



**PALOS VERDES PENINSULA  
UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2018**

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## ***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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in Note 1 and Note 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 70, schedule of changes in the District's total OPEB liability and related ratios on page 71, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 72, schedule of the District's proportionate share of the net pension liability on page 73, and the schedule of District contributions on page 74, 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 (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



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, 2018, with comparative information for the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **The Financial Statements**

The financial statements presented herein include all of the activities of the 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.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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### REPORTING THE DISTRICT AS A WHOLE

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

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we 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.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

#### Fund Financial Statements

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

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

**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 Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

### THE DISTRICT AS A WHOLE

#### Net Position

The District's total net position was \$(32,519,930) for the fiscal year ended June 30, 2018. Of this amount, \$(139,368,577) was unrestricted deficit. 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 and business-type activities.

**Table 1**

	Governmental Activities		Business-Type Activities		School District Activities	
	(as restated)		(as restated)		(as restated)	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 41,522,740	\$ 41,990,654	\$ 3,382,688	\$ 3,274,083	\$ 44,905,428	\$ 45,264,737
Capital assets	159,447,727	160,208,225	115,264	138,848	159,562,991	160,347,073
Total Assets	<b>200,970,467</b>	<b>202,198,879</b>	<b>3,497,952</b>	<b>3,412,931</b>	<b>204,468,419</b>	<b>205,611,810</b>
Deferred Outflows of Resources	<b>43,726,190</b>	<b>30,288,897</b>	<b>2,124,307</b>	<b>1,648,099</b>	<b>45,850,497</b>	<b>31,936,996</b>
Current liabilities	11,343,993	12,644,260	837,443	873,953	12,181,436	13,518,213
Long-term obligations	124,316,158	127,487,090	1,286,850	1,281,909	125,603,008	128,768,999
Aggregate net pension liability	127,531,528	116,473,839	5,665,019	4,549,218	133,196,547	121,023,057
Total Liabilities	<b>263,191,679</b>	<b>256,605,189</b>	<b>7,789,312</b>	<b>6,705,080</b>	<b>270,980,991</b>	<b>263,310,269</b>
Deferred Inflows of Resources	<b>11,682,178</b>	<b>5,425,199</b>	<b>175,677</b>	<b>174,653</b>	<b>11,857,855</b>	<b>5,599,852</b>
Net Position						
Net investment in capital assets	94,937,354	91,684,596	115,264	138,848	95,052,618	91,823,444
Restricted	11,796,029	9,852,439	-	-	11,796,029	9,852,439
Unrestricted	(136,910,583)	(131,079,647)	(2,457,994)	(1,957,551)	(139,368,577)	(133,037,198)
Total Net Position	<b>\$ (30,177,200)</b>	<b>\$ (29,542,612)</b>	<b>\$ (2,342,730)</b>	<b>\$ (1,818,703)</b>	<b>\$ (32,519,930)</b>	<b>\$ (31,361,315)</b>

The \$(136,910,583) in unrestricted net position of solely the governmental activities represents the accumulated results of all past years' operations.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

### Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 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	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 762,302	\$ 392,142	\$ 6,748,732	\$ 6,337,939	\$ 7,511,034	\$ 6,730,081
Operating grants and contributions	14,996,463	13,184,144	-	-	14,996,463	13,184,144
Capital grants and contributions	2,878,212	-	-	-	2,878,212	-
General revenues:						
Federal and State aid not restricted	41,891,448	43,887,622	-	-	41,891,448	43,887,622
Property taxes	65,894,986	62,361,694	-	-	65,894,986	62,361,694
Other general revenues	8,994,822	10,454,167	44,092	30,169	9,038,914	10,484,336
<b>Total Revenues</b>	<b>135,418,233</b>	<b>130,279,769</b>	<b>6,792,824</b>	<b>6,368,108</b>	<b>142,211,057</b>	<b>136,647,877</b>
<b>Expenses</b>						
Instruction-related	97,821,834	95,171,085	-	-	97,821,834	95,171,085
Pupil services	10,339,612	10,272,612	6,687,991	5,868,102	17,027,603	16,140,714
Administration	9,854,786	9,942,070	-	-	9,854,786	9,942,070
Plant services	11,918,142	12,533,050	-	-	11,918,142	12,533,050
Other	6,747,307	6,922,168	-	-	6,747,307	6,922,168
<b>Total Expenses</b>	<b>136,681,681</b>	<b>134,840,985</b>	<b>6,687,991</b>	<b>5,868,102</b>	<b>143,369,672</b>	<b>140,709,087</b>
Transfers	628,860	556,357	(628,860)	(556,357)	-	-
<b>Change in Net Position</b>	<b>\$ (634,588)</b>	<b>\$ (4,004,859)</b>	<b>\$ (524,027)</b>	<b>\$ (56,351)</b>	<b>\$ (1,158,615)</b>	<b>\$ (4,061,210)</b>

### Governmental Activities

As reported in the *Statement of Activities* on page 14, the cost of all of our governmental activities this year was \$136,681,681. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$57,894,986 because the cost was paid by those who benefited from the programs (\$762,302) or by other governments and organizations who subsidized certain programs with grants and contributions (\$17,874,675). We paid for the remaining 'public benefit' portion of our governmental activities with \$41,891,448 in Federal and State unrestricted funds and with \$16,994,822 in other revenues, such as interest and general entitlements.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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	
	2018	2017	2018	2017
Instruction	\$ 88,377,995	\$ 85,830,158	\$ 72,582,571	\$ 74,908,123
Instruction-related activities	9,443,839	9,340,927	8,944,233	8,698,466
Home-to-school transportation	1,180,721	1,076,414	1,180,721	1,076,414
Other pupil services	9,158,891	9,196,198	7,651,089	7,921,522
Administration	9,854,786	9,942,070	9,568,605	9,687,147
Plant services	11,918,142	12,533,050	11,513,528	12,106,127
Ancillary services	1,980,647	1,828,273	1,908,958	1,824,183
Interest on long-term obligations	3,950,795	4,344,999	3,950,795	4,344,999
All other activities	815,865	748,896	744,204	697,718
<b>Total</b>	<b>\$ 136,681,681</b>	<b>\$ 134,840,985</b>	<b>\$ 118,044,704</b>	<b>\$ 121,264,699</b>

## THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$30,730,228, which is an increase of \$804,228 from last year.

**Table 4**

	Fund Balance			
	June 30, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 20,549,875	\$ 122,369,841	\$ 125,716,807	\$ 17,202,909
Bond Interest and Redemption Fund	4,813,938	5,652,332	5,377,803	5,088,467
Adult Education Fund	200,219	254,905	228,852	226,272
Cafeteria Fund	52,000	2,338,556	2,252,785	137,771
Deferred Maintenance Fund	1,118,285	1,008,851	1,206,571	920,565
Capital Facilities Fund	2,160,561	796,590	74,480	2,882,671
County School Facilities Fund	-	2,878,212	-	2,878,212
Special Reserve Fund For Capital Outlay Projects	1,031,122	631,670	269,431	1,393,361
<b>Total</b>	<b>\$ 29,926,000</b>	<b>\$ 135,930,957</b>	<b>\$ 135,126,729</b>	<b>\$ 30,730,228</b>

This increase results primarily from decreased expenditures in the Capital Facilities Fund.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

### General Fund Budgetary Highlights

The Adopted Budget was presented to the Board on June 21, 2017. Budget revisions were brought forth throughout the year, with the last revision done in June 2018.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2018, the District had \$159,562,991, 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 \$784,082, or 0.49 percent, from last year (Table 5).

**Table 5**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land and construction in process	\$ 11,864,845	\$ 9,709,359	\$ -	\$ -	\$ 11,864,845	\$ 9,709,359
Buildings and improvements	146,377,722	149,408,747	115,264	138,848	146,492,986	149,547,595
Furniture and equipment	1,205,160	1,090,119	-	-	1,205,160	1,090,119
<b>Total</b>	<b>\$ 159,447,727</b>	<b>\$ 160,208,225</b>	<b>\$ 115,264</b>	<b>\$ 138,848</b>	<b>\$ 159,562,991</b>	<b>\$ 160,347,073</b>

Financing for these capital projects came from the unrestricted general fund, local gifting, categorical programs, general obligation bonds, school developer fees and State construction matching funds.

