

PACIFICA SCHOOL DISTRICT

COUNTY OF SAN MATEO
PACIFICA, CALIFORNIA

AUDIT REPORT

JUNE 30, 2014



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SAN JOSE, CA 95129

**PACIFICA SCHOOL DISTRICT
SAN MATEO COUNTY**

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**PACIFICA SCHOOL DISTRICT
SAN MATEO COUNTY**

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pacifica School District
Pacifica, 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 Pacifica School District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Pacifica School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Pacifica School District's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pacifica School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 37 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 Pacifica School District's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other information listed in the supplementary section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents 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 combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents 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 September 30, 2014 on our consideration of Pacifica School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pacifica School District's internal control over financial reporting and compliance.

C & A LLP

September 30, 2014
San Jose, California

Management's Discussion and Analysis

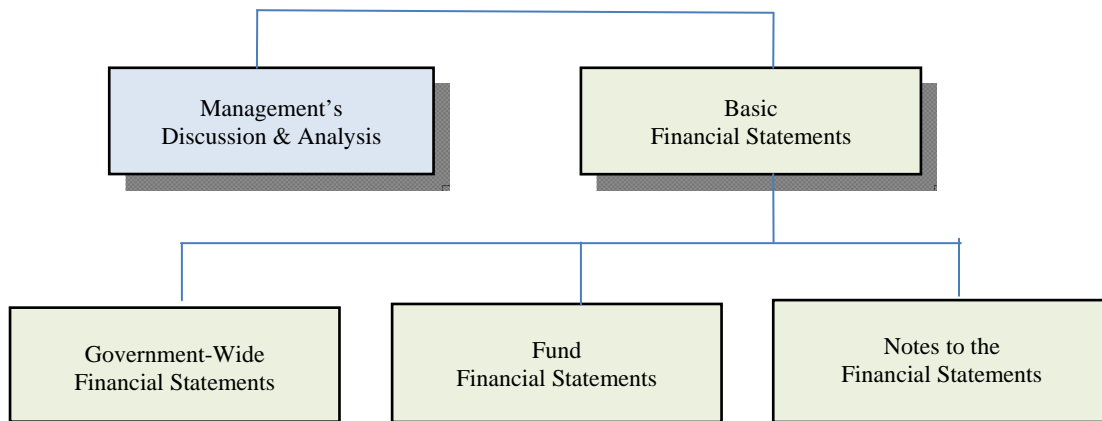
**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2014 were as follows:

- Total net position decreased by \$1,737,579, or 4.4%, from June 30, 2013 to June 30, 2014.
- General revenues accounted for \$26,340,807 which is 87% of all revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$3,930,719, or 13%, of total revenues of \$30,271,526.
- The District had \$32,009,105 in expenses, which was directly supported by program specific revenues of \$3,930,719.
- Total fund balances of governmental funds (i.e. General Fund, Building Fund, and Bond Fund) decreased by \$303,891, or 3%, from June 30, 2013 to June 30, 2014.
- Among major funds, the General Fund had \$25,922,068 in revenues and \$26,370,893 in expenditures. The General Fund's fund balance decreased by \$448,825 from June 30, 2013 to June 30, 2014.

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2013 - 2014?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins on page 14. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund and Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. 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 future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary funds

The district is the trustee, or fiduciary, for an expendable trust fund. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district's fund and government-wide financial statements because the district cannot use these assets to finance its operations.

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Total assets of governmental activities decreased by \$1,312,404. Net capital assets decreased by \$1,782,939 because of current year depreciation. Unrestricted net position of the District, which does not have constraints from grantors, legal requirements, or legislation, decreased by \$1,228,874 and restricted net position increased by \$465,403.

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Table 1 provides a summary of the District's net position as of June 30, 2014 as compared to June 30, 2013:

Table 1 - Summary of Net Position					
	2014	2013	Increase (Decrease)	Percent	
Assets					
Current Assets	\$ 14,361,019	\$ 13,890,484	\$ 470,535	3.4%	
Capital Assets	66,116,013	67,898,952	(1,782,939)	-2.6%	
Total Assets	\$ 80,477,032	\$ 81,789,436	\$ (1,312,404)	-1.6%	
Liabilities					
Current and Other Liabilities	\$ 5,302,939	\$ 4,560,718	\$ 742,221	16.3%	
Long-Term Liabilities	37,626,441	37,943,487	(317,046)	-0.8%	
Total Liabilities	\$ 42,929,380	\$ 42,504,205	\$ 425,175	1.0%	
Net Position					
Net Investment in Capital Assets	\$ 31,525,556	\$ 32,499,664	\$ (974,108)	-3.0%	
Restricted	4,599,250	4,133,847	465,403	11.3%	
Unrestricted	1,422,846	2,651,720	(1,228,874)	-46.3%	
Total Net Position	\$ 37,547,652	\$ 39,285,231	\$ (1,737,579)	-4.4%	

Table 2 shows the changes in net position from fiscal year 2012-13 to 2013-14:

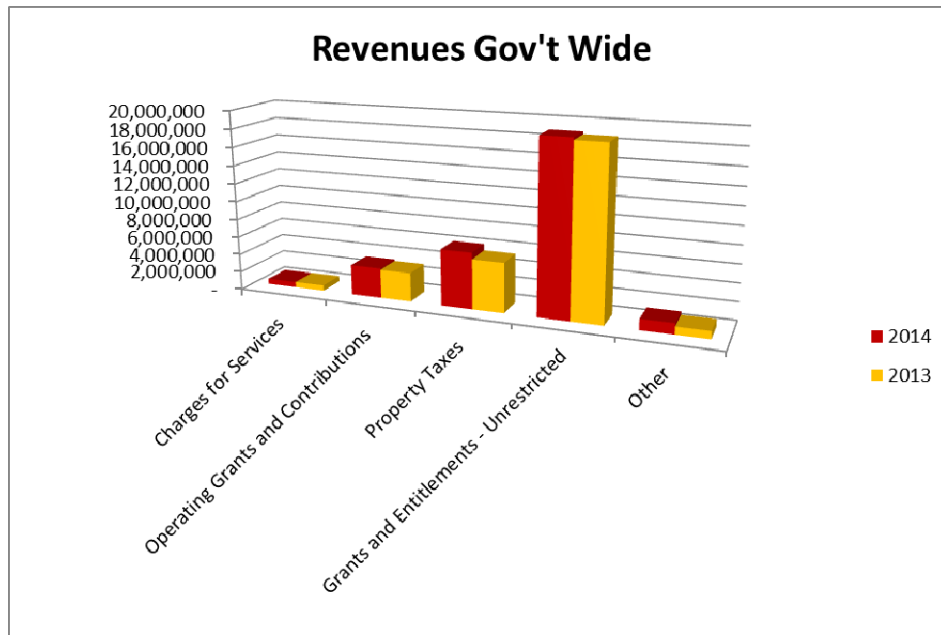
Table 2 - Change in Net Position					
	2014	2013	Increase (Decrease)	Percent	
Revenues					
Program Revenues:					
Charges for Services	\$ 590,376	\$ 603,984	\$ (13,608)	-2.3%	
Operating Grants and Contributions	3,340,343	3,182,810	157,533	4.9%	
General Revenues:					
Property Taxes	6,195,098	5,478,071	717,027	13.1%	
Grants and Entitlements - Unrestricted	18,943,668	18,672,476	271,192	1.5%	
Other	1,202,041	841,890	360,151	42.8%	
Total Revenues	30,271,526	28,779,231	1,492,295	5.2%	
Program Expenses					
Instruction	18,268,247	17,250,005	1,018,242	5.9%	
Instruction-Related Services	3,611,947	3,451,706	160,241	4.6%	
Pupil Services	2,916,113	2,945,089	(28,976)	-1.0%	
General Administration	1,687,028	1,579,338	107,690	6.8%	
Plant Services	3,324,758	2,878,364	446,394	15.5%	
Other Agencies	585,287	664,354	(79,067)	-11.9%	
Interest and Fiscal Charges	1,615,725	2,067,438	(451,713)	-21.8%	
Total Expenses	32,009,105	30,836,294	1,172,811	3.8%	
Change in Net Position	(1,737,579)	(2,057,063)	319,484	-15.5%	
Prior Period Restatement	-	(188,800)	188,800	100.0%	
Change in Net Position Including Restatement	\$ (1,737,579)	\$ (2,245,863)	\$ 508,284	-22.6%	

