



**PALOS VERDES PENINSULA  
UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2016**

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Palos Verdes Peninsula Unified School District  
Palos Verdes Estates, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Palos Verdes Peninsula Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, each major fund, and the aggregate remaining fund information of the Palos Verdes Peninsula Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 16 to the financial statements, the District restated its beginning balance for net pension liability to more accurately reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for its enterprise fund. Our opinion is not modified with respect to this matter.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 69, schedule of other postemployment benefits funding progress on page 70, schedule of the District's proportionate share of net the pension liability on page 71 and the schedule of District contributions on page 72, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Palos Verdes Peninsula Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Palos Verdes Peninsula Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Palos Verdes Peninsula Unified School District's internal control over financial reporting and compliance.

VAUGHN, TRINE, RY & CO. CP

Rancho Cucamonga, California  
December 6, 2016



# Palos Verdes Peninsula Unified School District

MALAGA COVE  
ADMINISTRATION  
CENTER

375 Via Almar  
Palos Verdes Estates  
California 90274-1277  
(310) 378-9966  
[www.pvpusd.net](http://www.pvpusd.net)

Donald B. Austin, Ed.D.  
Superintendent of Schools

## Board of Education

Malcolm S. Sharp  
President

Anthony Collatos  
Vice President

Linda Reid  
Clerk

Barbara Lucky  
Member

Suzanne Seymour  
Member

This section of Palos Verdes Peninsula Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016, with comparative information for the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### The Financial Statements

The financial statements presented herein include all of the activities of the Palos Verdes Peninsula Unified School District using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

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

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

The Primary unit of the government is the Palos Verdes Peninsula Unified School District.

## Department Extensions and FAX Numbers

Superintendent, x 404  
(310) 378-0732 (FAX)

Business Services, x 418  
(310) 375-4140 (FAX)

Educational Services, x 163  
(310) 791-2919 (FAX)

Human Resources, x 417  
(310) 791-2948 (FAX)

Pupil Services, x 551  
(310) 378-1971 (FAX)

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

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

**Governmental activities** - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

**Business-type activities** - The District charges fees to help it cover the costs of certain services it provides. The District's child care program is included here.

### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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**Governmental funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

**Proprietary funds** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide financial statements but provide more detail and additional information, such as cash flows, for proprietary funds.

### THE DISTRICT AS TRUSTEE

#### Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, and volunteer payroll withholdings of District employees. The District's fiduciary activities are reported in the *Statement of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

1. The District negotiated a salary increase of five percent as well as a seven percent increase to the District's annual contribution for medical benefits for certificated, classified, management and confidential employees.
2. The District maintained manageable class sizes within contractual obligations.
3. The Peninsula Education Foundation pledged a total of \$3,385,000 to the District.
4. Awarded a contract for the development of a District Facilities Master Plan.
5. Filed Notice of Completion for the roofing projects at Cornerstone at Pedregal, Lunada Bay, Mira Catalina, Point Vicente, Silver Spur, Soleade, Vista Grande Elementary Schools, Miralest, Palos Verdes Intermediate School, and Palos Verdes Peninsula High School.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

### THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$331,339 for the fiscal year ended June 30, 2016. Of this amount, \$(99,956,213) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities		Business-Type Activities		School District Activities	
	2016	2015, as Restated	2016	2015, as Restated	2016	2015, as Restated
Current and other assets	\$ 39,520,983	\$ 32,137,679	\$ 3,377,446	\$ 3,817,802	\$ 42,898,429	\$ 35,955,481
Capital assets	162,914,327	166,164,221	165,294	131,130	163,079,621	166,295,351
Total Assets	<b>202,435,310</b>	<b>198,301,900</b>	<b>3,542,740</b>	<b>3,948,932</b>	<b>205,978,050</b>	<b>202,250,832</b>
Deferred Outflows of Resources	<b>25,880,479</b>	<b>8,355,120</b>	<b>1,094,622</b>	<b>290,491</b>	<b>26,975,101</b>	<b>8,645,611</b>
Current liabilities	11,585,735	10,693,102	866,590	792,485	12,452,325	11,485,587
Long-term obligations	100,023,909	100,066,503	-	-	100,023,909	100,066,503
Aggregate net pension liability	96,289,821	76,729,915	3,324,676	2,522,912	99,614,497	79,252,827
Total Liabilities	<b>207,899,465</b>	<b>187,489,520</b>	<b>4,191,266</b>	<b>3,315,397</b>	<b>212,090,731</b>	<b>190,804,917</b>
Deferred Inflows of Resources	<b>19,604,542</b>	<b>21,509,425</b>	<b>926,539</b>	<b>966,569</b>	<b>20,531,081</b>	<b>22,475,994</b>
Net Position						
Net investment in capital assets	90,646,677	91,334,495	165,294	131,130	90,811,971	91,465,625
Restricted	9,475,581	6,148,889	-	-	9,475,581	6,148,889
Unrestricted	(99,310,476)	(99,825,309)	(645,737)	(173,673)	(99,956,213)	(99,998,982)
Total Net Position	<b>\$ 811,782</b>	<b>\$ (2,341,925)</b>	<b>\$ (480,443)</b>	<b>\$ (42,543)</b>	<b>\$ 331,339</b>	<b>\$ (2,384,468)</b>

The \$(99,956,213) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities		Business-Type Activities		School District Activities	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 759,094	\$ 84,495	\$ 6,250,901	\$ 5,734,579	\$ 7,009,995	\$ 5,819,074
Operating grants and contributions	12,574,644	10,470,954	-	-	12,574,644	10,470,954
General revenues:						
Federal and State aid not restricted	47,321,371	38,251,843	-	-	47,321,371	38,251,843
Property taxes	59,311,967	54,283,050	-	-	59,311,967	54,283,050
Other general revenues	9,935,396	12,460,740	21,164	25,168	9,956,560	12,485,908
<b>Total Revenues</b>	<b>129,902,472</b>	<b>115,551,082</b>	<b>6,272,065</b>	<b>5,759,747</b>	<b>136,174,537</b>	<b>121,310,829</b>
<b>Expenses</b>						
Instruction-related	89,867,957	84,093,901	-	-	89,867,957	84,093,901
Pupil services	9,995,726	9,328,268	5,637,490	4,887,592	15,633,216	14,215,860
Administration	9,397,928	8,452,990	-	-	9,397,928	8,452,990
Plant services	11,074,102	11,227,355	-	-	11,074,102	11,227,355
Other	7,485,527	8,607,432	-	-	7,485,527	8,607,432
<b>Total Expenses</b>	<b>127,821,240</b>	<b>121,709,946</b>	<b>5,637,490</b>	<b>4,887,592</b>	<b>133,458,730</b>	<b>126,597,538</b>
Transfers	1,072,475	870,043	(1,072,475)	(870,043)	-	-
<b>Change in Net Position</b>	<b>\$ 3,153,707</b>	<b>\$ (5,288,821)</b>	<b>\$ (437,900)</b>	<b>\$ 2,112</b>	<b>\$ 2,715,807</b>	<b>\$ (5,286,709)</b>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

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### Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was \$127,821,240. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$59,311,967 because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions \$(13,333,738). We paid for the remaining 'public benefit' portion of our governmental activities with \$57,256,767 in Federal and State unrestricted funds and with other revenues, such as interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest governmental activities functions - regular and special program instruction, instructional-related activities, home-to-school transportation, other pupil services, administration, plant services, ancillary services, interest on long-term obligations and all other activities. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$ 81,119,159	\$ 75,321,712	\$ 70,969,794	\$ 66,273,747
Instruction-related activities	8,748,798	8,772,189	8,331,478	8,425,430
Home-to-school transportation	1,319,317	1,007,690	1,319,317	1,007,690
Other pupil services	8,676,409	8,320,578	7,629,926	7,435,185
Administration	9,397,928	8,452,990	9,288,221	8,380,901
Plant services	11,074,102	11,227,355	9,951,881	11,216,683
Ancillary services	1,687,438	2,011,248	1,643,683	1,948,796
Interest on long-term obligations	3,771,309	4,281,297	3,771,309	4,281,297
Other	2,026,780	2,314,887	1,581,893	2,184,768
<b>Total</b>	<b>\$ 127,821,240</b>	<b>\$ 121,709,946</b>	<b>\$ 114,487,502</b>	<b>\$ 111,154,497</b>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2016**

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$28,245,496, which is an increase of \$6,328,666 from last year.

**Table 4**

	Fund Balance			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 12,823,015	\$ 121,471,137	\$ 116,230,342	\$ 18,063,810
Bond Interest and Redemption Fund	4,274,585	24,152,022	23,883,463	4,543,144
Adult Education Fund	204,817	230,596	226,366	209,047
Cafeteria Fund	46,855	2,332,070	2,323,605	55,320
Deferred Maintenance Fund	1,263,876	1,004,500	973,152	1,295,224
Capital Facilities Fund	1,741,399	854,591	14,410	2,581,580
Special Reserve Fund For Capital Outlay Projects	1,562,283	227,731	292,643	1,497,371
<b>Total</b>	<b>\$ 21,916,830</b>	<b>\$ 150,272,647</b>	<b>\$ 143,943,981</b>	<b>\$ 28,245,496</b>

This increase results primarily from the receipt of one-time discretionary funding from the State.

### General Fund Budgetary Highlights

The Adopted Budget was presented to the Board on June 25, 2015. Budget revisions were brought forth throughout the year, with the last revision done in June 2016.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2016, the District had \$163,079,621 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of \$3,215,730, or 1.9 percent, from last year (Table 5).