#### Long-Term Obligations

At the end of this year, the District had \$125,603,008, in obligations versus \$128,768,999, last year, as restated, a decrease of 2.5 percent. These obligations consisted of:

**Table 6**

	Governmental Activities		Business-Type Activities		Totals	
	(as restated)		(as restated)		(as restated)	
	2018	2017	2018	2017	2018	2017
General obligation bonds - net (Financed with property taxes)	\$ 89,091,627	\$ 90,983,076	\$ -	\$ -	\$ 89,091,627	\$ 90,983,076
Capitalized lease obligations	-	-	-	-	-	-
Accumulated vacation - net	1,861,169	2,147,756	-	-	1,861,169	2,147,756
Supplemental early retirement plan (SERP)	1,740,324	2,725,134	-	-	1,740,324	2,725,134
Net other postemployment benefits (OPEB) liability	31,623,038	31,631,124	1,286,850	1,281,909	32,909,888	32,913,033
<b>Total</b>	<b>\$ 124,316,158</b>	<b>\$ 127,487,090</b>	<b>\$ 1,286,850</b>	<b>\$ 1,281,909</b>	<b>\$ 125,603,008</b>	<b>\$ 128,768,999</b>

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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

At year end, the District had a net pension liability of \$133,196,547, 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, Business Services at 310-896-3418, at the Palos Verdes Peninsula Unified School District, Palos Verdes Estates, California.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2018

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 35,575,231	\$ 3,312,721	\$ 38,887,952
Receivables	5,694,734	66,414	5,761,148
Prepaid expenses	122,683	3,553	126,236
Stores inventories	130,092	-	130,092
Capital assets			
Land and construction in process	11,864,845	-	11,864,845
Other capital assets	227,039,144	814,202	227,853,346
Less: Accumulated depreciation	(79,456,262)	(698,938)	(80,155,200)
Total Capital Assets	<u>159,447,727</u>	<u>115,264</u>	<u>159,562,991</u>
<b>Total Assets</b>	<u>200,970,467</u>	<u>3,497,952</u>	<u>204,468,419</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	1,481,280	-	1,481,280
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	473,083	12,418	485,501
Deferred outflows of resources related to pensions	41,771,827	2,111,889	43,883,716
<b>Total Deferred Outflows of Resources</b>	<u>43,726,190</u>	<u>2,124,307</u>	<u>45,850,497</u>
<b>LIABILITIES</b>			
Accounts payable	10,627,187	482,856	11,110,043
Accrued interest payable	551,481	-	551,481
Unearned revenue	165,325	354,587	519,912
Long-term obligations:			
Current portion of long-term obligations other than pensions	4,425,081	-	4,425,081
Noncurrent portion of long-term obligations other than pensions	119,891,077	1,286,850	121,177,927
Total Long-Term Obligations	<u>124,316,158</u>	<u>1,286,850</u>	<u>125,603,008</u>
Aggregate net pension liability	<u>127,531,528</u>	<u>5,665,019</u>	<u>133,196,547</u>
<b>Total Liabilities</b>	<u>263,191,679</u>	<u>7,789,312</u>	<u>270,980,991</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	1,693,781	75,239	1,769,020
Deferred inflows of resources related to pensions	9,988,397	100,438	10,088,835
<b>Total Deferred Inflows of Resources</b>	<u>11,682,178</u>	<u>175,677</u>	<u>11,857,855</u>
<b>NET POSITION</b>			
Net investment in capital assets	94,937,354	115,264	\$ 95,052,618
Restricted for:			
Debt service	4,536,986	-	4,536,986
Capital projects	5,760,883	-	5,760,883
Educational programs	1,482,910	-	1,482,910
Other activities	15,250	-	15,250
Unrestricted (deficit)	(136,910,583)	(2,457,994)	(139,368,577)
<b>Total Net Position</b>	<u>\$ (30,177,200)</u>	<u>\$ (2,342,730)</u>	<u>\$ (32,519,930)</u>

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
Instruction	\$ 88,377,995	\$ 516,990	\$ 12,400,222	\$ 2,878,212
Instruction-related activities:				
Supervision of instruction	1,796,964	-	197,270	-
Instructional library, media, and technology	502,394	3,010	20,250	-
School site administration	7,144,481	-	279,076	-
Pupil services:				
Home-to-school transportation	1,180,721	-	-	-
Food services	2,266,759	-	487,574	-
All other pupil services	6,892,132	-	1,020,228	-
Administration:				
Data processing	1,579,670	-	17,291	-
All other administration	8,275,116	59,159	209,731	-
Plant services	11,918,142	183,143	221,471	-
Ancillary services	1,980,647	-	71,689	-
Community services	131,463	-	-	-
Enterprise services	119,836	-	21,000	-
Interest on long-term obligations	3,950,795	-	-	-
Other outgo	564,566	-	50,661	-
<b>Total Governmental Activities</b>	<b>136,681,681</b>	<b>762,302</b>	<b>14,996,463</b>	<b>2,878,212</b>
<b>Business-Type Activities</b>				
Child care and printing services	6,687,991	6,748,732	-	-
<b>Total Business-Type Activities</b>	<b>6,687,991</b>	<b>6,748,732</b>	<b>-</b>	<b>-</b>
<b>Total School District</b>	<b>\$ 143,369,672</b>	<b>\$ 7,511,034</b>	<b>\$ 14,996,463</b>	<b>\$ 2,878,212</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

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

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

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (72,582,571)	\$ -	\$ (72,582,571)
(1,599,694)	-	(1,599,694)
(479,134)	-	(479,134)
(6,865,405)	-	(6,865,405)
(1,180,721)	-	(1,180,721)
(1,779,185)	-	(1,779,185)
(5,871,904)	-	(5,871,904)
(1,562,379)	-	(1,562,379)
(8,006,226)	-	(8,006,226)
(11,513,528)	-	(11,513,528)
(1,908,958)	-	(1,908,958)
(131,463)	-	(131,463)
(98,836)	-	(98,836)
(3,950,795)	-	(3,950,795)
(513,905)	-	(513,905)
<u>(118,044,704)</u>	<u>-</u>	<u>(118,044,704)</u>
-	60,741	60,741
-	60,741	60,741
<u>(118,044,704)</u>	<u>60,741</u>	<u>(117,983,963)</u>
51,459,259	-	51,459,259
5,596,636	-	5,596,636
8,839,091	-	8,839,091
41,891,448	-	41,891,448
720,725	-	720,725
8,274,097	44,092	8,318,189
628,860	(628,860)	-
<u>117,410,116</u>	<u>(584,768)</u>	<u>116,825,348</u>
(634,588)	(524,027)	(1,158,615)
(29,542,612)	(1,818,703)	(31,361,315)
<u>\$ (30,177,200)</u>	<u>\$ (2,342,730)</u>	<u>\$ (32,519,930)</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

	<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	\$ 22,010,987	\$ 5,088,467	\$ 8,475,777	\$ 35,575,231
Receivables	5,538,240	-	156,494	5,694,734
Prepaid expenditures	122,683	-	-	122,683
Stores inventories	90,796	-	39,296	130,092
<b>Total Assets</b>	<b>\$ 27,762,706</b>	<b>\$ 5,088,467</b>	<b>\$ 8,671,567</b>	<b>\$ 41,522,740</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 10,394,472	\$ -	\$ 232,715	\$ 10,627,187
Unearned revenue	165,325	-	-	165,325
<b>Total Liabilities</b>	<b>10,559,797</b>	<b>-</b>	<b>232,715</b>	<b>10,792,512</b>
<b>Fund Balances:</b>				
Nonspendable	223,479	-	42,131	265,610
Restricted	1,482,910	5,088,467	5,776,133	12,347,510
Committed	-	-	1,146,837	1,146,837
Assigned	11,725,014	-	1,473,751	13,198,765
Unassigned	3,771,506	-	-	3,771,506
<b>Total Fund Balances</b>	<b>17,202,909</b>	<b>5,088,467</b>	<b>8,438,852</b>	<b>30,730,228</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 27,762,706</b>	<b>\$ 5,088,467</b>	<b>\$ 8,671,567</b>	<b>\$ 41,522,740</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, 2018**

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<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 30,730,228</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:	\$ 238,903,989
Accumulated depreciation is:	<u>(79,456,262)</u>
Net Capital Assets	159,447,727
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, 2018.	
	1,481,280
Expenditures relating to issuance of debt were recognized in the modified accrual basis, but should not be recognized in accrual basis.	
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.	
	(551,481)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and are not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	10,593,341
Net change in proportionate share of net pension liability	6,051,830
Difference between projected and actual earnings on pension plan investments	1,292,392
Differences between expected and actual experience in the measurement of the total pension liability	1,671,909
Changes of assumptions	<u>22,162,355</u>
Total Deferred Outflows of Resources Related to Pensions	41,771,827

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, 2018**

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Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and are not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	\$ (5,574,265)	
Difference between projected and actual earnings on pension plan investments	(2,401,526)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,572,741)	
Changes of assumptions	<u>(439,865)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (9,988,397)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	(127,531,528)
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Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date.	473,083
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Deferred inflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions.	(1,693,781)
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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	61,345,016	
Unamortized premium on general obligation bonds	4,646,637	
Compensated absences	1,861,169	
Supplemental early retirement plan	1,740,324	
Net other postemployment benefits (OPEB) liability	31,623,038	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unamortized on the general obligation bonds to date is:	<u>23,099,974</u>	
Total Long-Term Obligations		(124,316,158)
<b>Total Net Position - Governmental Activities</b>		<b><u>\$ (30,177,200)</u></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, 2018**