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

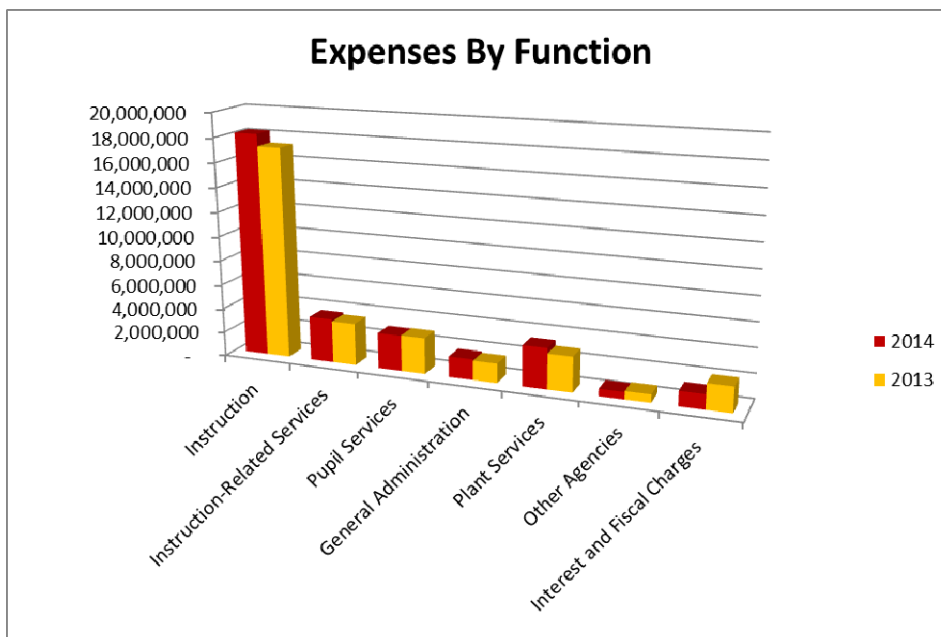
Property taxes comprised 20% of District revenues and direct instruction costs comprised 57% of District expenses for fiscal year 2013-14. These percentages are consistent with 2012-13.

Total revenues increased by 5.2% and total expenses increased by 3.8% for fiscal year 2013-14.

The following is a summary of government wide revenues for the fiscal years ended June 30, 2013 and 2014:



The following is a summary of expenses by function for the fiscal years ended June 30, 2013 and 2014:



**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services					
Function	2014	2013	Increase (Decrease)	Percent	
Instruction	\$ 16,238,799	\$ 15,506,289	\$ 732,510	4.7%	
Instruction-Related Services	3,470,706	3,323,752	146,954	4.4%	
Pupil Services	1,631,137	1,501,082	130,055	8.7%	
General Administration	1,661,275	1,548,897	112,378	7.3%	
Plant Services	3,192,714	2,876,173	316,541	11.0%	
Other Agencies	268,030	225,869	42,161	18.7%	
Interest and Fiscal Charges	1,615,725	2,067,438	(451,713)	-21.8%	
Total Net Cost of Services	\$ 28,078,386	\$ 27,049,500	\$ 1,028,886	3.8%	

Direct Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupil Services and Instruction-related Services include the activities involved with assisting staff with the content and process of teaching to pupils.

General Administration includes the costs for the Board of Trustees, administration, fiscal and business services and other expenses associated with administrative and financial supervision of the District.

Plant Services includes the operation and maintenance of plant activities, which involve keeping the school grounds, buildings, and equipment in an effective working condition.

Interest and Fiscal Charges involve the transactions associated with the payment of interest and other related charges to debt of the District.

The dependence upon tax and local revenues is apparent, 87% of the District's activities are supported through taxes, grants and entitlements, and other general revenues. The community, as a whole, is the primary support for the District.

THE DISTRICT'S FUNDS

The District's governmental funds report a combined fund balance of \$9,192,768, which is a decrease of \$303,891 from last year's total.

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Change in Fund Balances				
Funds	2014	2013	Increase (Decrease)	
General Fund	\$ 4,180,907	\$ 4,629,732	\$ (448,825)	
Cafeteria Fund	144,158	142,782	1,376	
Deferred Maintenance Fund	115,736	257,053	(141,317)	
Tax Override Fund	212,707	208,095	4,612	
Building Fund	895,026	946,439	(51,413)	
Capital Facilities Fund	95,580	37,681	57,899	
Special Reserve Fund for Capital Projects	301,978	220,817	81,161	
Bond Interest & Redemption Fund	3,246,676	3,054,060	192,616	
Total Governmental Fund Balances	\$ 9,192,768	\$ 9,496,659	\$ (303,891)	

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting.

During the course of the 2013-14 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim, which resulted in an increase in budgeted expenditures of \$1,663,434 from the original to final budget.

For the General Fund, the final budget basis revenue and other financing sources estimate was \$26,074,974. The original budgeted estimate was \$24,980,899.

CAPITAL ASSETS

At the end of the fiscal year 2014, the District had \$93,026,164 invested in land, buildings, furniture and equipment, and vehicles located at the District's school sites.

Table 5 shows June 30, 2014 balances as compared to June 30, 2013.