**Table 5**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land and construction in process	\$ 9,557,557	\$ 9,560,203	\$ -	\$ -	\$ 9,557,557	\$ 9,560,203
Buildings and improvements	152,185,125	155,219,899	165,294	131,130	152,350,419	155,351,029
Furniture and equipment	1,171,645	1,384,119	-	-	1,171,645	1,384,119
<b>Total</b>	<b>\$ 162,914,327</b>	<b>\$ 166,164,221</b>	<b>\$ 165,294</b>	<b>\$ 131,130</b>	<b>\$ 163,079,621</b>	<b>\$ 166,295,351</b>

Financing for these capital projects came from general obligation bonds, State construction matching funds, sale of site funds and local gifting.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### Long-Term Obligations

At the end of this year, the District had \$100,023,909 in obligations versus \$100,066,503 last year, a decrease of less than one percent. These obligations consisted of:

**Table 6**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds - net (Financed with property taxes)	\$ 92,510,917	\$ 92,766,734	\$ -	\$ -	\$ 92,510,917	\$ 92,766,734
Capitalized lease obligations	120,625	313,755	-	-	120,625	313,755
Accumulated vacation - net	1,812,752	1,693,094	-	-	1,812,752	1,693,094
Supplemental early retirement plan (SERP)	1,099,458	1,649,187	-	-	1,099,458	1,649,187
Other postemployment benefits (OPEB)	4,480,157	3,643,733	-	-	4,480,157	3,643,733
<b>Total</b>	<b>\$ 100,023,909</b>	<b>\$ 100,066,503</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 100,023,909</b>	<b>\$ 100,066,503</b>

### Net Pension Liability (NPL)

At year end, the District had a net pension liability of \$99,614,497 as a result of GASB Statement No. 68.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Superintendent at 310-378-9966, at the Palos Verdes Peninsula Unified School District, Palos Verdes Estates, California.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2016**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 35,548,662	\$ 3,337,511	\$ 38,886,173
Receivables	3,796,513	23,016	3,819,529
Prepaid expenses	75,613	16,919	92,532
Stores inventories	100,195	-	100,195
Capital assets			
Land and construction in process	9,557,557	-	9,557,557
Other capital assets	223,081,998	814,202	223,896,200
Less: Accumulated depreciation	(69,725,228)	(648,908)	(70,374,136)
Total Capital Assets	<u>162,914,327</u>	<u>165,294</u>	<u>163,079,621</u>
<b>Total Assets</b>	<u>202,435,310</u>	<u>3,542,740</u>	<u>205,978,050</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	2,116,313	-	2,116,313
Deferred outflows of resources related to pensions	23,764,166	1,094,622	24,858,788
<b>Total Deferred Outflows of Resources</b>	<u>25,880,479</u>	<u>1,094,622</u>	<u>26,975,101</u>
<b>LIABILITIES</b>			
Accounts payable	11,160,490	513,615	11,674,105
Accrued interest payable	310,248	-	310,248
Unearned revenue	114,997	352,975	467,972
Long-term obligations:			
Current portion of long-term obligations other than pensions	4,125,354	-	4,125,354
Noncurrent portion of long-term obligations other than pensions	95,898,555	-	95,898,555
Total Long-Term Obligations	<u>100,023,909</u>	<u>-</u>	<u>100,023,909</u>
Aggregate net pension liability	96,289,821	3,324,676	99,614,497
<b>Total Liabilities</b>	<u>207,899,465</u>	<u>4,191,266</u>	<u>212,090,731</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	19,604,542	926,539	20,531,081
<b>NET POSITION</b>			
Net investment in capital assets	90,646,677	165,294	\$ 90,811,971
Restricted for:			
Debt service	4,232,896	-	4,232,896
Capital projects	2,581,580	-	2,581,580
Educational programs	2,661,105	-	2,661,105
Unrestricted	(99,310,476)	(645,737)	(99,956,213)
<b>Total Net Position</b>	<u>\$ 811,782</u>	<u>\$ (480,443)</u>	<u>\$ 331,339</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction	\$ 81,119,159	\$ 208,362	\$ 9,941,003
Instruction-related activities:			
Supervision of instruction	1,735,817	-	173,991
Instructional library, media, and technology	529,783	-	10,287
School site administration	6,483,198	-	233,042
Pupil services:			
Home-to-school transportation	1,319,317	-	-
Food services	2,349,557	-	266,787
All other pupil services	6,326,852	-	779,696
Administration:			
Data processing	1,212,158	-	10,370
All other administration	8,185,770	15,369	83,968
Plant services	11,074,102	268,225	853,996
Ancillary services	1,687,438	-	43,755
Community services	165,561	-	-
Enterprise services	73,546	-	6,495
Interest on long-term obligations	3,771,309	-	-
Other outgo	1,787,673	267,138	171,254
<b>Total Governmental Activities</b>	<b>127,821,240</b>	<b>759,094</b>	<b>12,574,644</b>
<b>Business-Type Activities</b>			
Child Care	5,637,490	6,250,901	-
<b>Total School District</b>	<b>\$ 133,458,730</b>	<b>\$ 7,009,995</b>	<b>\$ 12,574,644</b>

**General revenues and subventions:**

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

**Transfers - internal activities**

**Subtotal, General Revenues and Transfers**

**Change in Net Position**

Net Position - Beginning, as restated

Net Position - Ending

**Net (Expenses) Revenues and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (70,969,794)	\$ -	\$ (70,969,794)
(1,561,826)	-	(1,561,826)
(519,496)	-	(519,496)
(6,250,156)	-	(6,250,156)
(1,319,317)	-	(1,319,317)
(2,082,770)	-	(2,082,770)
(5,547,156)	-	(5,547,156)
(1,201,788)	-	(1,201,788)
(8,086,433)	-	(8,086,433)
(9,951,881)	-	(9,951,881)
(1,643,683)	-	(1,643,683)
(165,561)	-	(165,561)
(67,051)	-	(67,051)
(3,771,309)	-	(3,771,309)
(1,349,281)	-	(1,349,281)
(114,487,502)	-	(114,487,502)
-	613,411	613,411
(114,487,502)	613,411	(113,874,091)
46,210,797	-	46,210,797
5,133,841	-	5,133,841
7,967,329	-	7,967,329
47,321,371	-	47,321,371
272,525	21,164	293,689
9,662,871	-	9,662,871
1,072,475	(1,072,475)	-
117,641,209	(1,051,311)	116,589,898
3,153,707	(437,900)	2,715,807
(2,341,925)	(42,543)	(2,384,468)
\$ 811,782	\$ (480,443)	\$ 331,339

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2016**

	<b>General Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 25,195,628	\$ 4,543,144	\$ 5,809,890	\$ 35,548,662
Receivables	3,738,255	-	58,258	3,796,513
Prepaid expenditures	74,467	-	1,146	75,613
Stores inventories	47,710	-	52,485	100,195
<b>Total Assets</b>	<b>\$ 29,056,060</b>	<b>\$ 4,543,144</b>	<b>\$ 5,921,779</b>	<b>\$ 39,520,983</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 10,930,389	\$ -	\$ 230,101	\$ 11,160,490
Unearned revenue	61,861	-	53,136	114,997
<b>Total Liabilities</b>	<b>10,992,250</b>	<b>-</b>	<b>283,237</b>	<b>11,275,487</b>
<b>Fund Balances:</b>				
Nonspendable	132,177	-	56,466	188,643
Restricted	2,661,105	4,543,144	2,581,580	9,785,829
Committed	-	-	1,503,125	1,503,125
Assigned	11,732,617	-	1,497,371	13,229,988
Unassigned	3,537,911	-	-	3,537,911
<b>Total Fund Balances</b>	<b>18,063,810</b>	<b>4,543,144</b>	<b>5,638,542</b>	<b>28,245,496</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 29,056,060</b>	<b>\$ 4,543,144</b>	<b>\$ 5,921,779</b>	<b>\$ 39,520,983</b>

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016**

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<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 28,245,496</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 232,639,555
Accumulated depreciation is:	<u>(69,725,228)</u>
Net Capital Assets	162,914,327
The District has refunded debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2016.	
	2,116,313
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	
	7,962,844
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.	
	(310,248)
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.	
	4,212,789
The difference between projected and actual earnings on pension plan investment are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	
	(6,707,022)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	
	175,456
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	
	(1,484,443)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	
	(96,289,821)

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION, (Continued)  
JUNE 30, 2016**

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

Long-term obligations at year-end consist of:

General obligation bonds	\$ 69,065,016
Unamortized premium on general obligation bonds	5,206,646
Unamortized discount on general obligation bonds	(8,324)
Capital lease obligations	120,625
Compensated absences	1,812,752
Supplemental early retirement plan	1,099,458
Other postemployment benefits (OPEB)	4,480,157

In addition, the District has issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is:

18,247,579	
Total Long-Term Obligations	\$ (100,023,909)
<b>Total Net Position - Governmental Activities</b>	<b>\$ 811,782</b>