	<b>General Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 88,726,339	\$ -	\$ 745,278	\$ 89,471,617
Federal sources	2,211,212	-	472,290	2,683,502
Other State sources	15,081,307	23,999	2,871,067	17,976,373
Other local sources	15,722,123	5,628,333	3,520,149	24,870,605
<b>Total Revenues</b>	<b>121,740,981</b>	<b>5,652,332</b>	<b>7,608,784</b>	<b>135,002,097</b>
<b>EXPENDITURES</b>				
Current				
Instruction	84,234,356	-	112,363	84,346,719
Instruction-related activities:				
Supervision of instruction	1,740,170	-	-	1,740,170
Instructional library, media, and technology	489,311	-	-	489,311
School site administration	6,820,826	-	109,823	6,930,649
Pupil services:				
Home-to-school transportation	1,180,721	-	-	1,180,721
Food services	-	-	2,252,785	2,252,785
All other pupil services	6,662,335	-	-	6,662,335
Administration:				
Data processing	1,534,833	-	-	1,534,833
All other administration	5,592,394	-	52,559	5,644,953
Plant services	11,720,075	-	150,408	11,870,483
Ancillary services	1,937,791	-	-	1,937,791
Community services	130,252	-	-	130,252
Other outgo	564,566	-	-	564,566
Enterprise services	49,440	-	-	49,440
Facility acquisition and construction	2,621,180	-	1,354,181	3,975,361
Debt service				
Principal	-	3,625,000	-	3,625,000
Interest and other	138,557	1,752,803	-	1,891,360
<b>Total Expenditures</b>	<b>125,416,807</b>	<b>5,377,803</b>	<b>4,032,119</b>	<b>134,826,729</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,675,826)</b>	<b>274,529</b>	<b>3,576,665</b>	<b>175,368</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	628,860	-	300,000	928,860
Transfers out	(300,000)	-	-	(300,000)
<b>Net Financing Sources (Uses)</b>	<b>328,860</b>	<b>-</b>	<b>300,000</b>	<b>628,860</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,346,966)</b>	<b>274,529</b>	<b>3,876,665</b>	<b>804,228</b>
<b>Fund Balances - Beginning</b>	<b>20,549,875</b>	<b>4,813,938</b>	<b>4,562,187</b>	<b>29,926,000</b>
<b>Fund Balances - Ending</b>	<b>\$ 17,202,909</b>	<b>\$ 5,088,467</b>	<b>\$ 8,438,852</b>	<b>\$ 30,730,228</b>

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, 2018**

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 804,228</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	\$ (4,856,372)
Capital outlays	<u>4,095,874</u>
Net Expense Adjustment	(760,498)
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 earned were less than amounts paid by \$984,810. In addition, vacation used was more than the amounts earned by \$286,587.	
	1,271,397
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	
	(2,302,668)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.	
	(1,212,612)
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	3,625,000

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, 2018**

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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	\$ 742,265	
Amortization of debt discount	<u>(354,009)</u>	
Combined Adjustment		\$ 388,256

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 \$28,125, and second, \$2,475,816, of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

	<u>(2,447,691)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (634,588)</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, 2018**

	<b>Business-Type Activities Enterprise Funds</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 3,312,721
Receivables	66,414
Prepaid expenses	3,553
<b>Total Current Assets</b>	<u>3,382,688</u>
<b>Noncurrent Assets</b>	
Capital assets	814,202
Less: accumulated depreciation	(698,938)
<b>Total Noncurrent Assets</b>	<u>115,264</u>
<b>Total Assets</b>	<u>3,497,952</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	12,418
Deferred outflows of resources related to pensions	2,111,889
	<u>2,124,307</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	482,856
Unearned revenue	354,587
<b>Total Current Liabilities</b>	<u>837,443</u>
<b>Noncurrent Liabilities</b>	
Net other postemployment benefits (OPEB) liability	1,286,850
Aggregate net pension liability	5,665,019
<b>Total Noncurrent Liabilities</b>	<u>6,951,869</u>
<b>Total Liabilities</b>	<u>7,789,312</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	75,239
Deferred inflows of resources related to pensions	100,438
	<u>175,677</u>
<b>NET POSITION</b>	
Net investment in capital assets	115,264
Unrestricted	(2,457,994)
<b>Total Net Position</b>	<u>\$ (2,342,730)</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, 2018

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	<b>Business-Type Activities Enterprise Funds</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 6,234,904
Charges to other funds and miscellaneous revenues	513,828
<b>Total Operating Revenues</b>	<u>6,748,732</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	5,691,289
Supplies and materials	353,451
Facility rental	148,483
Other operating cost	471,184
Depreciation	23,584
<b>Total Operating Expenses</b>	<u>6,687,991</u>
<b>Operating Income</b>	<u>60,741</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>44,092</u>
<b>Income Before Transfers</b>	104,833
Transfers out	<u>(628,860)</u>
<b>Change in Net Position</b>	(524,027)
<b>Total Net Position - Beginning, as restated</b>	(1,818,703)
<b>Total Net Position - Ending</b>	<u>\$ (2,342,730)</u>

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, 2018

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	<b>Business-Type Activities Enterprise Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 6,161,648
Other operating cash receipts	513,828
Cash payments to employees for services	(5,691,289)
Cash payments to other suppliers of goods or services	151,010
Other operating cash payments	(471,184)
Net Cash Provided by Operating Activities	<u>664,013</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers out	<u>(628,860)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	44,092
Net Increase in Cash and Cash Equivalents	<u>79,245</u>
Cash and Cash Equivalents - Beginning	3,233,476
Cash and Cash Equivalents - Ending	<u>\$ 3,312,721</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 60,741
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	23,584
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Receivables	(34,901)
Prepaid expenses	5,541
Accounts payable	1,845
Deferred outflows of resources	(476,208)
Unearned revenue	(38,355)
Long-term liabilities	1,120,742
Deferred inflows of resources	<u>1,024</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 664,013</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, 2018**

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	<b>Agency Funds</b>
	<u>                    </u>
<b>ASSETS</b>	
Deposits and investments	\$ 2,627,793
Accounts receivable	22,047
Stores inventories	76,065
<b>Total Assets</b>	<u><u>\$ 2,725,905</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 6,682
Due to student groups	2,719,223
<b>Total Liabilities</b>	<u><u>\$ 2,725,905</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, 2018

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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 \$3,290,465.

**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).

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Non-Major Governmental Funds

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

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

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

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

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

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D) or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**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).

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**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 Program, the Preschool Program, and the print shop activities of the District.

**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.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

**Governmental Funds** All governmental funds are accounted for using 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.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 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.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

### **Investments**

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county 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.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **Stores Inventories**

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

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.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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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.

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 deferred charges on the refunding of general obligation bonds, for OPEB related items and pension related items.

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District's Plan and MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and MPP. For this purpose, the District Plan and MPP recognizes benefit payments when due and payable in accordance with the benefit terms.

### Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

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

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **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, 2018. 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 \$11,796,029, of net position which is restricted by enabling legislation.

### **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.

### **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

JUNE 30, 2018

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### Change in Accounting Principles

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

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

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

### **New Accounting Pronouncements**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

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

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

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

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

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

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental activities	\$ 35,575,231
Business-type activities	3,312,721
Fiduciary funds	2,627,793
Total Deposits and Investments	<u>\$ 41,515,745</u>

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

Cash on hand and in banks	\$ 3,250,368
Cash in revolving	12,835
Investments	38,252,542
Total Deposits and Investments	<u>\$ 41,515,745</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, 2018

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

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Treasury 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 \$38,252,542 with the Los Angeles County Treasury Investment Pool that has an average weighted maturity of 609 days.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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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, 2018.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$1,143,830, 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. In addition, a balance of \$313,766, was exposed to custodial credit risk because it was uninsured and uncollateralized.