Table 5 - Summary of Capital Assets Net of Depreciation					
Capital Asset	2014			2013	Percentage Change
	Cost	Accumulated Depreciation	Net Capital Asset	Net Capital Asset	
Land	\$ 1,270,198	\$ -	\$ 1,270,198	\$ 1,270,198	0%
Buildings and Improvements	89,965,178	26,088,950	63,876,228	65,686,448	-3%
Property and Equipment	1,790,788	821,201	969,587	761,341	27%
Work-in-Progress	-	-	-	180,965	-100%
Totals	\$ 93,026,164	\$ 26,910,151	\$ 66,116,013	\$ 67,898,952	-3%

Overall capital assets decreased by 3% from fiscal year 2013 to fiscal year 2014 because of \$1,901,212 in current depreciation net \$118,273 in capital asset additions.

**PACIFICA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Long-term Debt				
Type of Debt	2014	2013	Percentage Change	
General obligation bonds	\$ 35,136,581	\$ 35,888,926	-2.10%	
Unamortized bond premiums - net	157,332	173,066	-9.09%	
Net OPEB obligation	2,186,571	1,779,748	22.86%	
Compensated absences	145,957	101,747	43.45%	
Total Debt	\$ 37,626,441	\$ 37,943,487	-0.84%	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's new Local Control Funding Formula (LCFF) was implemented in 2013-2014. The LCFF was developed by the State to simplify school funding and equalize funding across the state. Historically, Pacifica School District has been the lowest funded District in San Mateo County. The changes in State funding will increase funding for the Pacifica School District over the next eight years. The District's budget is developed based on the Local Control and Accountability Plan (LCAP) which is adopted by the Board each year. The LCAP supports the eight state priorities from a local perspective. In particular, the LCAP addresses student achievement and specifically addresses a District plan to serve students of need. The first LCAP was developed by the District and approved by the county for the 2014-2015 school year.

The District's enrollment has remained steady from 2011-2012 to 2012-2013, however projections show declining enrollment for 2014-2015. The District will need to monitor enrollment trends going forward.

Within the LCAP are several goals that focus on student achievement:

- Goal 2: Fully implement the CCSS in ELA, Math; and ELD: Key activities include professional development and observation tools.
- Goal 4: Support all students in reaching their academic potential: Key activities include monitoring student progress.
- Goal 5: Provide quality instruction that expands upon the CCSS through a broad course of study: Key activities include focusing on the Next Generation Science Standards and Social Science.

We eagerly await our first opportunity for our students to participate in the Smarter Balanced Assessment Consortium. It is anticipated that the 2015 SBAC will provide the baseline for student achievement. In the meantime, we will continue to focus on formative assessments to ensure student progress.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact Josephine Peterson, Chief Business Official, Pacifica School District, 375 Reina Del Mar, Pacifica, CA 94044, (650) 738-6600, extension 6613.

Basic Financial Statements

**PACIFICA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities
Assets	
Current Assets:	
Cash and investments	\$ 10,872,811
Accounts receivable	3,488,208
Total Current Assets	<u>14,361,019</u>
Noncurrent Assets:	
Capital assets - net	66,116,013
Total Noncurrent Assets	<u>66,116,013</u>
Total Assets	<u><u>\$ 80,477,032</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 2,540,614
Unearned revenue	307,637
Accrued interest	134,688
Current loans	2,320,000
Total Current Liabilities	<u>5,302,939</u>
Long-term Liabilities:	
Due within one year	2,469,799
Due after one year	35,156,642
Total long-term Liabilities	<u>37,626,441</u>
Total Liabilities	<u><u>\$ 42,929,380</u></u>
Net Position	
Net investment in capital assets	\$ 31,525,556
Restricted for:	
Debt service	3,459,383
Educational programs	1,139,867
Total restricted net position	<u>4,599,250</u>
Unrestricted (deficit)	1,422,846
Total Net Position	<u><u>\$ 37,547,652</u></u>

The notes to the financial statements are an integral part of this statement

**PACIFICA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

		Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
	Expenses	Services	Grants and	Changes in
			Contributions	Net Position
Governmental activities				
Instruction	\$ 18,268,247	\$ -	\$ 2,029,448	\$ (16,238,799)
Instruction-related services:				
Supervision of instruction	1,245,586	-	140,703	(1,104,883)
Instruction library, media and technology	367,916	-	152	(367,764)
School site administration	1,998,445	-	386	(1,998,059)
Pupil services:				
Home-to-school transportation	186,163	-	295	(185,868)
Food services	1,306,032	580,810	598,878	(126,344)
All other pupil services	1,423,918	-	104,993	(1,318,925)
General administration:				
All other general administration	1,687,028	9,566	16,187	(1,661,275)
Plant services	3,324,758	-	132,044	(3,192,714)
Other agencies	585,287	-	317,257	(268,030)
Interest on long-term debt	1,615,725	-	-	(1,615,725)
Total governmental activities	<u>\$ 32,009,105</u>	<u>\$ 590,376</u>	<u>\$ 3,340,343</u>	<u>(28,078,386)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				2,312,487
Taxes levied for debt service				2,563,592
Taxes levied for other specific purposes				1,319,019
Federal and state aid not restricted to specific purposes				18,943,668
Interest and investment earnings				293,539
Miscellaneous				908,502
Total general revenues and special items				<u>26,340,807</u>
Change in net position				(1,737,579)
Net position beginning				39,285,231
Net position ending				<u>\$ 37,547,652</u>

The notes to the financial statements are an integral part of this statement

**PACIFICA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 6,007,166	\$ 890,901	\$ 3,242,345	\$ 732,399	\$ 10,872,811
Accounts receivable	3,348,958	1,336	4,331	133,583	3,488,208
Due from other funds	134,931	2,789	-	122,791	260,511
Total Assets	<u>\$ 9,491,055</u>	<u>\$ 895,026</u>	<u>\$ 3,246,676</u>	<u>\$ 988,773</u>	<u>\$ 14,621,530</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,422,000	\$ -	\$ -	\$ 118,614	\$ 2,540,614
Due to other funds	260,511	-	-	-	260,511
Unearned revenue	307,637	-	-	-	307,637
Current loans	2,320,000	-	-	-	2,320,000
Total Liabilities	<u>5,310,148</u>	<u>-</u>	<u>-</u>	<u>118,614</u>	<u>5,428,762</u>
Fund balances:					
Nonspendable:					
Revolving fund	7,500	-	-	-	7,500
Restricted for:					
Educational programs	995,709	-	-	-	995,709
Debt service	-	-	3,246,676	212,707	3,459,383
Cafeteria programs	-	-	-	144,158	144,158
Capital projects	-	546,124	-	-	546,124
Assigned for:					
Site discretionary	374,673	-	-	-	374,673
Capital projects	-	348,902	-	397,558	746,460
Other postemployment benefits	700,507	-	-	-	700,507
Site repairs	-	-	-	115,736	115,736
Unassigned:					
Economic uncertainties	1,639,788	-	-	-	1,639,788
Unappropriated	462,730	-	-	-	462,730
Total Fund Balances	<u>4,180,907</u>	<u>895,026</u>	<u>3,246,676</u>	<u>870,159</u>	<u>9,192,768</u>
Total Liabilities and Fund Balances	<u>\$ 9,491,055</u>	<u>\$ 895,026</u>	<u>\$ 3,246,676</u>	<u>\$ 988,773</u>	<u>\$ 14,621,530</u>