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Control Funding Formula	\$ 84,585,314	\$ -	\$ 745,278	\$ 85,330,592
Federal sources	2,594,383	-	363,357	2,957,740
Other State sources	18,377,590	25,088	10,148	18,412,826
Other local sources	15,013,763	5,149,781	3,058,317	23,221,861
<b>Total Revenues</b>	120,571,050	5,174,869	4,177,100	129,923,019
<b>EXPENDITURES</b>				
Current				
Instruction	78,638,695	-	126,037	78,764,732
Instruction-related activities:				
Supervision of instruction	1,721,318	-	-	1,721,318
Instructional library, media, and technology	523,830	-	-	523,830
School site administration	6,321,353	-	93,736	6,415,089
Pupil services:				
Home-to-school transportation	1,126,713	-	-	1,126,713
Food services	20,704	-	2,311,783	2,332,487
All other pupil services	6,459,585	-	-	6,459,585
Administration:				
Data processing	1,201,431	-	-	1,201,431
All other administration	5,131,358	422,779	14,212	5,568,349
Plant services	10,906,830	-	132,968	11,039,798
Facility acquisition and construction	500,216	-	1,007,189	1,507,405
Ancillary services	1,671,305	-	-	1,671,305
Community services	163,957	-	-	163,957
Other outgo	1,360,851	-	-	1,360,851
Enterprise services	6,495	-	-	6,495
Debt service				
Principal	48,879	3,045,000	144,251	3,238,130
Interest and other	126,822	1,861,310	-	1,988,132
<b>Total Expenditures</b>	115,930,342	5,329,089	3,830,176	125,089,607
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	4,640,708	(154,220)	346,924	4,833,412
<b>Other Financing Sources (Uses)</b>				
Transfers in	900,087	-	472,388	1,372,475
Other financing sources - proceeds from issuance of refunding bonds	-	16,075,000	-	16,075,000
Other financing sources - premium from issuance of refunding bonds		2,902,153		2,902,153
Transfers out	(300,000)	-	-	(300,000)
Other financing uses - payments to escrow agent	-	(18,554,374)	-	(18,554,374)
<b>Net Financing Sources (Uses)</b>	600,087	422,779	472,388	1,495,254
<b>NET CHANGE IN FUND BALANCES</b>	5,240,795	268,559	819,312	6,328,666
<b>Fund Balances - Beginning</b>	12,823,015	4,274,585	4,819,230	21,916,830
<b>Fund Balances - Ending</b>	\$ 18,063,810	\$ 4,543,144	\$ 5,638,542	\$ 28,245,496

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 6,328,666</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which depreciation expense exceeds capital outlays in the period.	
Depreciation expense	\$ (4,863,414)
Capital outlays	<u>1,613,520</u>
Net Expense Adjustment	(3,249,894)
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual required contribution.	
	(836,424)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (supplemental early retirement plan) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits paid was \$549,729. Vacation used was less than the amounts earned by \$119,658.	
	430,071
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	
	(424,064)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
Sale of refunding general obligation bonds	(16,075,000)
Governmental funds report the effect of premiums and issuance costs on an issuance and refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:	
Premium on issuance	(2,902,153)
Deferred charge on refunding	<u>613,934</u>
Combined Adjustment	(2,288,219)

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (Continued) FOR THE YEAR ENDED JUNE 30, 2016**

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Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$	20,430,000
Capital lease obligations		193,130

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$	1,112,669	
Amortization of debt discount		(29,601)	
Amortization of deferred charge on refunding		<u>(319,534)</u>	
Combined Adjustment			763,534

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$162,005 and second, \$2,280,098 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

		<u>(2,118,093)</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>3,153,707</u></b>

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

	<b>Business-Type Activities Enterprise Funds Child Care</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 3,337,511
Receivables	23,016
Prepaid expenses	16,919
<b>Total Current Assets</b>	<u>3,377,446</u>
<b>Noncurrent Assets</b>	
Capital assets	814,202
Less: accumulated depreciation	(648,908)
<b>Total Noncurrent Assets</b>	<u>165,294</u>
<b>Total Assets</b>	<u>3,542,740</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>1,094,622</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	513,615
Unearned revenue	352,975
Aggregate net pension liability	3,324,676
<b>Total Current Liabilities</b>	<u>4,191,266</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>926,539</u>
<b>NET POSITION</b>	
Net investment in capital assets	165,294
Unrestricted	(645,737)
<b>Total Net Position</b>	<u>\$ (480,443)</u>

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

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	<b>Business-Type Activities Enterprise Funds Child Care</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 5,774,931
Charges to other funds and miscellaneous revenues	475,970
<b>Total Operating Revenues</b>	<b>6,250,901</b>
<b>OPERATING EXPENSES</b>	
Payroll costs	4,710,735
Supplies and materials	352,962
Facility rental	145,895
Other operating cost	401,360
Depreciation	26,538
<b>Total Operating Expenses</b>	<b>5,637,490</b>
<b>Operating Income</b>	<b>613,411</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	21,164
Transfers out	(1,072,475)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,051,311)</b>
<b>Change in Net Position</b>	<b>(437,900)</b>
<b>Total Net Position - Beginning</b>	<b>(42,543)</b>
<b>Total Net Position - Ending</b>	<b>\$ (480,443)</b>

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Business-Type Activities Enterprise Funds Child Care</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 5,780,038
Other operating cash receipts	475,970
Cash payments to employees for services	(4,710,735)
Cash payments to other suppliers of goods or services	(462,242)
Other operating cash payments	(401,360)
Net Cash Provided by Operating Activities	<u>681,671</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers out	<u>(1,072,475)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of capital assets	<u>(60,702)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	21,164
Net Decrease in Cash and Cash Equivalents	<u>(430,342)</u>
Cash and Cash Equivalents - Beginning	3,767,853
Cash and Cash Equivalents - Ending	<u>\$ 3,337,511</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 613,411
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	26,538
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Receivables	17,735
Prepaid expenses	(7,721)
Accounts payable	86,733
Unearned revenue	(12,628)
Net pension liability	801,764
Deferred outflows of resources	(804,131)
Deferred inflows of resources	(40,030)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 681,671</u>

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2016**

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	<b>Agency Funds</b>
	<u>                    </u>
<b>ASSETS</b>	
Deposits and investments	\$ 2,129,922
Due from employees	566,234
Stores inventories	41,640
<b>Total Assets</b>	<u><u>\$ 2,737,796</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 25,731
Due to student groups	2,712,065
<b>Total Liabilities</b>	<u><u>\$ 2,737,796</u></u>

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Palos Verdes Peninsula Unified School District (the District) was established in 1961, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies for ten K-5 schools, three 6-8 schools, two four-year high schools, one continuation high school and one adult education school, a special education early childhood education program, a fee-based preschool and a child care program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Palos Verdes Peninsula Unified School District, this includes general operations, food service, and student related activities of the District.

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

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

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$2,559,059, and a decrease in revenues and other financing sources of \$890,890, respectively.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

### Non-Major Governmental Funds

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

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

**Capital Project Funds** The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Child Care Service Program of the District.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and the volunteer payroll withholdings of District employees.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

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

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Proprietary Funds** Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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

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

### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are for child care activity. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Investments**

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

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

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 20 years; equipment, five to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as 'interfund receivables/payables'. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. Premiums and discounts on issuance of long-term obligations, as well as issuance costs (deferred charges), are deferred and amortized over the life of the related debt using the effective interest method. Long-term obligations payable are reported net of the applicable premium or discount.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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However, claims and judgments, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, certificates of participation and capital leases are recognized as liabilities in the governmental fund financial statements when due.

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

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds, and for other pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources other pension related items.

### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### **Fund Balances - Governmental Funds**

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

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

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

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

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

### **Minimum Fund Balance Policy**

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

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2016. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$9,475,581 of net position which is restricted by enabling legislation.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type activities.

### Estimates

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

### Budgetary Data

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

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

### Property Tax

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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### Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

### **New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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

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

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

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 35,548,662
Business-type activities	3,337,511
Fiduciary funds	2,129,922
Total Deposits and Investments	<u>\$ 41,016,095</u>

Deposits and investments as of June 30, 2016, consisted of the following:

Cash on hand and in banks	\$ 3,030,870
Cash in revolving	12,835
Investments	37,972,390
Total Deposits and Investments	<u>\$ 41,016,095</u>

#### Policies and Practices

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment of \$37,972,390 with the Los Angeles County Treasury Investment Pool that has an average weighted maturity of 608 days.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. While the District's investment in the Los Angeles County Treasury Investment Pool is not required to be rated, nor has been rated as of June 30, 2016.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of \$355,569 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

The District's fair value measurements are as follows at June 30, 2016:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Los Angeles County Treasury Investment Pool	<u>\$ 37,972,390</u>	<u>\$ 37,972,390</u>

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>	<u>Child Care Enterprise Fund</u>
Federal Government				
Categorical aid	\$ 1,233,275	\$ 36,529	\$ 1,269,804	\$ -
State Government				
Categorical aid	-	1,504	1,504	-
Lottery	1,302,219	-	1,302,219	-
Special Education	834,555	-	834,555	-
Local Government				
Interest	57,190	645	57,835	7,931
Other Local Sources	311,016	19,580	330,596	15,085
Total	<u>\$ 3,738,255</u>	<u>\$ 58,258</u>	<u>\$ 3,796,513</u>	<u>\$ 23,016</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 9,460,558	\$ -	\$ -	\$ 9,460,558
Construction in process	99,645	766,453	769,099	96,999
Total Capital Assets Not Being Depreciated	9,560,203	766,453	769,099	9,557,557
Capital Assets Being Depreciated				
Land improvements	13,847,561	637,850	-	14,485,411
Buildings and improvements	202,100,552	887,441	-	202,987,993
Furniture and equipment	5,517,719	90,875	-	5,608,594
Total Capital Assets Being Depreciated	221,465,832	1,616,166	-	223,081,998
Less Accumulated Depreciation				
Land improvements	4,821,116	618,899	-	5,440,015
Buildings and improvements	55,907,098	3,941,166	-	59,848,264
Furniture and equipment	4,133,600	303,349	-	4,436,949
Total Accumulated Depreciation	64,861,814	4,863,414	-	69,725,228
Governmental Activities Capital Assets, Net	<u>\$ 166,164,221</u>	<u>\$ (2,480,795)</u>	<u>\$ 769,099</u>	<u>\$ 162,914,327</u>
<b>Business-Type Activities</b>				
Capital Assets Being Depreciated				
Land improvements	\$ -	\$ 60,702	\$ -	\$ 60,702
Buildings and improvements	753,500	-	-	753,500
Total Capital Assets Being Depreciated	753,500	60,702	-	814,202
Less Accumulated Depreciation				
Land improvements	-	1,518	-	1,518
Buildings and improvements	622,370	25,020	-	647,390
Total Accumulated Depreciation	622,370	26,538	-	648,908
Business-Type Activities Capital Assets, Net	<u>\$ 131,130</u>	<u>\$ 34,164</u>	<u>\$ -</u>	<u>\$ 165,294</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

