ***Cash Receipts***

###### **Observation**

During our audit of the cash receipts procedures at the site, we discovered prenumbered sub-receipts or a class roster/log are not always used for collections by teachers, coaches and advisors.

###### **Recommendation**

Prenumbered receipts or a class roster/log should be used for all collections by teachers, coaches and advisors. Documentation of what the funds are for, the amount being collected, whom it's being collected from and the date it was collected (changed custody) is the only way the timeliness and completeness of the deposit to the bookkeeper can be verified. The ASB Bookkeeper should reconcile all funds received to the cash count sheet and prenumbered sub-receipts or class roster/log. If any discrepancies are noted, the Bookkeeper should notify the teacher, coach or advisor immediately.

### *Disbursement Authorizations*

#### **Observation**

During our audit, we found that many expenditures are missing approval signatures and/or dates on purchase approval forms.

#### **Recommendation**

The site should always obtain all proper and required authorization prior to expending ASB funds and have that supporting documentation present with each ASB expenditure.

### *Revenue Potentials*

#### **Observation**

Revenue earned in the Student Body/Athletics fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The revenue potential form is a vital internal control tool that is used to document revenues, expenditures, potential revenue and actual revenue for fundraisers. These forms allow for an analysis of fundraisers to be conducted, indicating to the staff the success or failure of the completed project. We noted that revenue potential forms are on file to document fundraising activities as they occur, but they do not contain the information necessary for reconciliation of fundraiser deposits and disbursements. The form allows the bookkeeper to compare the advisors log of deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted.

#### **Recommendation**

The site should complete revenue potential forms which include receipts, deposits, and disbursement information for every fundraiser the clubs/site participates in and keep these forms on file for future reference.

### *Budgeting*

#### **Observation**

During our audit, we discovered budgets are not being maintained by student body organizations.

#### **Recommendation**

Budgets should be prepared to control and monitor the financial activities of student body organizations. The general student council and each individual club need to develop a budget including their annual goals and plans for achieving those goals at the beginning of the school year. Some aspects that should be included are:

- The preliminary budget should include the beginning balances of the organizations, estimated sources of income, and estimated expenditures.
- Updates will be necessary to the budget as circumstances change; the budgeting procedures are an ongoing process.

- The surplus left over in the accounts at the end of the year must be kept at a minimum. The underlying focus of a student body is that the funds generated by a group of students should be spent during the same year for the benefit of those students.

The budget should be compared regularly to the actual financial activities of the organizations. One reason for this is to ensure that no organization enters into a deficit spending situation during the year.

### *Student Store Deposit*

#### **Observation**

During our audit, we found that we were not able to determine if deposits from the student store were complete or accurate, and it appears that they are not always made timely. It appears that the bookkeeper is able to run a daily sales report from the POS system which generates receipt numbers for all sales. However, when the system prompts her to select which receipts to select for deposit, she selects only certain receipts instead of selecting all. Part of the reason appears to be because there are two separate bank accounts, one for athletics and one for the remaining ASB, and the deposits need to be split. Another reason appears to be that she reimburses students in cash when they pay for something with a check and the check has been written out for more than the price, and she is trying to make sure there is enough cash remaining for the next day's activities, so not all cash is deposited. The result is that the POS system sales/deposit reports do not have sequential receipt numbers making it very difficult to reconcile daily sales to collections and to determine if all receipts have been deposited in a timely manner.

#### **Recommendation**

The ASB bookkeeper needs to gain a better understanding of how to utilize the system in order to reconcile collections to the sales reports. Part of the solution would be to require all payments by check to match the price of the purchase, thus eliminating the need to give change in cash. The ASB should also consider eliminating the athletics bank account. There is no need for more than one bank account if the balance for each club, including athletics, is maintained in the ASB accounting software.

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

*Varinck, Trine, Day + Co. LLP*

Fresno, California  
December 10, 2018