The notes to the financial statements are an integral part of this statement

**PACIFICA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total fund balances - governmental funds		\$	9,192,768
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$93,026,164 and the accumulated depreciation is \$26,910,151.			66,116,013
To recognize accrued interest at year end which is not reported in the governmental funds			(134,688)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:			
General obligation bonds	\$	35,136,581	
Unamortized premiums from bond refunding		157,332	
Net OPEB obligation		2,186,571	
Compensated absences (vacation)		<u>145,957</u>	<u>(37,626,441)</u>
Net position - governmental activities		\$	<u><u>37,547,652</u></u>

The notes to the financial statements are an integral part of this statement

PACIFICA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	\$ 20,727,639	\$ -	\$ -	\$ -	\$ 20,727,639
Federal	901,100	-	585	554,848	1,456,533
Other state	1,454,840	-	22,796	38,726	1,516,362
Other local	2,838,489	80,984	2,569,510	1,066,275	6,555,258
Total revenues	25,922,068	80,984	2,592,891	1,659,849	30,255,792
Expenditures:					
Instruction	16,651,785	-	-	-	16,651,785
Instruction-related services:					
Supervision of instruction	1,174,013	-	-	-	1,174,013
Instruction library, media and technology	345,086	-	-	-	345,086
School site administration	1,859,646	-	-	-	1,859,646
Pupil services:					
Home-to-school transportation	172,192	-	-	-	172,192
Food services	147	-	-	1,214,338	1,214,485
All other pupil services	1,330,462	-	-	-	1,330,462
General administration:					
All other general administration	1,557,887	-	-	20,000	1,577,887
Plant services	2,658,694	14,124	-	457,474	3,130,292
Facility acquisition and construction	-	118,273	-	-	118,273
Other agencies	585,287	-	-	-	585,287
Debt service:					
Principal	-	-	2,139,535	-	2,139,535
Interest and other costs	-	-	260,740	-	260,740
Total expenditures	26,335,199	132,397	2,400,275	1,691,812	30,559,683
Excess (deficiency) of revenues over (under) expenditures	(413,131)	(51,413)	192,616	(31,963)	(303,891)
Other financing sources (uses):					
Transfers in	-	-	-	35,694	35,694
Transfers out	(35,694)	-	-	-	(35,694)
Total other financing sources (uses)	(35,694)	-	-	35,694	-
Net change in fund balances	(448,825)	(51,413)	192,616	3,731	(303,891)
Fund balances beginning	4,629,732	946,439	3,054,060	866,428	9,496,659
Fund balances ending	\$ 4,180,907	\$ 895,026	\$ 3,246,676	\$ 870,159	\$ 9,192,768

The notes to the financial statements are an integral part of this statement

PACIFICA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Total net change in fund balances - governmental funds	\$ (303,891)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of \$118,273 was less than depreciation expense of \$1,901,212 in the period.	(1,782,939)
The governmental funds report bond proceeds as an other financing source, while repayment of bond principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
Repayment of bond principal	2,139,535
Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements.	(1,387,190)
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. The difference between premiums or discounts recognized in the current period and amortized over future periods is:	15,734
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned was less than the amounts used by:	(44,210)
In the statement of activities, the net other postemployment benefits obligation is measured by deducting the amount contributed to the plan from the annual required contribution as actuarially determined. In governmental funds, this obligation is not recorded because it is not paid with current financial resources and only current contributions are expended. The total amount reported as an expense in the statement of activities was \$1,09,115 net expenditures of \$685,292 reported in the fund statements:	(406,823)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	32,205
Changes in net position of governmental activities	<u>\$ (1,737,579)</u>

The notes to the financial statements are an integral part of this statement

Notes to the Basic Financial Statements

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

The Pacifica School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District’s combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit’s reporting entity for general purpose financial reports is the ability of the governmental unit’s elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit’s power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2014, the District does not have any component units and is not a component unit of any other reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of Net Position and the statement of Activities) report information on all of the non-fiduciary activities of the District. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include the reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 goods or services offered by a program, as well as 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 of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value *without* directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflow of Resources and Deferred Inflow of Resources:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. For example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund and includes transactions accounted for in the Special Reserve Fund for Other Than Capital Outlay and the Retiree Benefits Fund.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The *Bond Interest and Redemption Fund* is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the interest and redemption of principal of the funding of general obligation bonds issued by the District.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund. The District maintains two nonmajor special revenue funds:

- The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service programs.
- The Deferred Maintenance Fund is used for the purpose of major repair or replacement of district property.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains two nonmajor capital projects fund:

- The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).
- The Special Reserve for Capital Outlay Fund exists primarily for the accumulation of General Fund monies for capital outlay purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The District maintains one nonmajor debt service funds:

- The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. These taxes will continue to be levied until the debt is fully paid.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as Required Supplementary Information.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

H. Assets, Liabilities, and Equity

1. Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

2. Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District's central warehouse inventory is valued at a moving average cost and consists of expendable supplies held for consumption. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period.

3. Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of \$5,000.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	20
Buildings and improvements	25-50
Equipment	5-15
Vehicles	8

4. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded as a deferred inflow to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

All vacation pay plus related payroll tax is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires. At retirement, each classified 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.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

7. Fund Balance Classifications

The District maintains a minimum unassigned fund balance of not less than 3 percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The District believes a reserve of this level is prudent to maintain a high bond rating and to protect the District from the effects of fluctuations in property tax revenues to which basic aide districts are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Non-spendable* fund balance includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* fund balance includes amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* fund balances includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- *Assigned* fund balance includes amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and the Chief Business Official.
- *Unassigned* fund balance includes positive amounts within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

In order to comply with the requirements of GASB 54, the District has combined transactions in the Special Reserve fund for Other than Capital Outlay (Special Reserve Fund) and the Retiree Benefits Fund with the General Fund because those funds do not meet the definition of a special revenue fund as defined by GASB 54.

8. Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition,

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Educational Program restrictions reflect the amounts to be expended for federal and state funded educational programs.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

9. Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

The 2013–14 Budget Act provides \$2.1 billion for school districts and charter schools and \$32 million for COEs to support the first-year implementation of the LCFF. Until full implementation, however, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and the new LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The LCFF includes the following components for school districts and charter schools:

- Provides a base grant for each LEA equivalent to \$7,643 per average daily attendance (ADA). The actual base grants would vary based on grade span.
- Provides an adjustment of 10.4 percent on the base grant amount for kindergarten through grade three (K–3). As a condition of receiving these funds, the LEA shall progress toward an average class enrollment of no more than 24 pupils in kindergarten through grade three, unless the LEA has collectively bargained an annual alternative average class enrollment in those grades for each school site.
- Provides an adjustment of 2.6 percent on the base grant amount for grades nine through twelve.
- Provides a supplemental grant equal to 20 percent of the adjusted base grant for targeted disadvantaged students. Targeted students are those classified as English learners (EL), eligible to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these factors (unduplicated count).

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

- Provides a concentration grant equal to 50 percent of the adjusted base grant for targeted students exceeding 55 percent of an LEA's enrollment.
- Provides for additional funding based on an "economic recovery target" to ensure that virtually all districts are at least restored to their 2007-08 state funding levels (adjusted for inflation) and also guarantees a minimum amount of state aid to LEAs.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

10. Risk Management

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. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels. Excess property and liability coverage is obtained through SELF.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

11. Accounting Estimates

The presentation of 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 reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

12. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

I. Upcoming Accounting and Reporting Changes

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the Entity's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Summary of Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date – and Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 2 - CASH AND INVESTMENTS

Summary of Deposits

A summary of deposits as of June 30, 2014, is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
<i>Government-Wide Statements:</i>			
Cash in county treasury investment pool	\$ 10,045,352	\$ 10,044,849	AA
Cash in revolving fund	7,500	7,500	n/a
Cash in cafeteria fund	3,660	3,660	n/a
Cash with fiscal agent	816,299	819,838	AA
Total Cash and Investments	\$ 10,872,811	\$ 10,875,847	

Cash in banks and revolving funds

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2014, the bank balance of the District's accounts with banks was \$8,442, which was fully insured by FDIC.

Cash 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.

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.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District keeps cash in the San Mateo County Investment Pool which had a fair value of approximately \$981 million and an amortized book value of \$981 million.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is governed by the County's general investment policy. The investment with the San Mateo County Investment Pool is rated at least Aa1 by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2014:

Receivables	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Funds	Total
Federal Government	\$ 146,682	\$ -	\$ -	\$ 130,616	\$ 277,298
State Government	96,856	-	-	-	96,856
Other Local	120,066	-	4,331	-	124,397
Unrestricted	2,985,354	1,336	-	2,967	2,989,657
Total Accounts Receivable	\$ 3,348,958	\$ 1,336	\$ 4,331	\$ 133,583	\$ 3,488,208

NOTE 4 - INTERFUND TRANSACTIONS

Interfund transactions are reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2014, interfund payables and receivables consisted of the following:

	Due From (Receivable-in)			
	General	Building	Nonmajor	Total
Due To (Payable-in)	Fund	Fund	Funds	Due To
General Fund	\$ 134,931	\$ 2,789	\$ 122,791	\$ 260,511

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. The District transferred \$35,694 from the General Fund to the Cafeteria Fund during the year.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, is shown below:

	Balance July 01, 2013	Additions	Transfers	Balance June 30, 2014
Capital Assets				
Land - not depreciable	\$ 1,270,198	\$ -	\$ -	\$ 1,270,198
Work-in-progress	180,965	-	(180,965)	-
Buildings	87,853,473	-	-	87,853,473
Land improvements	2,111,705	-	-	2,111,705
Equipment	1,491,550	299,238	-	1,790,788
Total capital assets	92,907,891	299,238	(180,965)	93,026,164
Less accumulated depreciation for:				
Buildings	22,813,372	1,704,635	-	24,518,007
Land improvements	1,465,358	105,585	-	1,570,943
Equipment	730,209	90,992	-	821,201
Total accumulated depreciation	25,008,939	1,901,212	-	26,910,151
Total capital assets - net depreciation	\$ 67,898,952	\$ (1,601,974)	\$ (180,965)	\$ 66,116,013

Depreciation expense was charged to governmental activities as follows:	
Instruction	\$ 1,165,429
Supervision of instruction	71,573
Instruction library, media and technology	22,830
School site administration	138,799
Home-to-school transportation	13,971
Food services	91,547
All other pupil services	93,456
All other general administration	109,141
Plant services	194,466
Total depreciation expense	\$ 1,901,212

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 6 - TAX AND REVENUE ANTICIPATION NOTES

On February 27, 2013, the District issued \$1,920,000 in TRAN's maturing on October 1, 2013, with an interest rate of 2.00%.

On March 14, 2014, the District issued \$2,320,000 in TRAN's maturing on October 1, 2014, with an interest rate of 2.00%.

The TRAN's are a general obligation of the District, and are payable from revenues and cash receipts to be generated by the District. There are no contractual obligations related to the issuance other than the TRAN agreement. The funds were used to supplement cash flow.

NOTE 7 - SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES

The following is a summary of the changes in long-term debt for the year ended June 30, 2014:

Long Term Debt	Balance July 01, 2013	Additions/ Accretion	Reductions	Balance June 30, 2014	Due Within One Year
General obligation bonds	\$ 36,061,992	\$ 1,472,655	\$ 2,240,734	\$ 35,293,913	\$ 2,323,842
Net OPEB obligation	1,779,748	1,092,115	685,292	2,186,571	-
Compensated absences	101,747	279,225	235,015	145,957	145,957
Total Long-Term Debt	\$ 37,943,487	\$ 2,843,995	\$ 3,161,041	\$ 37,626,441	\$ 2,469,799

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund from local revenues. The accrued vacation and other postemployment benefits will be paid by the fund for which the employee worked.

NOTE 8 - GENERAL OBLIGATION BONDS

Through elections, the District received authorization to issue general obligation bonds (GOB) that requires the county to levy annual ad valorem taxes for the payment of interest and principal on the bonds. Bond proceeds are used to build additional classrooms and to perform repairs and renovations.

In August 1998, the District issued \$20,713,854 in Series 1998B General Obligation Bonds. The proceeds were used for construction and modernization projects. The bonds included \$8,383,854 in Capital Appreciation Bonds and \$12,330,000 in Current Interest Bonds. The Capital Appreciation Bonds bear interest rates of 5.15% to 5.00%, with maturity dates between August 1, 2015 to August 1, 2023. The Current Interest Bonds bear interest rates of 4.45% to 5.375%, with maturity dates between August 1, 2009 to August 1, 2015.