Depreciation expense was charged to governmental and business-type functions as follows:

<b>Governmental Activities</b>		
Instruction		\$ 2,237,170
All other general administration		2,577,610
Plant services		48,634
Total Depreciation Expenses Governmental Activities		<u>4,863,414</u>
<b>Business-Type Activities</b>		
Child Care		26,538
Total Depreciation Expenses All Activities		<u>\$ 4,889,952</u>

**NOTE 6 - INTERFUND TRANSACTIONS**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer To	Transfer From		
	General Fund	Child Care Enterprise Fund	Total
General Fund	\$ -	\$ 900,087	\$ 900,087
Non-Major Governmental Funds	300,000	172,388	472,388
Total	<u>\$ 300,000</u>	<u>\$ 1,072,475</u>	<u>\$ 1,372,475</u>

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund an operating contribution for deferred maintenance projects. \$ 300,000

The Child Care Enterprise Fund transferred to the General Fund a reimbursement of expenditures and operating costs. 900,087

The Child Care Enterprise Fund transferred to the Cafeteria Non-Major Governmental Fund for excess costs. 172,388

\$ 1,372,475

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Child Care Enterprise Fund	Fiduciary Funds
LCFF apportionment	\$ 852,449	\$ -	\$ 852,449	\$ -	\$ -
Salaries and benefits	7,739,563	97,308	7,836,871	449,247	-
Supplies	371,678	64,475	436,153	10,022	-
Services	1,495,997	8,632	1,504,629	53,443	-
Construction	350,279	57,985	408,264	-	-
Other vendor payables	120,423	1,701	122,124	903	25,731
Total	<u>\$ 10,930,389</u>	<u>\$ 230,101</u>	<u>\$ 11,160,490</u>	<u>\$ 513,615</u>	<u>\$ 25,731</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2016, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Child Care Enterprise Fund
Federal financial assistance	\$ 41,257	\$ -	\$ 41,257	\$ -
Other local	20,604	53,136	73,740	352,975
Total	<u>\$ 61,861</u>	<u>\$ 53,136</u>	<u>\$ 114,997</u>	<u>\$ 352,975</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 89,387,497	\$ 18,355,098	\$ 20,430,000	\$ 87,312,595	\$ 3,455,000
Premium on issuance	3,417,162	2,902,153	1,112,669	5,206,646	-
Discount on issuance	(37,925)	-	(29,601)	(8,324)	-
Capital leases	313,755	-	193,130	120,625	120,625
Accumulated vacation - net	1,693,094	119,658	-	1,812,752	-
Supplemental early retirement plan (SERP)	1,649,187	-	549,729	1,099,458	549,729
Other postemployment benefits (OPEB)	3,643,733	1,234,762	398,338	4,480,157	-
Total	<u>\$ 100,066,503</u>	<u>\$ 22,611,671</u>	<u>\$ 22,654,265</u>	<u>\$ 100,023,909</u>	<u>\$ 4,125,354</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for capital leases will be paid by the General Fund, the Cafeteria Fund, and the Special Reserve Fund for Capital Outlay Projects. The accrued vacation will be paid by the fund for which the employee worked. Payments for the Supplemental Early Retirement Program are made from the General Fund. Other postemployment benefits are generally paid by the General Fund.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2014	Issued	Accreted	Redeemed	Bonds Outstanding June 30, 2016
2000, Series B	3/14/02	11/1/26	3.00-7.72%	\$ 15,020,098	\$ 3,783,772	\$ -	\$ 297,745	\$ -	\$ 4,081,517
2000, Series C	3/7/03	11/1/27	2.00-5.42%	10,427,362	14,316,137	-	746,377	670,000	14,392,514
2005, Refunding	1/20/05	11/1/25	2.50-4.38%	20,400,000	9,325,000	-	-	9,325,000	-
2006, Refunding	3/9/06	11/1/23	3.50-5.00%	11,865,000	8,115,000	-	-	740,000	7,375,000
2005 (Measure R), Series 2006	3/9/06	3/1/31	3.50-5.00%	23,004,233	15,119,606	-	651,732	1,690,000	14,081,338
2005 (Measure S), Series 2006	3/9/06	3/1/31	3.50-7.65%	2,003,988	855,710	-	20,011	545,000	330,721
2005 (Measure R), Series 2009	10/6/09	8/1/34	5.68-6.18%	6,994,337	9,487,272	-	564,233	-	10,051,505
2005 (Measure S), Series 2009	10/6/09	8/1/34	2.00-5.00%	7,995,000	7,805,000	-	-	7,280,000	525,000
2014, Refunding, Series A	2/12/14	9/1/27	0.15-3.17%	13,010,000	12,945,000	-	-	-	12,945,000
2014, Refunding, Series B	2/12/14	9/1/21	0.35-2.972%	7,855,000	7,635,000	-	-	95,000	7,540,000
2015, Refunding	7/8/15	11/1/25	2.00-5.00%	7,335,000	-	7,335,000	-	85,000	7,250,000
2016, Refunding, Series A	6/3/16	8/1/34	2.00-5.00%	8,740,000	-	8,740,000	-	-	8,740,000
					<u>\$ 89,387,497</u>	<u>\$ 16,075,000</u>	<u>\$ 2,280,098</u>	<u>\$ 20,430,000</u>	<u>\$ 87,312,595</u>

### 2000 General Obligation Bonds, Series B

On March 14, 2002, the District issued the 2000 General Obligation Bonds, Series B current and capital appreciation bonds in the amount of \$15,020,098 (accreting to \$22,210,000) to fund reconstruction and modernization of school facilities. The bonds have a final maturity to occur on November 1, 2026, with interest rates ranging from 3.00 to 7.72 percent.

On March 9, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of \$11,865,000 to advance refund \$11,205,000 of the 2000 General Obligation Bonds, Series B. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide statement of net position. At June, 30, 2016, 2000 General Obligation Bonds, Series B, totaling \$4,081,517 were still outstanding.

### 2000 General Obligation Bonds, Series C

On March 7, 2003, the District issued the 2000 General Obligation Bonds, Series C current and capital appreciation bonds in the amount of \$10,427,362 (accreting to \$26,280,000) to fund reconstruction and modernization of school facilities. The bonds have a final maturity to occur on November 1, 2027, with interest rates ranging from 2.00 to 5.42 percent. At June, 30, 2016, 2000 General Obligation Bonds, Series C, totaling \$14,392,514 were still outstanding.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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### **2005 General Obligation Refunding Bonds**

On January 20, 2005, the District issued the 2005 General Obligation Refunding Bonds in the amount of \$20,400,000. The bonds were issued to advance refund \$18,080,000 of the outstanding 2000 General Obligation Bonds, Series A. The bonds have a final maturity to occur on November 1, 2025, with interest rates ranging from 2.50 to 4.38 percent.

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series B, in the amount of \$7,855,000 to advance refund \$7,235,000 of the 2005 General Obligation Refunding Bonds. The issuance on July 8, 2015 of the 2015 General Obligation Refunding Bonds in the amount of \$7,335,000 resulted in the advance defeasance of the remaining balance of the debt associated with the 2005 General Obligation Refunding Bonds. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide statement of net position. At June 30, 2016, the debt obligation for the 2005 General Obligation Refunding Bonds has been paid in full.

### **2006 General Obligation Refunding Bonds**

On March 9, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of \$11,865,000. The bonds were issued to advance refund \$11,205,000 of the outstanding 2000 General Obligation Bonds, Series B. The bonds have a final maturity to occur on November 1, 2023, with interest rates ranging from 3.50 to 5.00 percent.

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series A, in the amount of \$13,010,000 to advance refund \$2,065,000 of the 2006 General Obligation Refunding Bonds. As a result, the refunded portion of the debt obligation has been removed as long-term obligation from the government-wide statement of net position. At June 30, 2016, the 2006 General Obligation Refunding Bonds, totaling \$7,375,000, were still outstanding.

### **2005 General Obligation Bonds, Series 2006 (Measure R)**

On March 9, 2006, the District issued the 2005 General Obligation Bonds, Series 2006 (Measure R) current and capital appreciation bonds in the amount of \$23,004,233 (accreting to \$41,815,000) to fund specific construction, repair and improvement projects for the District's core academic facilities. The bonds have a final maturity to occur on March 1, 2031, with interest rates ranging from 3.50 to 5.00 percent.