### 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, 2018**

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, 2018:

Investment Type	Reported Amount	Uncategorized
Los Angeles County Treasury Investment Pool	\$ 38,252,542	\$ 38,252,542

**NOTE 4 - RECEIVABLES**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund	Fiduciary Fund
Federal Government					
Categorical aid	\$ 1,907,064	\$ 6,873	\$ 1,913,937	\$ -	\$ -
State Government					
LCFF					
apportionment	769,432	-	769,432	-	-
Categorical aid	33,602	313	33,915	-	-
Lottery	489,559	-	489,559	-	-
Special Education	2,015,980	-	2,015,980	-	-
Local Government					
Interest	101,515	145,702	247,217	18,604	22,047
Other Local Sources	221,088	3,606	224,694	47,810	-
Total	<u>\$ 5,538,240</u>	<u>\$ 156,494</u>	<u>\$ 5,694,734</u>	<u>\$ 66,414</u>	<u>\$ 22,047</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 9,460,558	\$ -	\$ -	\$ 9,460,558
Construction in process	248,801	2,248,684	93,198	2,404,287
Total Capital Assets Not Being Depreciated	9,709,359	2,248,684	93,198	11,864,845
Capital Assets Being Depreciated				
Land improvements	15,157,467	337,550	-	15,495,017
Buildings and improvements	204,162,690	1,275,669	-	205,438,359
Furniture and equipment	5,778,599	327,169	-	6,105,768
Total Capital Assets Being Depreciated	225,098,756	1,940,388	-	227,039,144
Less Accumulated Depreciation				
Land improvements	6,091,661	676,920	-	6,768,581
Buildings and improvements	63,819,749	3,967,324	-	67,787,073
Furniture and equipment	4,688,480	212,128	-	4,900,608
Total Accumulated Depreciation	74,599,890	4,856,372	-	79,456,262
Governmental Activities Capital Assets, Net	<u>\$ 160,208,225</u>	<u>\$ (667,300)</u>	<u>\$ 93,198</u>	<u>\$ 159,447,727</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	814,202	-	-	814,202
Less Accumulated Depreciation				
Land improvements	4,554	3,034	-	7,588
Buildings and improvements	670,800	20,550	-	691,350
Total Accumulated Depreciation	675,354	23,584	-	698,938
Business-Type Activities Capital Assets, Net	<u>\$ 138,848</u>	<u>\$ (23,584)</u>	<u>\$ -</u>	<u>\$ 115,264</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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

**Governmental Activities**

Instruction	\$ 2,233,931
All other general administration	2,573,877
Plant services	48,564
Total Depreciation Expenses Governmental Activities	<u>4,856,372</u>

**Business-Type Activities**

Enterprise activities	23,584
Total Depreciation Expenses All Activities	<u>\$ 4,879,956</u>

**NOTE 6 - INTERFUND TRANSACTIONS**

**Operating Transfers**

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

Transfer To	Transfer From		
	General Fund	Child Care Enterprise Fund	Total
General Fund	\$ -	\$ 628,860	\$ 628,860
Non-Major Governmental Funds	300,000	-	300,000
Total	<u>\$ 300,000</u>	<u>\$ 628,860</u>	<u>\$ 928,860</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. 628,860  
\$ 928,860

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

**NOTE 7 - ACCOUNTS PAYABLE**

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Child Care Enterprise Fund	Fiduciary Funds
LCFF apportionment	\$ 83,686	\$ -	\$ 83,686	\$ -	\$ -
Salaries and benefits	7,912,258	91,765	8,004,023	448,885	-
Supplies	489,275	4,792	494,067	1,739	6,682
Services	1,370,171	61,368	1,431,539	25,625	-
Construction	265,498	74,790	340,288	-	-
Other vendor payables	273,584	-	273,584	6,607	-
Total	<u>\$ 10,394,472</u>	<u>\$ 232,715</u>	<u>\$ 10,627,187</u>	<u>\$ 482,856</u>	<u>\$ 6,682</u>

**NOTE 8 - UNEARNED REVENUE**

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

	General Fund	Child Care Enterprise Fund
Federal financial assistance	\$ 145,325	\$ -
Other local	20,000	354,587
Total	<u>\$ 165,325</u>	<u>\$ 354,587</u>

**NOTE 9 – TAX REVENUE AND ANTICIPATION NOTE (TRANS)**

On August 1, 2017, the District issued \$5,000,000 of Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes were sold to supplement cash flow. Principal and interest were due and payable on June 1, 2018. By May 31, 2018, the District had placed 100 percent of principal and interest in a repayment fund for the sole purpose of satisfying the notes.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

**NOTE 10 - LONG-TERM OBLIGATIONS**

**Summary**

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

	(as restated)				
	Balance			Balance	Due in
	July 01, 2017	Additions	Deductions	June 30, 2018	One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 85,594,174	\$ 2,475,816	\$ 3,625,000	\$ 84,444,990	\$ 3,990,000
Premium on issuance	5,388,902	-	742,265	4,646,637	-
Accumulated vacation - net	2,147,756	-	286,587	1,861,169	-
Supplemental early retirement plan (SERP)	2,725,134	-	984,810	1,740,324	435,081
Net other postemployment benefits (OPEB) liability	31,631,124	111,222	119,308	31,623,038	-
Total	<u>\$ 127,487,090</u>	<u>\$ 2,587,038</u>	<u>\$ 5,757,970</u>	<u>\$ 124,316,158</u>	<u>\$ 4,425,081</u>
<b>Business-Type Activities</b>					
Net other postemployment benefits (OPEB) liability	\$ 1,281,909	\$ 4,941	\$ -	\$ 1,286,850	\$ -
<b>District-wide Total</b>	<u>\$ 128,768,999</u>	<u>\$ 2,591,979</u>	<u>\$ 5,757,970</u>	<u>\$ 125,603,008</u>	<u>\$ 4,425,081</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. 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. Net other postemployment benefits (OPEB) liabilities are paid by the General Fund.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2017	Issued	Accreted	Refunded	Redeemed	Bonds Outstanding June 30, 2018
2000, Series B	3/14/02	11/1/26	3.00-7.72%	\$ 15,020,098	\$ 4,402,693	\$ -	\$ 346,448	\$ -	\$ -	\$ 4,749,141
2000, Series C	3/7/03	11/1/27	2.00-5.42%	10,427,362	14,414,053	-	753,848	-	800,000	14,367,901
2005 (Measure R), Series 2006	3/9/06	3/1/31	3.50-5.00%	23,004,233	14,290,857	-	718,957	-	-	15,009,814
2005 (Measure S), Series 2006	3/9/06	3/1/31	3.50-7.65%	2,003,988	307,239	-	23,139	-	-	330,378
2005 (Measure R), Series 2009	10/6/09	8/1/34	5.68-6.18%	6,994,337	10,649,332	-	633,424	-	-	11,282,756
2005 (Measure S), Series 2009	10/6/09	8/1/34	2.00-5.00%	7,995,000	425,000	-	-	-	100,000	325,000
2014, Refunding, Series A	2/12/14	9/1/27	0.15-3.17%	13,010,000	12,945,000	-	-	-	495,000	12,450,000
2014, Refunding, Series B	2/12/14	9/1/21	0.35-2.972%	7,855,000	7,445,000	-	-	-	1,285,000	6,160,000
2015, Refunding	7/8/15	11/1/25	2.00-5.00%	7,335,000	6,195,000	-	-	-	-	6,195,000
2016, Refunding, Series A	6/3/16	8/1/34	2.00-5.00%	8,740,000	8,615,000	-	-	-	45,000	8,570,000
2016, Refunding, Series B	8/4/16	11/1/23	4.00-5.00%	5,905,000	5,905,000	-	-	-	900,000	5,005,000
					<u>\$ 85,594,174</u>	<u>\$ -</u>	<u>\$ 2,475,816</u>	<u>\$ -</u>	<u>\$ 3,625,000</u>	<u>\$ 84,444,990</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, 2018, 2000 General Obligation Bonds, Series B, totaling \$4,749,141 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, 2018, 2000 General Obligation Bonds, Series C, totaling \$14,367,901 were still outstanding.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **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, 2018, the 2005 General Obligation Refunding Bonds, Series 2006 (Measure R), totaling \$15,009,814, were still outstanding.

### **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, 2018, the 2005 General Obligation Refunding Bonds, Series 2006 (Measure S), totaling \$330,378, 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, 2018, the 2005 General Obligation Bonds, Series 2009 (Measure R), totaling \$11,282,756, were still outstanding.

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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### **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, 2018, 2005 General Obligation Bonds, Series 2009, (Measure S), totaling \$325,000, were still outstanding.

### **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, 2018, the principal balance outstanding was \$12,450,000.

### **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, 2018, the principal outstanding balance was \$6,160,000.

### **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. At June 30, 2018, the principal balance outstanding of the 2015 General Obligation Refunding Bonds was \$6,195,000.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**2016 General Obligation Refunding Bonds, Series A**

On June 3, 2016, the District issued \$8,740,000 of the 2016 General Obligation Refunding Bonds, Series A. 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 \$1,265,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure R), \$510,000 of the debt associated with the 2005 General Obligation Bonds, Series 2006 (Measure S), and \$7,230,000 of the debt associated with the 2005 General Obligation Bonds, Series 2009 (Measure S). At June 30, 2018, the principal balance outstanding of the 2016 General Obligation Refunding Bonds, Series A, was \$8,570,000.

**2016 General Obligation Refunding Bonds, Series B**

On August 4, 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. The net proceeds of \$6,682,873 (representing the principal amount of \$5,905,000 plus premium on issuance of \$924,521 minus cost of issuance of \$146,648) from the issuance were used to advance refund \$6,545,000 of the debt associated with the 2006 General Obligation Refunding Bonds, with the final prepayment to occur November 1, 2016. The refunding resulted in a cumulative cash flow saving of \$694,173 over the life of the new debt and an economic gain of \$622,651 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, 2018, the principal balance outstanding of the 2016 General Obligation Refunding Bonds, Series B, was \$5,005,000.