In June 2000, Capital Appreciation Bonds in the amount of \$6,492,858 were issued by the Pacifica School District for construction and modernization projects. The bonds bear interest rates of 5.00% to 6.12% with maturity dates of August 1, 2007 to August 1, 2030.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

The following schedule summarizes District's outstanding General Obligation Bonds as of June 30, 2014:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2013	Additions/ Accretion	Redeemed	Bonds Outstanding June 30, 2014
Principal Bonds:								
1998B	Current Int	8/1/98	8/1/14	4.45-5.375%	\$ 12,330,000	\$ 4,320,000	\$ -	\$ 2,250,000
1998B	CAB	8/1/98	8/1/23	5.15-5.3%	8,383,854	8,383,854	-	8,383,854
2000C	CAB	6/15/00	9/1/30	5-6.12%	6,492,858	6,154,862	-	6,085,327
Subtotal General Obligation Bonds				27,206,712	18,858,716	-	2,139,535	16,719,181
Accreted Interest:								
1998B					9,756,368	576,469	-	10,332,837
2000C					7,273,842	896,186	85,465	8,084,563
Subtotal Accreted Interest					17,030,210	1,472,655	85,465	18,417,400
Unamortized Bond Premium				393,334	173,066	-	15,734	157,332
Total General Obligation Bonds				\$ 27,600,046	\$ 36,061,992	\$ 1,472,655	\$ 2,240,734	\$35,293,913

The following is a summary of the District's annual debt service requirements as of June 30, 2014:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 2,323,842	\$ 161,626	\$ 2,485,468
2016	1,106,050	1,528,950	2,635,000
2017	1,079,165	1,650,835	2,730,000
2018	1,052,616	1,777,384	2,830,000
2019	1,033,729	1,896,271	2,930,000
2020-2024	4,868,175	11,456,827	16,325,002
2025-2029	3,919,165	15,445,835	19,365,000
2030-2034	1,336,439	6,843,561	8,180,000
Total	\$ 16,719,181	\$ 40,761,289	\$ 57,480,470

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS

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

PERS

Plan Description. The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy. Active plan members are required to contribute 7% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

determining the rate are those adopted by the CalPERS Board of Administration. The District's required employer contribution rate for fiscal year 2014 was 11.442%. The contribution requirements of the plan members are established by state statute. For the fiscal year ending June 30, 2014, 2013 and 2012 the District contributed \$400,032, \$316,666, and \$360,544 to CalPERS. These were the District's required contribution.

STRS

Plan Description. The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7919 Folsom Boulevard, Sacramento, California 95826.

Funding Policy. Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$907,817, \$852,434, and \$828,866, respectively, and equaled 100% of the required contributions for each year.

Postemployment Healthcare Plan

Plan Description.

The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

PERS Minimum Benefit	
Eligibility Age	50 (52 if hired after 2012)
Service Required	5 years in PERS
Benefit Amount	\$115 in 2013, \$119 in 2014, and indexed to the medical component of the Consumer Price Index thereafter.
Benefits End	Paid for life
Normal Retirement Benefit	
Eligibility Age	55
Service Required	10 Years in District
Benefit Amount	Payment of one-party medical premium plus dental premium. For Management, also include vision and life insurance premiums.
Benefits End	Paid until age 70 for CSEA; paid for 10 years for CTA and Management
Post-Retirement Death Benefit	PERS minimum
Disability Benefit	Same as retirement benefits shown above if meet age and service requirements. Otherwise only PERS minimum paid.

Note: Surviving spouse must be receiving monthly allowance from PERS or STRS to be eligible for death benefits. Employees hired after 2012 cannot retire before age 52 under PEPRA.

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

Funding Policy.

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go method).

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 1,088,500
Interest on net OPEB obligation	88,987
Adjustment to annual required contribution	(85,372)
Annual OPEB cost (expense)	1,092,115
Contributions made	(685,292)
Increase in net OPEB obligation	406,823
Net OPEB obligation - beginning of year	1,779,748
Net OPEB obligation - end of year	\$ 2,186,571

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 1,044,438	65.76%	\$ 1,328,923
6/30/2013	1,081,000	63.39%	1,779,748
6/30/2014	1,092,115	62.75%	2,186,571

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Funded Status and Funding Progress

The most recent actuarial valuation date was July 1, 2013. The following summarizes the funded status of the plan as of June 30, 2014:

Actuarial accrued liability (AAL)	\$ 10,653,200
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 10,653,200
Funded ratio (actuarial value of plan assets/AAL)	0%
Projected covered payroll (active Plan members)	\$ 14,459,600
UAAL as a percentage of covered payroll	73.68%

Actuarial Methods and Assumptions

The actuarial present value of the benefits which are allocated to the current year is called the Normal Cost. The actuarial present value of the benefits which are allocated to past years, including the full value of benefits for all former employees, is called the Actuarial Accrued Liability, and is amortized over a period of future years. The ARC is the sum of that amortization and the Normal Cost. Under the entry age normal funding method, normal costs are computed as a level percentage of salary. Amortization of unfunded liability is being made as a level percentage of payroll over the 30-year period beginning July 1 2009. The remaining amortization period at June 30, 2014, was twenty-five years.

In the July 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a discount rate of 5 percent per year, an inflation rate of 3 percent and an annual healthcare cost trend rate of 4 to 7 percent. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflect the expected investment return on the District's investments.

Required Supplementary Information (OPEB Schedule of Funding Progress)

Schedule of Funding Progress - Postemployment Healthcare Plan:						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
1/1/2009	\$ -	\$10,164,000	\$10,164,000	0.00%	\$ 13,500,000	75.29%
7/1/2011	-	10,281,300	10,281,300	0.00%	14,054,400	73.15%
7/1/2013	-	10,653,200	10,653,200	0.00%	14,459,600	73.68%

**PACIFICA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 10 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in one joint venture under a joint powers agreement (JPA), with the San Mateo County Schools Insurance Group, for Property & Liability, Workers' Compensation and Medical/ Dental. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and/ or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

The following is a summary of the most recent financial information for the JPA:

	SMCSIG June 30, 2014
Total Assets	\$ 17,343,941
Total Liabilities	8,411,639
Total Net Assets	8,932,302
Total Revenues	35,889,261
Total Expenditures	35,880,935

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

Litigation

Various claims and litigation involving the District are currently outstanding. However, management of the District believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

REQUIRED
SUPPLEMENTARY
INFORMATION

PACIFICA SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF sources	\$ 18,040,930	\$ 20,763,513	\$ 20,727,639	\$ (35,874)
Federal	827,173	914,485	901,100	(13,385)
Other state	3,239,213	1,446,015	1,454,840	8,825
Other local	2,873,583	2,950,961	2,838,489	(112,472)
Total revenues	24,980,899	26,074,974	25,922,068	(152,906)
Expenditures:				
Certificated salaries	10,613,801	11,222,539	11,141,859	80,680
Classified salaries	3,517,818	3,665,494	3,626,326	39,168
Employee benefits	7,236,248	6,949,958	6,832,606	117,352
Books and supplies	1,023,795	1,866,805	1,387,006	479,799
Services and other operating expenditures	2,489,152	2,988,812	2,782,115	206,697
Capital outlay	-	9,448	-	9,448
Other outgo	732,912	574,104	565,287	8,817
Total expenditures	25,613,726	27,277,160	26,335,199	941,961
Excess (deficiency) of revenues over (under) expenditures	(632,827)	(1,202,186)	(413,131)	789,055
Other financing sources (uses):				
Transfers out	-	(15,694)	(35,694)	(20,000)
Total other financing sources (uses)	-	(15,694)	(35,694)	(20,000)
Net change in fund balances	(632,827)	(1,217,880)	(448,825)	769,055
Fund balance beginning	4,629,732	4,629,732	4,629,732	-
Fund balance ending	\$ 3,996,905	\$ 3,411,852	\$ 4,180,907	\$ 769,055