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series A, in the amount of \$13,010,000 to advance refund \$11,315,000 of the 2005 General Obligation Refunding Bonds, Series 2006 (Measure R). The issuance on April 6, 2016 of the 2016 General Obligation Refunding Bonds, Series A in the amount of \$8,740,000 resulted in the advance defeasance of \$1,265,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure R). As a result, the refunded portion of the debt obligation has been removed as long-term obligation from the government-wide statement of net position. At June 30, 2016, the 2005 General Obligation Refunding Bonds, Series 2006 (Measure R), totaling \$14,081,338, were still outstanding.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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### **2005 General Obligation Bonds, Series 2006 (Measure S)**

On March 9, 2006, the District issued the 2005 General Obligation Bonds, Series 2006 (Measure S) current and capital appreciation bonds in the amount of \$2,003,988 (accreting to \$2,615,000) to fund specific construction, repair and improvement projects for the District's co-curricular facilities. The bonds have a final maturity to occur on March 1, 2031, with interest rates ranging from 3.50 to 7.65 percent.

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series A, in the amount of \$13,010,000 to advance refund \$365,000 of the 2005 General Obligation Refunding Bonds, Series 2006 (Measure S). The issuance on April 6, 2016 of the 2016 General Obligation Refunding Bonds, Series A in the amount of \$8,740,000 resulted in the advance defeasance of \$510,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure S). As a result, the refunded portion of the debt obligation has been removed as long-term obligation from the government-wide statement of net position. At June 30, 2016, the 2005 General Obligation Refunding Bonds, Series 2006 (Measure S), totaling \$330,721, were still outstanding.

### **2005 General Obligation Bonds, Series 2009 (Measure R)**

On October 6, 2009, the District issued the 2005 General Obligation Bonds, Series 2009 (Measure R) capital appreciation bonds in the amount of \$6,994,337 (accreting to \$27,325,000) to fund specific construction, repair and improvement projects for the District's core academic facilities. These bonds represent the final issuance authorized under the election held November 8, 2005 in an aggregate principal amount not to exceed \$30,000,000. The bonds have a final maturity to occur on August 1, 2034, with interest rates ranging from 5.68 to 6.18 percent. At June, 30, 2016, the 2005 General Obligation Bonds, Series 2009 (Measure R), totaling \$10,051,505 were still outstanding.

### **2005 General Obligation Bonds, Series 2009 (Measure S)**

On October 6, 2009, the District issued the 2005 General Obligation Bonds, Series 2009 (Measure S) in the amount of \$7,995,000 to fund specific construction, repair and improvement projects for the District's co-curricular facilities. These bonds represent the final issuance authorized under the election held November 8, 2005 in an aggregate principal amount not to exceed \$10,000,000. The bonds have a final maturity to occur on August 1, 2034, with interest rates ranging from 2.00 to 5.00 percent. The issuance on April 6, 2016 of the 2016 General Obligation Refunding Bonds, Series A in the amount of \$8,740,000 resulted in the advance defeasance of \$7,230,000 of the debt associated with the 2005 General Obligation Bonds, Series 2009 (Measure S). At June, 30, 2016, 2005 General Obligation Bonds, Series 2009, (Measure S), totaling \$525,000 were still outstanding.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### **2014 General Obligation Refunding Bonds, Series A**

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series A, in the amount of \$13,010,000. The bonds were issued to advance refund \$2,065,000 of the outstanding 2006 General Obligation Refunding Bonds, \$11,315,000 of the outstanding 2005 General Obligation Refunding Bonds, Series 2006 (Measure R), and \$375,000 of the outstanding 2005 General Obligation Refunding Bonds, Series 2006 (Measure S). The bonds associated with the issuance were placed in an escrow account with U.S. Bank for the future redemption of the bonds to occur on November 1, 2016 for the 2006 General Obligation Refunding Bonds and September 1, 2016 for the 2005 General Obligation Refunding Bonds, Series 2006 (Measure R) and 2005 General Obligation Refunding Bonds, Series 2006 (Measure S). The bonds have a final maturity to occur on September 1, 2027, with interest rates ranging from 0.150 to 3.17 percent. At June 30, 2016, the principal balance outstanding was \$12,945,000.

### **2014 General Obligation Refunding Bonds, Series B**

On February 12, 2014, the District issued the 2014 General Obligation Refunding Bonds, Series B in the amount of \$7,855,000. The bonds were issued to advance refund \$7,235,000 of the outstanding 2005 General Obligation Refunding Bonds. The bonds associated with the issuance were placed in an escrow account with U.S. Bank with the redemption of the bonds to occurring on November 1, 2015. The bonds have a final maturity to occur on September 1, 2021, with interest rates ranging from 0.350 to 2.972 percent. At June 30, 2016, the principal outstanding balance was \$7,540,000.

### **2015 General Obligation Refunding Bonds**

On July 8, 2015, the District issued \$7,335,000 of the 2015 General Obligation Refunding Bonds. The current interest bonds have a final maturity to occur on November 1, 2025, with interest rates ranging from 2.00 to 5.00 percent. The net proceeds of \$8,556,014 (representing the principal amount of \$7,335,000 plus premium on issuance of \$1,434,775 minus cost of issuance of \$213,761) from the issuance were used to advance refund a portion of the District's 2005 General Obligation Refunding Bonds, with the final prepayment to occur November 1, 2015, and to pay the costs of issuance associated with the refunding bonds. Amounts paid to U.S. Bank, the bond escrow agent, in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. The refunding resulted in a cumulative cash flow saving of \$1,169,461 over the life of the new debt and an economic gain of \$974,802 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.14 percent.

At June 30, 2016, the principal balance outstanding of the 2015 General Obligation Refunding Bonds was \$7,250,000.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

### 2016 General Obligation Refunding Bonds, Series A

On June 3, 2016, the District issued \$8,740,000 of the 2016 General Obligation Refunding Bonds. The current interest bonds have a final maturity to occur on November 1, 2025, with interest rates ranging from 2.00 to 5.00 percent. The net proceeds of \$9,998,360 (representing the principal amount of \$8,740,000 plus premium on issuance of \$1,467,378 minus cost of issuance of \$209,018) from the issuance were used to advance refund of the \$1,265,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure R), with the final prepayment to occur September 1, 2016, \$510,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure S), with the final prepayment to occur September 1, 2016, \$7,230,000 of the debt associated with the 2005 General Obligation Bonds, Series 2009 (Measure S), with the final prepayment to U.S. Bank, the bond escrow agent, in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. The refunding resulted in a cumulative cash flow saving of \$1,017,308 over the life of the new debt and an economic gain of \$833,978 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.00 percent.

At June 30, 2016, the principal balance outstanding of the 2016 General Obligation Refunding Bonds, Series A, was \$8,740,000

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest to Maturity	Current Interest to Maturity	Total
2017	\$ 3,437,504	\$ 17,496	\$ 1,705,425	\$ 5,160,425
2018	3,583,853	56,147	1,747,399	5,387,399
2019	3,896,199	98,801	1,662,108	5,657,108
2020	4,321,864	143,136	1,548,697	6,013,697
2021	4,726,112	218,888	1,671,235	6,616,235
2022-2026	27,426,355	4,813,645	4,077,847	36,317,847
2027-2031	26,219,201	20,565,799	1,225,906	48,010,906
2032-2035	13,701,507	17,273,493	284,200	31,259,200
Total	\$ 87,312,595	\$ 43,187,405	\$ 13,922,817	\$ 144,422,817

### Capital Leases

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

Balance, July 1, 2015	Equipment
	\$ 321,293
Payments	(199,272)
Balance, June 30, 2016	\$ 122,021

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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The capital leases have minimum lease payments as follows:

Year Ending Balance	Lease Payment
<u>2017</u>	\$ 122,021
Less: Amount Representing Interest	(1,396)
Present Value of Minimum Lease Payments	<u>\$ 120,625</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$1,812,752.

### Supplemental Early Retirement Plans (SERP)

During 2013, the District adopted a supplemental early retirement plan whereby certain eligible employees were provided an annuity to supplement the retirement benefits they were entitled to through the California State Teachers' Retirement. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 36 employees who retired during the 2012-2013 school year, were purchased from Pacific Life Insurance Company.

Year Ending Balance	Lease Payment
<u>2017</u>	\$ 549,729
2018	549,729
Total	<u>\$ 1,099,458</u>

As of June 30, 2016, the remaining balance of the supplemental early retirement plan was \$1,099,458.

### Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$1,299,730, and contributions made by the District during the year were \$398,338. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$145,749 and \$(210,717), respectively, which resulted in an increase to the net OPEB obligation of \$836,424. As of June 30, 2016, the net OPEB obligation was \$4,480,157. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 10,000	\$ -	\$ 2,835	\$ 12,835
Stores inventories	47,710	-	52,485	100,195
Prepaid expenditures	74,467	-	1,146	75,613
Total Nonspendable	<u>132,177</u>	<u>-</u>	<u>56,466</u>	<u>188,643</u>
<b>Restricted</b>				
Legally restricted programs	2,661,105	-	-	2,661,105
Capital projects	-	-	2,581,580	2,581,580
Debt services	-	4,543,144	-	4,543,144
Total Restricted	<u>2,661,105</u>	<u>4,543,144</u>	<u>2,581,580</u>	<u>9,785,829</u>
<b>Committed</b>				
Adult education program	-	-	207,901	207,901
Deferred maintenance program	-	-	1,295,224	1,295,224
Total Committed	<u>-</u>	<u>-</u>	<u>1,503,125</u>	<u>1,503,125</u>
<b>Assigned</b>				
Special reserve fund for other than capital outlay projects	2,884,551	-	-	2,884,551
Postemployment benefits	1,384,464	-	-	1,384,464
BTSA	126,712	-	-	126,712
Community services	490,680	-	-	490,680
GATE	32,302	-	-	32,302
One-time mandate funding - textbooks	669,343	-	-	669,343
One-time funding for outstanding mandate	3,405,213	-	-	3,405,213
Site gifting carryover	493,351	-	-	493,351
Technology carryover	288,162	-	-	288,162
Budget contingency	1,957,839	-	-	1,957,839
Capital projects	-	-	1,497,371	1,497,371
Total Assigned	<u>11,732,617</u>	<u>-</u>	<u>1,497,371</u>	<u>13,229,988</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	3,537,911	-	-	3,537,911
Total	<u>\$ 18,063,810</u>	<u>\$ 4,543,144</u>	<u>\$ 5,638,542</u>	<u>\$ 28,245,496</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

#### Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Palos Verdes Peninsula Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 267 retirees and beneficiaries currently receiving benefits and 751 active Plan members.

#### Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Palos Verdes Faculty Association (PVFA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$398,338 to the Plan, all of which was used for current premiums.

#### Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 1,299,730
Interest on net OPEB obligation	145,749
Adjustment to annual required contribution	(210,717)
Annual OPEB cost (expense)	<u>1,234,762</u>
Contributions made	<u>(398,338)</u>
Increase in net OPEB obligation	836,424
Net OPEB obligation, beginning of year	<u>3,643,733</u>
Net OPEB obligation, end of year	<u><u>\$ 4,480,157</u></u>

#### Trend Information

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 1,155,414	\$ 412,760	36%	\$ 2,800,303
2015	1,249,800	406,370	33%	3,643,733
2016	1,234,762	398,338	32%	4,480,157

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ -	\$ 12,205,827	\$ 12,205,827	0%	\$ 73,302,473	17%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

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

In the July 1, 2014, actuarial valuation, the unit credit cost method was used. Currently, the District does not set aside assets in an irrevocable employee benefit trust. The assumptions include a four percent discount rate based on employer assets that are not restricted for other purposes and are expected to be used to finance benefit payments. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 23 years.

## NOTE 12 - RISK MANAGEMENT

### Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the fiscal year ending June 30, 2016, the District participated in the Alliance of Schools for Cooperative Insurance Program (ASCIP) public entity risk pool for property and liability insurance coverage. There has not been a significant reduction in coverage from the prior year.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**Workers' Compensation**

For fiscal year 2016, the District participated in the Alliance of Schools for Cooperative Insurance Program (ASCIP) public entity risk pool. The intent of ASCIP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in ASCIP. The workers' compensation experience of the participating districts is calculated and applied to a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

**Employee Medical Benefits**

The District purchases medical, dental, and vision insurance from commercial insurance companies.

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

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

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Intflows of Resources	Collective Pension Expense
CalSTRS	\$ 72,264,263	\$ 15,778,065	\$ 12,792,011	\$ 6,337,019
CalPERS	27,350,234	9,080,723	7,739,070	2,333,914
Total	<u>\$ 99,614,497</u>	<u>\$ 24,858,788</u>	<u>\$ 20,531,081</u>	<u>\$ 8,670,933</u>

The details of each plan are as follows:

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

**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$5,632,385.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	72,264,263
State's proportionate share of the net pension liability associated with the District		38,219,829
Total	\$	<u>110,484,092</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.1073 percent and 0.1002 percent, resulting in a net increase in the proportionate share of 0.0071 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$6,337,019. In addition, the District recognized pension expense and revenue of \$2,960,555 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,632,385	\$ -
Net change in proportionate share of net pension liability	4,451,934	-
Difference between projected and actual earnings on pension plan investments	5,693,746	11,584,458
Differences between expected and actual experience in the measurement of the total pension liability	-	1,207,553
Total	<u>\$ 15,778,065</u>	<u>\$ 12,792,011</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (2,438,049)
2018	(2,438,049)
2019	(2,438,049)
2020	1,423,435
Total	<u>\$ (5,890,712)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 540,730
2018	540,730
2019	540,730
2020	540,730
2021	540,730
Thereafter	540,731
Total	<u>\$ 3,244,381</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 109,113,412
Current discount rate (7.60%)	72,264,263
1% increase (8.60)	41,639,464

### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation 2014. This report, and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**Benefits Provided**

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were \$2,656,882.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$27,350,234. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.1855 percent and 0.1823 percent, resulting in a net increase in the proportionate share of 0.0122 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$2,333,914. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,656,882	\$ -
Net change in proportionate share of net pension liability	368,750	630,116
Difference between projected and actual earnings on pension plan investments	4,491,985	5,428,480
Differences between expected and actual experience in the measurement of the total pension liability	1,563,106	-
Changes of assumptions	-	1,680,474
Total	<u>\$ 9,080,723</u>	<u>\$ 7,739,070</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (686,497)
2018	(686,497)
2019	(686,497)
2020	1,122,996
Total	<u>\$ (936,495)</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (228,375)
2018	(228,375)
2019	78,016
Total	<u>\$ (378,734)</u>

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2016**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

### Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 44,514,784
Current discount rate (7.65%)	27,350,234
1% increase (8.65%)	13,076,763

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,281,102 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

#### Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

#### Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Ongoing Repair Projects	\$ 217,961	06/30/17

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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### **NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS**

The District is a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) public entity risk pool and Southern California Regional Occupational Program Joint Powers Authority (JPA). The District pays an annual premium to ASCIP for its workers' compensation, and property liability coverage. Payments for the regional occupational services received are paid to the Southern California Regional Occupational Program. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2016, the District made payments of \$1,715,792 and \$393,667 to ASCIP and Southern California Regional Occupational Program, respectively, for services received.

### **NOTE 16 - SUBSEQUENT EVENTS**

On July 21, 2016, the District issued \$5,905,000 of the 2016 General Obligation Refunding Bonds, Series B. The current interest bonds have a final maturity to occur on November 1, 2023, with interest rates ranging from 4.00 to 5.00 percent. Proceeds from the bonds will be used to refund a portion of the District's outstanding 2006 General Obligation bonds and pay costs associated with the issuance of the refunding bonds.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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### NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District restated its beginning balance for net pension liability and related items to more accurately reflect the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the enterprise fund. As a result, the effect on the current fiscal year is as follows:

#### Statement of Net Position - Governmental Activities

Net Position - Beginning	\$ (5,540,915)
Inclusion of net pension liability from the adoption of GASB Statement No. 68	2,522,912
Inclusion of deferred inflows of resources from the adoption of GASB Statement No. 68	966,569
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	(290,491)
Net Position - Beginning as Restated	<u><u>\$ (2,341,925)</u></u>

#### Statement of Net Position - Business-Type Activities

Net Position - Beginning	\$ 3,156,447
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(2,522,912)
Inclusion of deferred inflows of resources from the adoption of GASB Statement No. 68	(966,569)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	290,491
Net Position - Beginning as Restated	<u><u>\$ (42,543)</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>(Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 84,303,619	\$ 84,401,518	\$ 84,585,314	\$ 183,796
Federal sources	2,679,628	2,703,907	2,594,383	(109,524)
Other State sources	13,407,597	18,060,555	18,377,590	317,035
Other local sources	12,408,823	14,858,463	15,013,763	155,300
<b>Total Revenues</b> <sup>1</sup>	<b>112,799,667</b>	<b>120,024,443</b>	<b>120,571,050</b>	<b>546,607</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	50,776,867	53,745,334	53,972,294	(226,960)
Classified salaries	19,930,270	20,975,712	21,081,701	(105,989)
Employee benefits	16,088,932	20,924,101	20,755,032	169,069
Books and supplies	3,518,054	6,824,649	4,634,930	2,189,719
Services and operating expenditures	13,786,897	14,097,599	13,430,355	667,244
Capital outlay	51,353	669,682	646,691	22,991
Other outgo	836,365	1,437,813	1,409,339	28,474
<b>Total Expenditures</b> <sup>1</sup>	<b>104,988,738</b>	<b>118,674,890</b>	<b>115,930,342</b>	<b>2,744,548</b>
<b>Excess of Revenues Over Expenditures</b>	<b>7,810,929</b>	<b>1,349,553</b>	<b>4,640,708</b>	<b>3,291,155</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,823,327	1,853,371	900,087	(953,284)
Transfers out	(587,979)	(2,000,000)	(300,000)	1,700,000
<b>Net Financing Sources (Uses)</b>	<b>1,235,348</b>	<b>(146,629)</b>	<b>600,087</b>	<b>746,716</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>9,046,277</b>	<b>1,202,924</b>	<b>5,240,795</b>	<b>4,037,871</b>
<b>Fund Balances - Beginning</b>	<b>12,823,015</b>	<b>12,823,015</b>	<b>12,823,015</b>	<b>-</b>
<b>Fund Balances - Ending</b>	<b>\$ 21,869,292</b>	<b>\$ 14,025,939</b>	<b>\$ 18,063,810</b>	<b>\$ 4,037,871</b>

<sup>1</sup> On behalf payments of \$3,281,102 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, as Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits have, for reporting purposes, been consolidated into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
July 1, 2010	\$ -	\$ 6,610,213	\$ 6,610,213	0%	\$ 64,215,594	10%
July 1, 2012	-	10,896,064	10,896,064	0%	64,561,324	17%
July 1, 2014	-	12,205,827	12,205,827	0%	73,302,473	17%