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest to Maturity	Current Interest to Maturity	Total
2019	\$ 3,969,257	\$ 20,743	\$ 1,662,237	\$ 5,652,237
2020	4,400,627	64,373	1,547,650	6,012,650
2021	4,742,333	127,667	1,409,962	6,279,962
2022	5,092,760	212,240	1,254,272	6,559,272
2023	3,865,740	319,260	1,103,300	5,288,300
2024-2028	30,601,811	9,043,189	2,933,250	42,578,250
2029-2033	23,248,042	18,446,958	766,125	42,461,125
2034-2035	8,524,420	10,100,580	68,850	18,693,850
Total	<u>\$ 84,444,990</u>	<u>\$ 38,335,010</u>	<u>\$ 10,745,646</u>	<u>\$ 133,525,646</u>

**Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$1,861,169.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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**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.

During 2017, the District adopted a supplemental early retirement plan with annuities purchased through Pacific Life Insurance Company. The annuities will be paid over a five-year period and were purchased for 44 employees who retired during the 2016-2017 school year.

Year Ending Balance	Lease Payment
2019	\$ 435,081
2020	435,081
2021	435,081
2022	435,081
Total	<u>\$ 1,740,324</u>

As of June 30, 2018, the remaining balance of the supplemental early retirement plans was \$1,740,324.

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

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
OPEB	\$ 32,163,876	\$ 485,501	\$ 1,769,020	\$ 3,092,849
MPP	746,012	-	-	(119,308)
Total	<u>\$ 32,909,888</u>	<u>\$ 485,501</u>	<u>\$ 1,769,020</u>	<u>\$ 2,973,541</u>

The details of each plan are as follows:

**District Plan**

**Plan Administration**

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefits payments	294
Inactive employees entitled to but not yet receiving benefits payments	24
Active employees	1,131
	<hr/>
	1,449
	<hr/>

### *Benefits Provided*

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Palos Verdes Faculty Association (PVFA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, PVFA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$485,501 in benefits.

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

The District's total OPEB liability of \$32,163,876 was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of that date.

### *Actuarial Assumptions*

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

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.40 percent
Healthcare cost trend rates	5.00 percent for 2017

The discount rate was based on the range of 3-20 year municipal bond rate indices: Standard and Poor's Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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Mortality rates were based on RPH 2014 Mortality Table with generational improvements using scale MP2017. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at June 30, 2016	\$ 32,047,713
Service cost	2,559,700
Interest	975,404
Changes of assumptions or other inputs	(2,653,530)
Benefit payments	(765,411)
Net change in total OPEB liability	<u>116,163</u>
Balance at June 30, 2017	<u><u>\$ 32,163,876</u></u>

There were no changes in benefits terms from 2016 to 2017.

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85 percent in 2016 to 3.4 percent in 2017.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.40%)	\$ 37,237,735
Current discount rate (3.40%)	32,163,876
1% increase (4.40%)	28,055,777

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
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*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (4.0%)	\$ 27,430,872
Current healthcare cost trend rate (5.0%)	32,163,876
1% increase (6.0%)	38,333,867

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$3,092,849. At June 30, 2018, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date	\$ 485,501	\$ -
Changes of assumptions	-	1,769,020
Total	<u>\$ 485,501</u>	<u>\$ 1,769,020</u>

Amounts reported deferred outflows of resources related to OPEB for amounts paid by the District for OPEB as the benefits come due subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (442,255)
2020	(442,255)
2021	(442,255)
2022	(442,255)
	<u>\$ (1,769,020)</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

#### **Plan Description**

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

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

#### **Benefits Provided**

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

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

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

#### **Net OPEB Liability and OPEB Expense**

At June 30, 2018, the District reported a liability of \$746,012, for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1733 percent, and 0.1849 percent, resulting in a net decrease in the proportionate share of 0.0116 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(119,308).

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### Actuarial Methods and Assumptions

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

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

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 825,887
Current discount rate (3.58%)	746,012
1% increase (4.58%)	668,316

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 674,136
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	746,012
1% increase (4.7% Part A and 5.1% Part B)	817,170

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

**NOTE 11 - 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	90,796	-	39,296	130,092
Prepaid expenditures	122,683	-	-	122,683
Total Nonspendable	<u>223,479</u>	<u>-</u>	<u>42,131</u>	<u>265,610</u>
<b>Restricted</b>				
Legally restricted programs	1,482,910	-	15,250	1,498,160
Capital projects	-	-	5,760,883	5,760,883
Debt services	-	5,088,467	-	5,088,467
Total Restricted	<u>1,482,910</u>	<u>5,088,467</u>	<u>5,776,133</u>	<u>12,347,510</u>
<b>Committed</b>				
Adult education program	-	-	226,272	226,272
Deferred maintenance program	-	-	920,565	920,565
Total Committed	<u>-</u>	<u>-</u>	<u>1,146,837</u>	<u>1,146,837</u>
<b>Assigned</b>				
Special reserve fund for other than capital outlay projects	2,942,880	-	-	2,942,880
One-time funding for outstanding mandate	4,240,610	-	-	4,240,610
Budget contingency	1,411,985	-	-	1,411,985
Community services	780,372	-	-	780,372
Curriculum adoption	712,094	-	-	712,094
BEST Project	516,264	-	-	516,264
Site gifting carryover	429,454	-	-	429,454
Postemployment benefits	347,585	-	-	347,585
Classified vacation payout	242,517	-	-	242,517
GATE	46,264	-	-	46,264
Facilities master plan	36,934	-	-	36,934
BTSA	18,055	-	-	18,055
Food service	-	-	80,390	80,390
Capital projects	-	-	1,393,361	1,393,361
Total Assigned	<u>11,725,014</u>	<u>-</u>	<u>1,473,751</u>	<u>13,198,765</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	3,771,506	-	-	3,771,506
Total	<u>\$ 17,202,909</u>	<u>\$ 5,088,467</u>	<u>\$ 8,438,852</u>	<u>\$ 30,730,228</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 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, 2018, 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.

#### Workers' Compensation

For fiscal year 2018, 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, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 90,579,951	\$ 27,527,542	\$ 9,587,077	\$ 8,561,742
CalPERS	42,616,596	16,356,174	501,758	5,378,330
Total	<u>\$ 133,196,547</u>	<u>\$ 43,883,716</u>	<u>\$ 10,088,835</u>	<u>\$ 13,940,072</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The details of each plan are as follows:

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

#### **Plan Description**

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

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

#### **Benefits Provided**

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

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

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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

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

**Contributions**

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$12,397,157.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 90,579,951
State's proportionate share of the net pension liability associated with the District	53,586,334
Total	<u>\$ 144,166,285</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0979 percent and 0.1040 percent, resulting in a net decrease in the proportionate share of 0.0061 percent.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$8,561,742. In addition, the District recognized pension expense and revenue of \$5,369,674 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,443,619	\$ -
Net change in proportionate share of net pension liability	2,967,956	5,594,820
Difference between projected and actual earnings on pension plan investments	-	2,412,397
Differences between expected and actual experience in the measurement of the total pension liability	334,973	1,579,860
Changes of assumptions	16,780,994	
Total	<u>\$ 27,527,542</u>	<u>\$ 9,587,077</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (2,005,514)
2020	1,517,583
2021	218,826
2022	(2,143,292)
Total	<u>\$ (2,412,397)</u>

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,250,021
2020	2,250,021
2021	2,250,021
2022	2,250,022
2023	1,691,682
Thereafter	2,217,476
Total	<u>\$ 12,909,243</u>

**Actuarial Methods and Assumptions**

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

### Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 133,000,124
Current discount rate (7.10%)	90,579,951
1% increase (8.10%)	56,133,105

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report, and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

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

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

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$3,615,989.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$42,616,596. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1785 percent and 0.1870 percent, resulting in a net decrease in the proportionate share of 0.0085 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,378,330. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,615,989	\$ -
Net change in proportionate share of net pension liability	3,514,341	-
Difference between projected and actual earnings on pension plan investments	1,474,243	-
Differences between expected and actual experience in the measurement of the total pension liability	1,526,777	-
Changes of assumptions	6,224,824	501,758
Total	<u>\$ 16,356,174</u>	<u>\$ 501,758</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.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (39,946)
2020	1,700,956
2021	620,528
2022	(807,295)
Total	<u>\$ 1,474,243</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 4,139,965
2020	3,951,483
2021	2,672,736
Total	<u>\$ 10,764,184</u>

### Actuarial Methods and Assumptions

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

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

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 62,702,669
Current discount rate (7.15%)	42,616,596
1% increase (8.15%)	25,953,516

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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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 \$4,953,538 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

### NOTE 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, 2018.

#### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District-wide support, A.J. Fistes	\$ 267,421	11/09/18
District-wide low-voltage support	359,493	12/14/18
District-wide intercom clock and signal service	154,875	12/14/18
	<u>\$ 781,789</u>	

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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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. The District pays an annual premium to ASCIP for its workers' compensation, and property liability coverage. The relationship between the District and the pool is such that it is not a component unit of the District for financial reporting purposes.