SUPPLEMENTARY
INFORMATION

***Nonmajor Governmental Funds
Combining Schedules***

**PACIFICA SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	Special Revenue Funds		Capital Projects Funds		Debt Service Funds	
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Projects Fund	Tax Override Fund	Total Nonmajor Funds
Assets						
Cash and investments	\$ 52,434	\$ 68,251	\$ 95,443	\$ 303,882	\$ 212,389	\$ 732,399
Accounts receivable	130,715	157	137	2,256	318	133,583
Due from other funds	53,702	49,337	-	19,752	-	122,791
Total Assets	<u>\$ 236,851</u>	<u>\$ 117,745</u>	<u>\$ 95,580</u>	<u>\$ 325,890</u>	<u>\$ 212,707</u>	<u>\$ 988,773</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 92,693	\$ 2,009	\$ -	\$ 23,912	\$ -	\$ 118,614
Total Liabilities	<u>92,693</u>	<u>2,009</u>	<u>-</u>	<u>23,912</u>	<u>-</u>	<u>118,614</u>
Fund balances:						
Restricted for cafeteria programs	144,158	-	-	-	-	144,158
Restricted for debt service	-	-	-	-	212,707	212,707
Assigned for capital projects	-	-	95,580	301,978	-	397,558
Assigned for site repairs	-	115,736	-	-	-	115,736
Total Fund Balances	<u>144,158</u>	<u>115,736</u>	<u>95,580</u>	<u>301,978</u>	<u>212,707</u>	<u>870,159</u>
Total Liabilities and Fund Balances	<u>\$ 236,851</u>	<u>\$ 117,745</u>	<u>\$ 95,580</u>	<u>\$ 325,890</u>	<u>\$ 212,707</u>	<u>\$ 988,773</u>

**PACIFICA SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds		Capital Projects Funds		Debt Service Funds	
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Projects Fund	Tax Override Fund	Total Nonmajor Funds
Revenues:						
Federal	\$ 554,848	\$ -	\$ -	\$ -	\$ -	\$ 554,848
Other state	38,726	-	-	-	-	38,726
Other local	606,446	15,156	57,899	382,162	4,612	1,066,275
Total revenues	1,200,020	15,156	57,899	382,162	4,612	1,659,849
Expenditures:						
Pupil services:						
Food services	1,214,338	-	-	-	-	1,214,338
General administration:						
All other general administration	20,000	-	-	-	-	20,000
Plant services	-	156,473	-	301,001	-	457,474
Total expenditures	1,234,338	156,473	-	301,001	-	1,691,812
Excess (deficiency) of revenues over (under) expenditures	(34,318)	(141,317)	57,899	81,161	4,612	(31,963)
Other financing sources (uses):						
Transfers in	35,694	-	-	-	-	35,694
Total other financing sources (uses)	35,694	-	-	-	-	35,694
Net change in fund balances	1,376	(141,317)	57,899	81,161	4,612	3,731
Fund balances beginning	142,782	257,053	37,681	220,817	208,095	866,428
Fund balances ending	\$ 144,158	\$ 115,736	\$ 95,580	\$ 301,978	\$ 212,707	\$ 870,159

STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

**PACIFICA SCHOOL DISTRICT
ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2014**

The Pacifica School District serves approximately 3,100 students. The District is located in San Mateo County in Pacifica, California, and operates two K-5 elementary schools, four K-8 schools, and one 6-8 middle school.

Governing Board

Name	Office	Term Expires
Joan Weideman	President	2014
Andrea Gould	Vice-President	2016
Matt Levie	Clerk	2016
Eric Ruchames	Vice Clerk	2014
Richard Faust	Trustee	2014

Administration

Wendy S. Tukloff
Superintendent

Ray Avila
Associate Superintendent

Josephine Peterson
Chief Business Official

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	Second Period Report	Annual Report
Elementary:		
Grades TK/K through three	1,397	1,395
Grades four through six	1,032	1,027
Grades seven and eight	689	685
ADA Totals	<u>3,118</u>	<u>3,107</u>

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirements	Reduced 1986-87 Minutes Requirements	2013-14 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	42,390	180	0	In compliance
Grade 1	49,720	48,339	50,400	49,000	51,105	180	0	In compliance
Grade 2	49,720	48,339	50,400	49,000	51,105	180	0	In compliance
Grade 3	49,720	48,339	50,400	49,000	51,105	180	0	In compliance
Grade 4	48,260	46,919	54,000	52,500	54,360	180	0	In compliance
Grade 5	48,260	46,919	54,000	52,500	54,360	180	0	In compliance
Grade 6	48,260	46,919	54,000	52,500	54,790	180	0	In compliance
Grade 7	48,260	46,919	54,000	52,500	54,790	180	0	In compliance
Grade 8	48,260	46,919	54,000	52,500	54,790	180	0	In compliance

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 46201 through 46208. School districts that have met their LCFF targets or have not met their LCFF targets, but received longer day and year incentive funding, cannot provide less than the 1986-87 minutes requirements; reduced by 5 days for fiscal years 2013-14 and 2014-15. There is no longer a requirement to offer minutes offered in 1982-83 for districts that exceeded the minutes listed in the statute and met their LCFF target, or districts that received incentive funding for longer instructional day and year, or for a district that did not meet its LCFF target and participated in the longer day incentive but not the longer year incentive.

The District met its LCFF target and has received incentive funding for increasing instructional time as provided by the incentives for longer instructional day and year. Therefore, the District was required to meet the 1986-87 minutes requirements reduced by 5 days for the 2013-14 fiscal year.