See accompanying note to required supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.1073%</u>	<u>0.1002%</u>
District's proportionate share of the net pension liability	\$ 72,264,263	\$ 58,557,483
State's proportionate share of the net pension liability associated with the District	<u>38,219,829</u>	<u>35,359,536</u>
Total	<u><u>\$ 110,484,092</u></u>	<u><u>\$ 93,917,019</u></u>
District's covered - employee payroll	<u>\$ 49,589,842</u>	<u>\$ 46,044,809</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>145.72%</u>	<u>127.17%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.1855%</u>	<u>0.1823%</u>
District's proportionate share of the net pension liability	<u>\$ 27,350,234</u>	<u>\$ 20,695,344</u>
District's covered - employee payroll	<u>\$ 20,560,020</u>	<u>\$ 19,168,002</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>133.03%</u>	<u>107.97%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2016

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	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 5,632,385	\$ 4,403,578
Contributions in relation to the contractually required contribution	<u>5,632,385</u>	<u>4,403,578</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 52,491,938</u>	<u>\$ 49,589,842</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 2,656,882	\$ 2,420,120
Contributions in relation to the contractually required contribution	<u>2,656,882</u>	<u>2,420,120</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 22,426,623</u>	<u>\$ 20,560,020</u>
Contributions as a percentage of covered - employee payroll	<u>11.847%</u>	<u>11.771%</u>

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

See accompanying note to required supplementary information.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

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### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Budgetary Comparison Schedule**

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

#### **Schedule of Other Postemployment Benefits (OPEB) Funding Progress**

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

#### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

#### **Changes in Benefit Terms**

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

#### **Changes in Assumptions**

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

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***SUPPLEMENTARY INFORMATION***

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**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Part A - Low Income and Neglected	84.010	14329	\$ 535,038
Title I, Part G- Advanced Placement Test Fee Reimbursement Program	84.330B	14831	6,191
Title II, Part A - Improving Teacher Quality	84.367	14341	214,561
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	47,102
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048A	14894	40,838
Passed through Los Angeles County Office of Education (LACOE):			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	1,328,267
Preschool Local Entitlement	84.027A	13682	148,547
Preschool Grants, Part B, Section 619	84.173	13430	72,624
Preschool Staff Development, Part B, Section 619	84.173A	13431	349
Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	200,866
Subtotal Special Education (IDEA) Cluster			<u>1,750,653</u>
Total U.S. Department of Education			<u>2,594,383</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	245,267
Basic Breakfast	10.553	13525	11,371
Commodities	10.555	13396	106,719
Subtotal Child Nutrition Cluster			<u>363,357</u>
Total U.S. Department of Agriculture			<u>363,357</u>
Total Expenditures of Federal Awards			<u>\$ 2,957,740</u>

See accompanying note to supplementary information.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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### ORGANIZATION

The Palos Verdes Peninsula Unified School District was established in 1961 and consists of an area comprising approximately 24.4 square miles. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies for ten K-5 schools, three 6-8 schools, two four-year high schools, one continuation high school and one adult education school, a special education early childhood education program, a fee-based preschool and a child care program. There were no boundary changes during the year.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Malcolm S. Sharp	Vice President	2017
Anthony Collatos	Vice President	2017
Linda Reid	Clerk	2019
Suzanne Seymour	Member	2019
Barbara Lucky	Member	2017

### ADMINISTRATION

Donald B. Austin, Ed.D.	Superintendent of Schools
Lydia Cano	Deputy Superintendent
John Bowes, Ed.D.	Assistant Superintendent, Human Resources
Trent Bahadursingh	Assistant Superintendent, Technology and Support Services
Joanne Culverhouse, Ed.D.	Assistant Superintendent, Educational Services

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,839.83	2,843.02
Fourth through sixth	2,352.73	2,350.70
Seventh and eighth	1,766.25	1,763.83
Ninth through twelfth	4,175.21	4,163.83
Total Regular ADA	<u>11,134.02</u>	<u>11,121.38</u>
Extended Year Special Education		
Transitional kindergarten through third	3.88	3.88
Fourth through sixth	3.12	3.12
Seventh and eighth	2.04	2.04
Ninth through twelfth	7.43	7.43
Total Extended Year Special Education	<u>16.47</u>	<u>16.47</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	2.64	2.67
Seventh and eighth	5.01	5.08
Ninth through twelfth	12.93	12.12
Total Special Education, Nonpublic, Nonsectarian Schools	<u>20.58</u>	<u>19.87</u>
Extended Year Special Education - Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.16	0.16
Seventh and eighth	0.60	0.60
Ninth through twelfth	1.43	1.43
Total Extended Year Special Education - Nonpublic, Nonsectarian Schools	<u>2.19</u>	<u>2.19</u>
Total ADA	<u><u>11,173.26</u></u>	<u><u>11,159.91</u></u>

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	43,185	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		50,645	180	-	Complied
Grade 2		50,645	180	-	Complied
Grade 3		54,045	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,045	180	-	Complied
Grade 5		54,045	180	-	Complied
Grade 6		62,255	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		62,255	180	-	Complied
Grade 8		62,255	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		71,636	180	-	Complied
Grade 10		71,636	180	-	Complied
Grade 11		71,636	180	-	Complied
Grade 12		71,636	180	-	Complied

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

	(Budget) 2017 <sup>1</sup>	2016	2015	2014
GENERAL FUND <sup>4</sup>				
Revenues	\$ 116,802,207	\$ 120,538,700	\$ 104,592,620	\$ 99,922,373
Other sources	1,562,088	1,823,327	1,823,327	870,043
Total Revenues and Other Sources	118,364,295	122,362,027	106,415,947	100,792,416
Expenditures	117,562,908	115,930,342	108,283,944	99,399,964
Other uses and transfers out	300,000	300,000	300,000	300,000
Total Expenditures and Other Uses	117,862,908	116,230,342	108,583,944	99,699,964
INCREASE (DECREASE) IN FUND BALANCE	\$ 501,387	\$ 6,131,685	\$ (2,167,997)	\$ 1,092,452
ENDING FUND BALANCE	\$ 15,966,138	\$ 15,464,751	\$ 9,333,066	\$ 11,501,063
AVAILABLE RESERVES <sup>2</sup>	\$ 3,535,888	\$ 3,537,911	\$ 3,181,237	\$ 2,908,700
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	3.00%	3.04%	2.93%	2.92%
LONG-TERM OBLIGATIONS	N/A	\$ 100,023,909	\$ 100,066,503	\$ 100,399,080
K-12 AVERAGE DAILY ATTENDANCE AT P-2	11,170	11,173	11,297	11,380

The General Fund balance has increased by \$3,963,688 over the past two years. The fiscal year 2016-2017 budget projects a further increase of \$501,387 (3.24 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2016-2017 fiscal year. Total long-term obligations have decreased by \$375,171 over the past two years.

Average daily attendance has decreased by 207 over the past two years. An additional decline of 3 ADA is anticipated during fiscal year 2016-2017.

<sup>1</sup> Budget 2017 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects.

<sup>3</sup> On behalf payments of \$2,542,715 and \$2,459,104 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2015 and 2014.

<sup>4</sup> General Fund amounts do not include activity related to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 214,340	\$ 177,371	\$ 1,352,385
Receivables	603	41,337	1,199
Prepaid expenses	1,146	-	-
Stores inventories	-	52,485	-
<b>Total Assets</b>	<b>\$ 216,089</b>	<b>\$ 271,193</b>	<b>\$ 1,353,584</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 7,042	\$ 162,737	\$ 58,360
Unearned revenue	-	53,136	-
<b>Total Liabilities</b>	<b>7,042</b>	<b>215,873</b>	<b>58,360</b>
<b>Fund Balances:</b>			
Nonspendable	1,146	55,320	-
Restricted	-	-	-
Committed	207,901	-	1,295,224
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>209,047</b>	<b>55,320</b>	<b>1,295,224</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 216,089</b>	<b>\$ 271,193</b>	<b>\$ 1,353,584</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ 2,568,033	\$ 1,497,761	\$ 5,809,890
13,547	1,572	58,258
-	-	1,146
-	-	52,485
<u>\$ 2,581,580</u>	<u>\$ 1,499,333</u>	<u>\$ 5,921,779</u>

\$ -	\$ 1,962	\$ 230,101
-	-	53,136
-	1,962	283,237

-	-	56,466
2,581,580	-	2,581,580
-	-	1,503,125
-	1,497,371	1,497,371
<u>2,581,580</u>	<u>1,497,371</u>	<u>5,638,542</u>
<u>\$ 2,581,580</u>	<u>\$ 1,499,333</u>	<u>\$ 5,921,779</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Local Control Funding Formula	\$ 45,278	\$ -	\$ 700,000
Federal sources	-	363,357	-
Other State sources	-	10,148	-
Other local sources	185,318	1,786,177	4,500
<b>Total Revenues</b>	<b>230,596</b>	<b>2,159,682</b>	<b>704,500</b>
<b>EXPENDITURES</b>			
Current			
Instruction	126,037	-	-
Instruction-related activities:			
School site administration	93,736	-	-
Pupil services:			
Food services	-	2,311,783	-
Administration:			
All other administration	6,593	-	-
Plant services	-	-	-
Facility acquisition and construction	-	-	973,152
Debt service			
Principal	-	11,822	-
<b>Total Expenditures</b>	<b>226,366</b>	<b>2,323,605</b>	<b>973,152</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>4,230</b>	<b>(163,923)</b>	<b>(268,652)</b>
<b>Other Financing Sources</b>			
Transfers in	-	172,388	300,000
<b>NET CHANGE IN FUND BALANCES</b>	<b>4,230</b>	<b>8,465</b>	<b>31,348</b>
<b>Fund Balances - Beginning</b>	<b>204,817</b>	<b>46,855</b>	<b>1,263,876</b>
<b>Fund Balances - Ending</b>	<b>\$ 209,047</b>	<b>\$ 55,320</b>	<b>\$ 1,295,224</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ 745,278
-	-	363,357
-	-	10,148
854,591	227,731	3,058,317
<u>854,591</u>	<u>227,731</u>	<u>4,177,100</u>
-	-	126,037
-	-	93,736
-	-	2,311,783
7,619	-	14,212
6,063	126,905	132,968
728	33,309	1,007,189
-	132,429	144,251
<u>14,410</u>	<u>292,643</u>	<u>3,830,176</u>
<u>840,181</u>	<u>(64,912)</u>	<u>346,924</u>
-	-	472,388
<u>840,181</u>	<u>(64,912)</u>	<u>819,312</u>
<u>1,741,399</u>	<u>1,562,283</u>	<u>4,819,230</u>
<u>\$ 2,581,580</u>	<u>\$ 1,497,371</u>	<u>\$ 5,638,542</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

#### **Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### **Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

#### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

#### **Schedule of Financial Trends and Analysis**

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

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Palos Verdes Peninsula Unified School District  
Palos Verdes Estates, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Palos Verdes Peninsula Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Palos Verdes Peninsula Unified School District's basic financial statements, and have issued our report thereon dated December 6, 2016.