ASCIP has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are available from ASCIP.

During the year ended June 30, 2018, the District made payments of \$2,172,167 to ASCIP for services received.

### NOTE 16 - SUBSEQUENT EVENTS

The District received \$5,000,000 of Tax and Revenue Anticipation Notes on August 1, 2018. The notes mature on June 3, 2019, and yield 3.00 percent interest. The notes were sold to supplement cash flow. Repayment requirements are such that 50 percent of principal and interest must be deposited with the fiscal agent by January 31, 2019, with the remaining 50 percent of the principal and interest due on account in May 31, 2019.

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

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

#### Statement of Net Position - Governmental Activities

Net Position - Beginning	\$ (3,193,077)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(26,349,535)</u>
Net Position - Beginning as Restated	<u><u>\$ (29,542,612)</u></u>

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

Net Position - Beginning	\$ (536,794)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(1,281,909)</u>
Net Position - Beginning as Restated	<u><u>\$ (1,818,703)</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, 2018**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 88,569,766	\$ 88,705,133	\$ 88,726,339	\$ 21,206
Federal sources	2,456,373	2,403,647	2,211,212	(192,435)
Other State sources	11,564,207	14,731,710	15,081,307	349,597
Other local sources	12,930,431	14,866,411	15,722,123	855,712
<b>Total Revenues</b> <sup>1</sup>	<b>115,520,777</b>	<b>120,706,901</b>	<b>121,740,981</b>	<b>1,034,080</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	53,703,568	54,298,297	54,168,394	129,903
Classified salaries	21,754,783	22,059,635	21,896,896	162,739
Employee benefits	24,687,878	25,316,361	25,119,045	197,316
Books and supplies	4,014,380	7,666,382	5,646,498	2,019,884
Services and operating expenditures	13,722,078	15,572,981	15,375,846	197,135
Capital outlay	105,100	2,361,494	2,652,228	(290,734)
Other outgo	720,271	602,076	557,900	44,176
<b>Total Expenditures</b> <sup>1</sup>	<b>118,708,058</b>	<b>127,877,226</b>	<b>125,416,807</b>	<b>2,460,419</b>
<b>Excess of Revenues Over Expenditures</b>	<b>(3,187,281)</b>	<b>(7,170,325)</b>	<b>(3,675,826)</b>	<b>3,494,499</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,258,496	1,214,139	628,860	(585,279)
Transfers out	(300,000)	(300,000)	(300,000)	-
<b>Net Financing Sources (Uses)</b>	<b>958,496</b>	<b>914,139</b>	<b>328,860</b>	<b>(585,279)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,228,785)</b>	<b>(6,256,186)</b>	<b>(3,346,966)</b>	<b>2,909,220</b>
<b>Fund Balances - Beginning</b>	<b>20,549,875</b>	<b>20,549,875</b>	<b>20,549,875</b>	<b>-</b>
<b>Fund Balances - Ending</b>	<b>\$ 18,321,090</b>	<b>\$ 14,293,689</b>	<b>\$ 17,202,909</b>	<b>\$ 2,909,220</b>

<sup>1</sup> 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 CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

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	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 2,559,700
Interest	975,404
Changes of assumptions	(2,653,530)
Benefit payments	<u>(765,411)</u>
<b>Net change in total OPEB liability</b>	116,163
<b>Total OPEB liability - beginning</b>	<u>32,047,713</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 32,163,876</u></u>
<b>Covered payroll</b>	<u>N/A<sup>1</sup></u>
<b>District's total OPEB liability as a percentage of covered payroll</b>	<u>N/A<sup>1</sup></u>

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

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

See accompanying note to required supplementary information.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1773%</u>
District's proportionate share of the net OPEB liability	<u>\$ 746,012</u>
District's covered-employee payroll	<u>N/A<sup>1</sup></u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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

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

See 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, 2018**

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.0979%</u>	<u>0.1040%</u>
District's proportionate share of the net pension liability	\$ 90,579,951	\$ 84,084,364
State's proportionate share of the net pension liability associated with the District	<u>53,586,334</u>	<u>47,867,728</u>
Total	<u>\$ 144,166,285</u>	<u>\$ 131,952,092</u>
District's covered - employee payroll	<u>\$ 50,556,264</u>	<u>\$ 52,491,938</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>179.17%</u>	<u>160.19%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.1785%</u>	<u>0.1870%</u>
District's proportionate share of the net pension liability	<u>\$ 42,616,596</u>	<u>\$ 36,938,693</u>
District's covered - employee payroll	<u>\$ 22,701,030</u>	<u>\$ 22,426,623</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>187.73%</u>	<u>164.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.1073%</u>	<u>0.1002%</u>
\$ 72,264,263	\$ 58,557,483
<u>38,219,829</u>	<u>35,359,536</u>
<u>\$ 110,484,092</u>	<u>\$ 93,917,019</u>
<u>\$ 49,589,842</u>	<u>\$ 46,044,809</u>
<u>145.72%</u>	<u>127.17%</u>
<u>74%</u>	<u>77%</u>
<u>0.1855%</u>	<u>0.1823%</u>
\$ 27,350,234	\$ 20,695,344
<u>\$ 20,560,020</u>	<u>\$ 19,168,002</u>
<u>133.03%</u>	<u>107.97%</u>
<u>79%</u>	<u>83%</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 7,443,619	\$ 6,359,978
Contributions in relation to the contractually required contribution	<u>7,443,619</u>	<u>6,359,978</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 51,584,331</u>	<u>\$ 50,556,264</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
 <b>CalPERS</b>		
Contractually required contribution	\$ 3,615,989	\$ 3,152,719
Contributions in relation to the contractually required contribution	<u>3,615,989</u>	<u>3,152,719</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 23,282,396</u>	<u>\$ 22,701,030</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 5,632,385	\$ 4,403,578
<u>5,632,385</u>	<u>4,403,578</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 52,491,938</u>	<u>\$ 49,589,842</u>
<u>10.73%</u>	<u>8.88%</u>

\$ 2,656,882	\$ 2,420,120
<u>2,656,882</u>	<u>2,420,120</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 22,426,623</u>	<u>\$ 20,560,020</u>
<u>11.847%</u>	<u>11.771%</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statement reflects the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflects the amounts after all budget amendments have been accounted for.

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

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

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

*Change in Benefit Terms* – There was no change in benefit terms.

*Change of Assumptions* – The discount rate assumption was changed from 2.85 percent to 3.40 percent since the previous valuation.

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

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

*Changes in Benefits Terms* – There were no changes in the benefits terms since the previous valuation.

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

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

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

*Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

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

### **Schedule of District Contributions**

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

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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, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 343,915
Title III, English Learner Student Program	84.365	14346	31,372
Carl D. Perkins Career and Technical Education: Secondary Education	84.048	14894	35,592
Advanced Placement Exam - Fee Assistance	84.330B	14831	1,640
Passed through Southwest SELPA:			
Special Education Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,287,773
Preschool Grants, Part B, Sec 619	84.173	13430	65,505
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	166,919
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	278,210
Preschool Staff Development, Part B, Sec 619	84.173A	13431	286
Subtotal Special Education Cluster			<u>1,798,693</u>
Total U.S. Department of Education			<u>2,211,212</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast Program	10.553	13526	2,460
Basic School Breakfast	10.553	13390	7,525
National School Lunch Program	10.555	13396	326,722
Commodities	10.555	13396	135,583
Subtotal Child Nutrition Cluster			<u>472,290</u>
Total U.S. Department of Agriculture			<u>472,290</u>
Total Expenditures of Federal Awards			<u>\$ 2,683,502</u>

See accompanying note to supplementary information.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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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>
Anthony Collatos	President	2018
Linda Reid	Vice President	2020
Suzanne Seymour	Clerk	2020
Barbara Lucky	Member	2018
Richard Phillips	Member	2018

### ADMINISTRATION

Donald B. Austin, Ed.D.	Superintendent of Schools
Trent Bahadursingh	Deputy Superintendent
Keith Butler, Ph.D.	Associate Superintendent, Business Services
Kimberly Fricker, Ed.D.	Assistant Superintendent, Educational Services
Mathew Horvath, Ed.D.	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