PACIFICA SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	(Budget ¹)			
	2015	2014	2013	2012
<u>General Fund</u>				
Revenues and other financial sources	\$ 26,755,611	\$ 25,922,068	\$ 24,729,135	\$ 24,701,097
Expenditures	27,392,134	26,335,199	25,084,000	24,761,921
Other uses and transfers out	15,694	35,694	-	20,000
Total outgo	27,407,828	26,370,893	25,084,000	24,781,921
Change in fund balance	\$ (652,217)	\$ (448,825)	\$ (354,865)	\$ (80,824)
Beginning fund balance restatement: Retiree Benefit Fund combined with the General Fund per GASB 54	\$ -	\$ -	\$ 632,733	\$ -
Ending fund balance	\$ 3,528,690	\$ 4,180,907	\$ 4,629,732	\$ 4,351,864
Available reserves ⁽²⁾	\$ 3,669,006	\$ 2,102,518	\$ 2,690,823	\$ 2,952,792
Unassigned - Reserved for economic uncertainties	\$ 821,764	\$ 1,639,788	\$ 1,449,277	\$ 1,471,454
Unassigned fund balance	\$ 2,847,242	\$ 462,730	\$ 1,241,546	\$ 1,481,338
Available reserves as a percentage of total outgo	13.39%	7.97%	10.73%	11.92%
Total long-term debt	\$ 35,156,642	\$ 37,626,441	\$ 37,943,487	\$ 37,604,879
Average daily attendance at P-2	3,111	3,118	3,106	3,098

Average daily attendance has increased by 20 over the past three years. The district anticipates a slight decrease of 7 ADA.

The fund balance in the General Fund has increased by \$170,957 over the past three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, other uses (total outgo).

The district incurred an operating deficit in each of the past three years. Total long-term debt has increased by \$21,562 over the past three years.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2014/15.

² Available reserves consists of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

PROGRAM NAME	FEDERAL CATALOG NUMBER	PASS THROUGH NUMBER	PROGRAM EXPENDITURE
U. S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
<i>Title I Cluster</i>			
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 159,022
NCLB: Title I, Part A, Program Improvement LEA Corrective Action Resources	84.010	14955	45,541
<i>Total Title I Cluster</i>			204,563
<i>Special Education Cluster</i>			
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	⁽¹⁾ 84.027	13379	514,702
Special Ed: IDEA Preschool Grants, Part B, Sec 619	⁽¹⁾ 84.173	13430	12,883
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	⁽¹⁾ 84.173	13431	141
Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	⁽¹⁾ 84.027	13682	46,656
<i>Total Special Education Cluster</i>			574,382
NCLB: Title II, Part A, Teacher Quality	84.367	14341	86,671
NCLB (ESEA): Title III, Limited English Proficient (LEP) Student Program	84.365	14346	31,790
TOTAL U. S. DEPARTMENT OF EDUCATION			897,406
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
National School Lunch Program	10.555	13391	554,849
TOTAL FEDERAL PROGRAMS			<u>\$ 1,452,255</u>

⁽¹⁾ Audited as major program

**PACIFICA SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2014 Annual Financial and Budget Report Fund Balances	\$ 2,775,931	\$ 895,026	\$ 3,246,676	\$ 2,275,135
Adjustments and Reclassifications:				
Special Reserve Fund for Other Than Capital Outlay Projects:				
Cash with County Treasury	703,414	-	-	(703,414)
Accounts Receivable	1,055	-	-	(1,055)
Retiree Benefit:				
Cash with County Treasury	842,247	-	-	(842,247)
Accounts Receivable	1,863	-	-	(1,863)
Due from Other Funds	20,384	-	-	(20,384)
Accounts Payable	(43,733)	-	-	43,733
Due to Other Funds	(120,254)	-	-	120,254
June 30, 2014 Audited Financial Statements Fund Balances	\$ 4,180,907	\$ 895,026	\$ 3,246,676	\$ 870,159

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF EXCESS SICK LEAVE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Section 19833.5 (a)(3)(c) Disclosure

Pacifica School District does not provide more than 12 sick leave days in a school year to any group of employees who are CalSTRS members.

**PACIFICA SCHOOL DISTRICT
NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTION
FOR THE YEAR ENDED JUNE 30, 2014**

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance 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.

B. Schedule of Instructional Time

The District has not received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. 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 46201 through 46206.

C. 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.

D. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 and state requirements.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the annual financial and budget report to the audited financial statements.

F. Schedule of Excess Sick Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEMS

There were no material unreconciled differences between the District's records and the schedule of federal grant activity as shown on the Schedule of Expenditures of Federal and State Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pacifica School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Pacifica School District
Pacifica, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacifica School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pacifica School District's basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pacifica 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 Pacifica School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pacifica 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 entity'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Pacifica School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,



providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

September 30, 2014
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Pacifica School District
Pacifica, California

Report on Compliance for Each Major Federal Program

We have audited Pacifica School District's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pacifica School District's major federal programs for the year ended June 30, 2014. Pacifica 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pacifica 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Pacifica 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 the Pacifica School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Pacifica 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, 2014.

Report on Internal Control over Compliance

Management of Pacifica 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 Pacifica 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 Circular A-133, 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 Pacifica School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacifica School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Pacifica School District's basic financial statements. We issued our report thereon dated September 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

September 30, 2014
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Education
Pacifica School District
Pacifica, California

Compliance

We have audited the Pacifica School District's (the District) compliance with the types of State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. The applicable State compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with the State laws and regulations based on our audit. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, 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 compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	6
Teacher Certification and Misassignments	3	3
Kindergarten Continuance	3	3
Independent Study	23	None
Continuation Education	10	None
Instructional Time for School Districts	10	10
Instructional Materials - General Requirements	8	8
Ratios of Administrative Employees to Teachers	1	1
Classroom Teacher Salaries	1	1
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	1
School Accountability Report Card	3	3



<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Courts	8	Not applicable
Local Control Funding Formula Certification	1	1
California Clean Energy Job Acts	3	3
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Education Protection Account Funds	1	1
Common Core Implementation Funds	3	3
Unduplicated Local Control Funding Formula Pupil Counts	3	3
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom - Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

We did not perform the audit procedures for Continuation Education and Full-time Independent Study programs because the ADA was under the level that requires testing.

Opinion

In our opinion, Pacifica School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2014.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

C & A LLP

September 30, 2014
San Jose, California

FINDINGS AND RECOMMENDATIONS

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Non-compliance material to financial statements noted? Yes x No

Federal Awards

Internal control over major programs:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Type of auditor's report issued on compliance over major programs Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Circular A-133 Section .510(a) Yes x No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027	Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611
84.027	Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611
84.173	Special Ed: IDEA Preschool Grants, Part B, Sec 619
84.173	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619

Dollar threshold used to distinguish between
type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee? x Yes No

State Awards

Internal control over state programs:

Material weaknesses? Yes x No

Significant deficiencies identified not
considered to be material weaknesses? Yes x No

Type of auditor's report issued on compliance over state programs: Unmodified

**PACIFICA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section II – Financial Statement Findings

No findings noted.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Section IV – State Award Findings and Questioned Costs

No findings noted.

**PACIFICA SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

Section II – Financial Statement Findings

No findings noted.

Section III – Federal Award Findings and Questioned Costs

No findings noted.

Section IV – State Award Findings and Questioned Costs

No findings noted.