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

As discussed in Note 16 to the financial statements, the District restated its beginning balance for net pension liability to more accurately reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for its enterprise fund. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of Palos Verdes Peninsula Unified School District in a separate letter dated December 6, 2016.

**Purpose of This Report**

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

VAUZNER, TRINE, DAY & CO. LLP

Rancho Cucamonga, California  
December 6, 2016



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

Governing Board  
Palos Verdes Peninsula Unified School District  
Palos Verdes Estates, California

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

We have audited Palos Verdes Peninsula Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palos Verdes Peninsula Unified School District's major Federal programs for the year ended June 30, 2016. Palos Verdes Peninsula Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Palos Verdes Peninsula Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Palos Verdes Peninsula Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Palos Verdes Peninsula Unified School District's compliance.

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

In our opinion, Palos Verdes Peninsula Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Palos Verdes Peninsula Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palos Verdes Peninsula Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palos Verdes Peninsula Unified School District's internal control over compliance.

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

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

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

VAUZNER, TRINE, MY & CO. LLP

Rancho Cucamonga, California  
December 6, 2016



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Palos Verdes Peninsula Unified School District  
Palos Verdes Estates, California

### Report on State Compliance

We have audited Palos Verdes Peninsula Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Palos Verdes Peninsula Unified School District's State government programs as noted below for the year ended June 30, 2016.

### Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Palos Verdes Peninsula Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Palos Verdes Peninsula Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Palos Verdes Peninsula Unified School District's compliance with those requirements.

### Unmodified Opinion on Each of the Programs

In our opinion, Palos Verdes Peninsula Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
<b>CHARTER SCHOOLS</b>	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The ADA for the Independent Study and Continuation Education programs was below the materiality threshold as indicated in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting and accordingly, no audit procedures were performed for these programs.*

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

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

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

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

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

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

VAUGHN, TRINE, MARY + CO. LLP

Rancho Cucamonga, California  
December 6, 2016

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

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**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

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



Governing Board  
Palos Verdes Peninsula Unified School District  
Palos Verdes Estates, California

In planning and performing our audit of the financial statements of Palos Verdes Peninsula Unified School District (the District), for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 6, 2016 on the government-wide financial statements of the District.

***INTERNAL CONTROLS***

*Payroll*

Observation

During the course of our review of the District's vacation policy, the auditor tested 20 employees for compliance with this policy. 16 of 20 employees were deemed not to be compliant with the District's vacation policy. The auditor noted the following concern:

1. 16 of 20 employees tested were not in compliance with the District's carryover restriction policy of 32 days. The employees had a carryover balance that exceeded 32 days.

Recommendation

The District should ensure that Article 12.7 in their Collective Bargaining Contract Agreement between Palos Verdes Peninsula Unified School District and Palos Verdes Chapter 123 is complied with. The policy reads as follows:

"Vacation cannot be taken until earned except in case of mandatory site closure and except for those unit members working less than (twelve) 12 months. On or before September 1<sup>st</sup> of each year, unit members shall present an annual plan/schedule for using earned vacation days to his/her immediate supervisor for approval. It is the unit member's responsibility to use his/her annual vacation days in compliance with this article. Effective July 1, 2002, except in cases where a unit member is not permitted by the District to take his/her full annual vacation, unit members will be limited to thirty-two (32) days of accumulated and earned vacation days prior to July 1, 2002 are expected to develop a plan with their immediate supervisors to use these vacation days over a 2-3 year period. All exceptions to this article must be approved by, and shall be at the sole discretion of the Superintendent or his/her designee."

*Disbursements-Travel and Conference*

Observations

1. "Conference Attendance Request" forms were not completed prior to the associated expenditures being incurred for five of 40 conference attendance request forms tested.
2. "Conference Attendance Request" forms did not include the estimated amount in which the employee may be reimbursed for two of 40 conference attendance request forms tested.
3. Two of 40 travel and conference expenditures tested did not contain supporting documentation for the transactions.

Recommendations

1. It is recommended that the District improve upon internal controls surrounding conference attendance and expense reimbursements by following the District's procedure for approval under AR 3350 Business and Non-instructional Operations-Travel Expenses 3.a.(1), which reads: Employees may request attendance at a meeting or conference by making application on district Form F-28, Conference Attendance Request. The employee shall submit form F-28 to their administrator/supervisor who shall submit the forms he/she approves to the Superintendent or designee for that division. The request shall be made at least 30 days prior to conference date.
2. It is recommended that the District improve upon internal controls surrounding conference attendance and expense reimbursements by following the District's procedure for approval under AR 3350 Business and Non-instructional Operations-Travel Expenses 3.b.(2), which reads: When requests for travel within California are approved by the Superintendent or designee, or when requests for travel outside of California are approved by the Board, the employee making the request will receive from the office of Director of Fiscal Services Form F-28, which will indicate that approval of the request has been granted and indicate the amount which the employee may be reimbursed. The employee will also be advised if the request is rejected.
3. It is recommended that the District improve the safeguarding of documentation by ensuring that all support is properly filed, stored, and maintained for its required time frame.

***ASSOCIATE STUDENT BODY (ASB)***

*Palos Verdes Intermediate School*

Observations

1. During testing of cash receipts, the auditor noted in four deposits tested, all four were not deposited in a timely manner. Late deposit times ranged from eight to 16 days.
2. 16 of 16 tested disbursements lacked the three required approval signatures.
3. 15 of 16 tested disbursements were not pre-approved by the student body before the purchase was made.

Governing Board  
Palos Verdes Peninsula Unified School District

4. Four of 16 tested disbursements did not have a supporting invoice.
5. Bank reconciliations are not being prepared in a timely manner. During testing of bank reconciliations, it was noted that the October 2015 bank reconciliation was completed in February 2016.

Recommendations:

1. All cash should be deposited within seven days of its initial receipt date. This ensures that cash is not held on site for an extended period of time and provides less exposure to theft or loss of funds.
2. Cash disbursements should have three signatures of approval in order to ensure proper spending of ASB funds. Expenditure and reimbursement requests without three signatures of approval should not be accepted.
3. Cash disbursements must be pre-approved by the student body. It is recommended that ASB personnel ensure that proper ASB approvals are provided prior to the ordering of goods or services.
4. Cash disbursements must be supported by backup documentation such as an invoice to ensure that the amount being disbursed is accurate.
5. Bank reconciliations should be completed at the end of each month to ensure that the cash balance reported on the books is accurate and that the financial institution has not made a mistake.

*Palos Verdes High School*

Observations:

1. During testing of cash disbursements, the auditor noted that of the 19 disbursements tested, 14 did not have student body approval before the purchase was made. The auditor noted that a budget for annual expenditures was developed, however it was not officially approved by the ASB until after purchases were made.
2. During testing of revenue potentials, the auditor noted that both fundraisers tested did not have a completed revenue potential form. An explanation for the overages and shortage of the estimated profit to actual profit was missing.
3. During testing of bank reconciliations, 72 stale-dated checks (six months or older from date of issuance) from January 2013 to April 2015 were noted on the October 2015 bank reconciliation as outstanding checks.

Recommendations:

1. All disbursements must be pre-approved by the student body. It is recommended that ASB personnel ensure that proper ASB approvals are provided prior to the ordering of goods or services.
2. Each fundraising activity should have a completed revenue potential form in order to assess the fundraiser's effectiveness and financial activities. The form also serves an internal control function to document actual revenue and expenditure amounts. Fundraiser potential forms should be completed to address internal controls over fundraising activities and properly record fundraiser revenue and expenditures.
3. Outstanding checks over six months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation's. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

*Palos Verdes Peninsula High School*

Observation:

1. During testing of revenue potentials, the auditor noted that one of two fundraisers tested did not have a completed revenue potential form. The estimated revenues and expenses associated with fundraiser were not documented on the revenue potential form.

Recommendation:

1. Each fundraising activity should have a completed revenue potential form in order to assess the fundraiser's effectiveness and financial activities. The form also serves an internal control function to document actual revenue and expenditure amounts. Fundraiser potential forms should be completed to address internal controls over fundraising activities and properly record fundraiser revenue and expenditures

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

VAZQUEZ, TRINE, RY + CO. CP

Rancho Cucamonga, California  
December 6, 2016