	Final Report	
	Revised Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,808.78	2,809.36
Fourth through sixth	2,378.58	2,375.96
Seventh and eighth	1,732.14	1,730.98
Ninth through twelfth	4,040.78	4,022.81
Total Regular ADA	<u>10,960.28</u>	<u>10,939.11</u>
Extended Year Special Education		
Transitional kindergarten through third	3.25	3.25
Fourth through sixth	3.15	3.15
Seventh and eighth	2.09	2.09
Ninth through twelfth	8.78	8.78
Total Extended Year Special Education	<u>17.27</u>	<u>17.27</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.94	0.99
Seventh and eighth	5.51	5.24
Ninth through twelfth	22.64	19.19
Total Special Education, Nonpublic, Nonsectarian Schools	<u>29.09</u>	<u>25.42</u>
Extended Year Special Education - Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.02	0.02
Seventh and eighth	0.58	0.58
Ninth through twelfth	2.94	2.94
Total Extended Year Special Education - Nonpublic, Nonsectarian Schools	<u>3.54</u>	<u>3.54</u>
Total ADA	<u><u>11,010.18</u></u>	<u><u>10,985.34</u></u>

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	38,870	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,710	180	N/A	Complied
Grade 2		50,710	180	N/A	Complied
Grade 3		54,135	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,135	180	N/A	Complied
Grade 5		54,135	180	N/A	Complied
Grade 6		62,320	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		62,320	180	N/A	Complied
Grade 8		62,320	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		71,417	180	N/A	Complied
Grade 10		71,417	180	N/A	Complied
Grade 11		71,417	180	N/A	Complied
Grade 12		71,417	180	N/A	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, 2018

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

	<u>Child Care Enterprise Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ (391,679)
Decrease in:	
Deferred inflows of resources related to pensions	74,215
Net position (Note 17)	(1,281,909)
Increase in:	
Accumulated depreciation on capital assets	(23,584)
Deferred inflows of resources related to other post-employment benefits	12,418
Other post-employment benefits liability	(4,941)
Net pension liability	(1,115,801)
Deferred outflows of resources related to other post-employment benefits	(75,239)
Deferred outflows of resources related to pensions	463,790
Balance, June 30, 2018, Audited Financial Statement	<u>\$ (2,342,730)</u>

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

	(Budget)			
	2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND<sup>3</sup></b>				
Revenues	\$ 123,432,670	\$ 121,401,940	\$ 120,445,620	\$ 120,538,700
Other sources	1,007,247	1,208,824	1,527,965	1,853,371
Total Revenues and Other Sources	<u>124,439,917</u>	<u>122,610,764</u>	<u>121,973,585</u>	<u>122,392,071</u>
Expenditures	125,258,877	125,416,807	118,405,298	115,930,342
Other uses and transfers out	300,000	300,000	344,595	2,000,000
Total Expenditures and Other Uses	<u>125,558,877</u>	<u>125,716,807</u>	<u>118,749,893</u>	<u>117,930,342</u>
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<u>\$ (1,118,960)</u>	<u>\$ (3,106,043)</u>	<u>\$ 3,223,692</u>	<u>\$ 4,461,729</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 12,793,484</u>	<u>\$ 13,912,444</u>	<u>\$ 17,018,487</u>	<u>\$ 13,794,795</u>
<b>AVAILABLE RESERVES<sup>2</sup></b>	<u>\$ 3,766,767</u>	<u>\$ 3,771,506</u>	<u>\$ 3,562,496</u>	<u>\$ 3,537,911</u>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<u>3.00%</u>	<u>3.00%</u>	<u>3.00%</u>	<u>3.00%</u>
<b>LONG-TERM OBLIGATIONS<sup>4</sup></b>	<u>N/A</u>	<u>\$ 125,603,008</u>	<u>\$ 128,768,999</u>	<u>\$ 100,023,909</u>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<u>10,921</u>	<u>11,010</u>	<u>11,079</u>	<u>11,173</u>

The General Fund balance has increased by \$117,649 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$1,118,960 (8.04 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$25,579,099, over the past two years.

Average daily attendance has decreased by 163 over the past two years. An additional decrease of 89 ADA is anticipated during fiscal year 2018-2019.

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

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

<sup>3</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.

<sup>4</sup> Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 233,299	\$ 179,560	\$ 993,019
Receivables	524	11,432	2,336
Stores inventories	-	39,296	-
<b>Total Assets</b>	<b>\$ 233,823</b>	<b>\$ 230,288</b>	<b>\$ 995,355</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 7,551	\$ 92,517	\$ 74,790
<b>Fund Balances:</b>			
Nonspendable	-	42,131	-
Restricted	-	15,250	-
Committed	226,272	-	920,565
Assigned	-	80,390	-
<b>Total Fund Balances</b>	<b>226,272</b>	<b>137,771</b>	<b>920,565</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 233,823</b>	<b>\$ 230,288</b>	<b>\$ 995,355</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ 2,872,211	\$ 2,862,853	\$ 1,334,835	\$ 8,475,777
14,596	15,359	112,247	156,494
-	-	-	39,296
<u>\$ 2,886,807</u>	<u>\$ 2,878,212</u>	<u>\$ 1,447,082</u>	<u>\$ 8,671,567</u>
\$ 4,136	\$ -	\$ 53,721	\$ 232,715
-	-	-	42,131
2,882,671	2,878,212	-	5,776,133
-	-	-	1,146,837
-	-	1,393,361	1,473,751
<u>2,882,671</u>	<u>2,878,212</u>	<u>1,393,361</u>	<u>8,438,852</u>
<u>\$ 2,886,807</u>	<u>\$ 2,878,212</u>	<u>\$ 1,447,082</u>	<u>\$ 8,671,567</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, 2018**

	<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	-	472,290	-
Other State sources	-	15,283	-
Other local sources	209,627	1,850,983	8,851
<b>Total Revenues</b>	<b>254,905</b>	<b>2,338,556</b>	<b>708,851</b>
<b>EXPENDITURES</b>			
Current			
Instruction	112,363	-	-
Instruction-related activities:			
School site administration	109,823	-	-
Pupil services:			
Food services	-	2,252,785	-
Administration:			
All other administration	6,666	-	-
Plant services	-	-	8,335
Facility acquisition and construction	-	-	1,198,236
<b>Total Expenditures</b>	<b>228,852</b>	<b>2,252,785</b>	<b>1,206,571</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>26,053</b>	<b>85,771</b>	<b>(497,720)</b>
<b>Other Financing Sources</b>			
Transfers in	-	-	300,000
<b>NET CHANGE IN FUND BALANCES</b>	<b>26,053</b>	<b>85,771</b>	<b>(197,720)</b>
<b>Fund Balances - Beginning</b>	<b>200,219</b>	<b>52,000</b>	<b>1,118,285</b>
<b>Fund Balances - Ending</b>	<b>\$ 226,272</b>	<b>\$ 137,771</b>	<b>\$ 920,565</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 745,278
-	-	-	472,290
-	2,855,784	-	2,871,067
796,590	22,428	631,670	3,520,149
<u>796,590</u>	<u>2,878,212</u>	<u>631,670</u>	<u>7,608,784</u>
-	-	-	112,363
-	-	-	109,823
-	-	-	2,252,785
45,893	-	-	52,559
24,948	-	117,125	150,408
3,639	-	152,306	1,354,181
<u>74,480</u>	<u>-</u>	<u>269,431</u>	<u>4,032,119</u>
<u>722,110</u>	<u>2,878,212</u>	<u>362,239</u>	<u>3,576,665</u>
-	-	-	300,000
<u>722,110</u>	<u>2,878,212</u>	<u>362,239</u>	<u>3,876,665</u>
2,160,561	-	1,031,122	4,562,187
<u>\$ 2,882,671</u>	<u>\$ 2,878,212</u>	<u>\$ 1,393,361</u>	<u>\$ 8,438,852</u>

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

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

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

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

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

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

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

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

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

Districts must maintain their instructional minutes at 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, 2018**

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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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***Unmodified Opinion***

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, 2018.

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:

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



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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, 2018**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

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

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

**STATE AWARDS**

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

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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None reported.

**PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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

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

**2017-001      40000**

**Criteria or Specific Requirements**

According to *Education Code* Section 46200, a District must offer 180 school days per year for traditional calendar schools, and 163 days per year for year-round calendar schools to be eligible to receive longer-year incentive funding. In addition, *Education Code* Section 46141 states that the minimum school day in grades nine through twelve is 240 minutes and *Education Code* Section 46142 allows the minimum school day minutes to be computed using an average of 2 consecutive school days to arrive at the minimum school day, as long as the number of minutes in any one school day is never less than 180. In order to count a school day as a day of instruction for incentive funding under *Education Code* Section 46200, the District must meet the minimum daily minute requirements of *Education Code* Sections 46141 and 46142.

**Condition**

The District did not meet the minimum daily minute requirement for grades nine and 12 at one of their high schools for one day, and as a result, only offered 179 school days during the fiscal year 2016-2017. The following schedule summarizes the non-compliance:

<b>Palos Verdes High School</b>			
<b>Grade Level</b>	<b>Days Required</b>	<b>Days Offered</b>	<b>Days Short</b>
9 <sup>th</sup> grade	180	179	1
12 <sup>th</sup> grade	180	179	1

**Questioned Costs**

Using the California Department of Education's "*Estimating the Cost of an Instructional Time Audit Penalty*" worksheet for the 2016-2017 fiscal year, the penalty calculation is as follows:

ADA for grade levels affected (all 9<sup>th</sup> and 12<sup>th</sup> grade ADA as reported on the Second Period Report of Attendance) – 1,856.52 ADA  
 Derived Value of ADA - \$8,049.39  
 Days non-compliant – 1 day

Calculation – 0.0056 x 1,856.52 x \$8,049.36 x 1 = \$83,686 estimated penalty

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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### Context

The condition was found during our review of the instructional minute calculations performed for a sample of sites. Initially, we selected four of 15 school sites to perform a recalculation of the instructional minutes. We obtained the calculations from the District and using bell schedules and school calendars received from the sites, the auditor re-performed the calculations. During this process, the auditor identified that one school (Palos Verdes High School) was operating a college testing day that only offered 150 minutes for 9<sup>th</sup> and 12<sup>th</sup> graders. Upon further review of the high school bell schedules, this was the only day noted as not meeting the 180 minimum daily minute requirement.

### Effect

As a result of the condition identified, the District did not comply with *Education Code* Section 46200 and will be penalized by the State for a total of \$83,686.

### Cause

The cause may be a result of lack of review over site instructional minute calculations and/or lack of knowledge of absolute minimum daily minute requirements.

### Recommendation

On a go-forward basis, the auditor recommends that the District revise the instructional minute review procedures to include a more in depth review of the calculations submitted by the sites.

### Current Status

Implemented

2017-002      4000

### Criteria or Specific Requirements

In accordance with *California Education Code* Section 42238.02(b)(3)(b), the School District is required to implement procedures for determining if the English learner, foster youth, and free or reduced-price meal eligible pupil counts (in CALPADS) are consistent with the school district's or charter school's English learner, foster youth, and free or reduced-price meal eligible pupil records.

# PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

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

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### Condition

Through review of the District's "1.18 - FRPM/English Learner/Foster Youth – Student List" CALPADS report , 954 students were identified with an "English as a Second Language (ELAS)" designation of "English Learner (EL)". Of these identified students, 64 students appear to have been reclassified by the District as either "Initial Fluent English Proficient (IFEP)" or "Reclassified Fluent English Proficient (RFEP)" and should have been designated as such on the "1.18 - FRPM/English Learner/Foster Youth – Student List" CALPADS report. However, through review of the 1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report, it appears that these students' statuses were not updated and were reported incorrectly.

### Questioned Costs

The questioned costs associated with this condition resulted in a decrease in Local Control Funding Formula of \$19,033.

### Context

The condition was identified as a result of selecting a sample of students from the "1.18 - FRPM/English Learner/Foster Youth – Student List" CALPADS report. The "1.18 - FRPM/English Learner/Foster Youth – Student List" was agreed to the "1.17 - FRPM/English Learner/Foster Youth Count" certified CALPADS report to ensure the correct 1.18 report was used. The initial sample was selected from four school sites, which resulted in exceptions noted for one site, Lunada Bay Elementary School. Out of four students initially selected from Lunada Bay Elementary School, one had been reclassified to an ELAS designation other than "EL" in the District's records, but had been reported as "EL" on the District's "1.18 - FRPM/English Learner/Foster Youth – Student List". Additional testing was then performed on the population of all students with a classification of "EL" on the District's "1.18 - FRPM/English Learner/Foster Youth – Student List". Of the remaining population tested, 64 students appear to have been reclassified to an ELAS designation other than "EL" in the District's records, but were reported as "EL" on the District's "1.18 – FRPM/English Learner/Foster Youth – Student List."

### Effect

As a result of our testing, it appears that the District did not update the 1.18 - FRPM/English Learner/Foster Youth - Student List" CALPADS report for pupils that had been reclassified to an ELAS designation other than "EL". The results of our testing have been documented as follows:

<b>Total Enrollment</b>	<b>Unduplicated FRPM/EL/Foster Youth Total</b>	<b>Adjustment by Auditor</b>	<b>Adjusted Total Unduplicated Pupil Count</b>
11,428	1,314	(64)	1,250

# **PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT**

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

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### **Cause**

It appears the cause was due to a lack of review procedures for determining if students' ELAS classification in the District's student information system agreed to the ELAS classifications reported through CALPADS.

### **Recommendation**

The District should emphasize the importance of completing the Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on reclassification information received. In addition, procedures should be implemented to cross-check the ELAS status of students in the District's student information system to the ELAS status reported in CALPADS.

### **Current Status**

Implemented



***ASSOCIATED STUDENT BODY (ASB) ACCOUNTS***

*Ridgecrest Intermediate School*

Observations

During our audit of the ASB, we noted the following:

1. There is inadequate segregation of duties at the site. The secretary performs all accounting functions such as recording transactions, issuing receipts, making bank deposits, reconciling the bank account, writing checks, and signing the checks.
2. Receipts are not consistently being issued for cash collections. Of 13 deposits selected for testing, each contained instances of missing receipts. Therefore, the completeness and timeliness of these deposits could not be verified.
3. Of eight disbursements tested, each was missing evidence of a purchase order or purchase request form that had been approved by three individuals prior to the transactions taking place. In addition, the approval for six disbursements was not noted in the student body minutes prior to the transactions taking place.
4. Of eight disbursements tested, each was missing explicit receiving documentation. As a result, vendor invoices were paid without the direct knowledge of whether or not the goods ordered had been received.
5. Checks are not issued in sequential order.
6. The ASB held a fundraising event with the intention of donating the funds raised to a specific charity. Through inquiry with site personnel, the fundraising event was not clearly identified as raising funds to donate to the charity, and a revenue potential form was not prepared for this fundraising event.

Recommendations

1. In order to maintain adequate internal controls over accounting functions, a single person cannot perform all accounting activities of the ASB. Specifically, the site should ensure that the secretary is not authorized to sign checks. Independent review of prepared bank reconciliations and accompanying cancelled checks or check images should be performed by an administrator with accounting knowledge to ensure proper monitoring of the ASB's activities.
2. Pre-numbered, three-part, receipts should be issued for all monies collected by teachers, advisors, and the site bookkeeper. Receipts should include a specific description of the source of the funds. Copies of the receipts issued by teachers and advisors should be forwarded with collected cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the related bank deposit.
3. To maintain proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are approved in advance by authorized administrative personnel and the student council. This would allow the reviewing administrator and the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. The site may consider using a purchase requisition form to obtain the three required signatures prior to the disbursement being made.

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4. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
5. Checks should be written in sequential order to provide for simplified identification of gaps in checks or misplaced checks.
6. The site should review the Fiscal Crisis & Management Assistance Team's (FCMAT) *Associated Student Body Accounting Manual, Fraud Prevention Guide, and Desk Reference* for procedures related to fundraising events held specifically for charities. Additionally, the ASB should prepare revenue potential forms to document revenues, expenditures, inventory purchased for sales, potential revenues, and actual revenues associated with fundraising events.

*Palos Verdes Intermediate School*

Observations

During our audit of the ASB, we noted the following:

1. Club advisors do not consistently provide adequate supporting documentation for cash collections. Of eight deposits tested, each contained various receipts that were not supported by adequate documentation or a paper trail. As a result, the completeness and timeliness of these deposits could not be verified.
2. Of seven disbursements tested, each was missing evidence of a purchase order or purchase request form that had been approved by three individuals prior to transactions taking place.
3. Of seven disbursements tested, five were missing explicit receiving documentation. As a result, vendor invoices were being paid without the direct knowledge of whether or not the goods being ordered have been received.
4. Fundraiser approval forms and revenue potential forms are not being utilized to approve, document, and control fundraising activities as they occur.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and sales transactions. If utilizing a log, the student's name and amount being submitted should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. The white copy of the receipt should be issued to the person submitting the monies, the yellow receipt or log sheet should be utilized for deposit back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are submitting monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts or the log and monies to clearly identify the total amount being turned in.

2. To maintain proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are approved in advance by authorized administrative personnel and the student council. This would allow the reviewing administrator and the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. The site may consider using a purchase requisition form to obtain the three required signatures prior to the disbursement being made.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. All ASB fundraisers must be approved by the student body and administrative personnel. Additionally, the ASB should ensure that revenue potential forms are being prepared for each fundraising event. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff and students the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

*Palos Verdes Peninsula High School*

Observations

During our audit of the ASB, we noted the following:

1. Of 25 disbursements tested, one was not approved prior to the transaction taking place.
2. Of 25 disbursements tested, one was not an allowable expenditure for an ASB. It was noted that the expenditure was made for lunches and gift card incentives for faculty members.
3. Of six bank reconciliations tested, one did not have a reviewer's signature indicated.
4. Of the three revenue potential forms tested, one was incomplete. It did not document estimated sales, actual sales, estimated costs, or actual costs associated with the corresponding fundraiser.
5. Explanations for overages and shortages have not been documented on ticket sales forms. Of three ticket sales forms tested, each contained overages or shortages that were not explained.

