

**PACIFIC GROVE  
UNIFIED SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2011**

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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JUNE 30, 2011

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Grove Unified School District (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Grove Unified School District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 54 and 55, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vanninck, Trine, Day + Co. LLP*

Fresno, California  
December 14, 2011



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This section of Pacific Grove Unified School District's (2010-11) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the District's financial statements, which immediately follow this section.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

***The Financial Statements***

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

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

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

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

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

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

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

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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### ***REPORTING THE DISTRICT AS A WHOLE***

#### *The Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets* 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 assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether *its financial health 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 Assets* and the *Statement of Activities*, we present the District activities as follows:

**Governmental Activities** - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### *Fund Financial Statements*

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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

### ***THE DISTRICT AS TRUSTEE***

#### *Reporting the District's Fiduciary Responsibilities*

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

### ***THE DISTRICT AS A WHOLE***

#### *Net Assets*

The District's net assets were \$24.3 million for the fiscal year ended June 30, 2011, and \$22.9 million for the fiscal year ended June 30, 2010, an increase of \$1.4 million. Of this amount, \$5.3 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**Table 1**

	Governmental Activities		
	2011	2010	Variance
<b>Assets</b>			
Current and other assets	\$ 12,433,452	\$ 24,322,834	\$ (11,889,382)
Capital assets (Net of accumulated depreciation)	58,142,368	46,385,278	11,757,090
<b>Total Assets</b>	<u>70,575,820</u>	<u>70,708,112</u>	<u>(132,292)</u>
<b>Liabilities</b>			
Current liabilities	1,649,316	3,345,192	(1,695,876)
Long-term obligations	44,531,487	45,023,768	(492,281)
<b>Total Liabilities</b>	<u>46,180,803</u>	<u>48,368,960</u>	<u>(2,188,157)</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	15,518,252	15,095,693	422,559
Restricted	3,606,971	3,892,086	(285,115)
Unrestricted	5,269,794	3,951,373	1,318,421
<b>Total Net Assets</b>	<u>\$ 24,395,017</u>	<u>\$ 22,939,152</u>	<u>\$ 1,455,865</u>

The \$5.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Assets

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**Table 2**

	Governmental Activities		
	2011	2010	Variance
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 281,909	\$ 301,789	\$ (19,880)
Operating grants and contributions	1,761,881	1,956,432	(194,551)
General revenues:			
Federal and State aid not restricted	3,607,001	2,643,576	963,425
Property taxes	22,232,850	21,842,928	389,922
Other general revenues	2,141,366	3,390,600	(1,249,234)
<b>Total Revenues</b>	<b>30,025,007</b>	<b>30,135,325</b>	<b>(110,318)</b>
<b>Expenses</b>			
Instruction-related	18,508,321	18,814,850	(306,529)
Student support services	2,613,432	2,296,163	317,269
Administration	2,568,226	2,783,138	(214,912)
Plant services	1,645,094	1,927,904	(282,810)
Other	3,234,069	2,741,823	492,246
<b>Total Expenses</b>	<b>28,569,142</b>	<b>28,563,878</b>	<b>5,264</b>
<b>Change in Net Assets</b>	<b>\$ 1,455,865</b>	<b>\$ 1,571,447</b>	<b>\$ (115,582)</b>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$28.6 million, as compared to \$28.5 million in the prior year. The amount that our taxpayers financed for these activities through local taxes was \$22.2 million because the cost was paid by those who benefited from the programs (\$0.3 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$1.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.6 million in State funds and \$2.1 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions - regular program instruction, instruction-related activities, home-to-school transportation services, other pupil services, general administration, plant services and 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 provided by that function.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**Table 3**

	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 15,408,940	\$ 14,073,575	\$ 15,558,167	\$ 14,160,283
Instruction-related activities	3,099,381	3,006,537	3,256,683	3,162,266
Home-to-school transportation	403,475	369,398	323,360	188,828
Other pupil services	2,209,957	1,755,411	1,972,803	1,516,861
General administration	2,568,226	2,551,649	2,783,138	2,758,832
Plant services	1,645,094	1,637,254	1,927,904	1,882,957
Ancillary services	362,931	362,931	315,794	315,794
Community services	277,273	277,273	286,667	286,667
Interest on long-term obligations	2,049,865	2,049,865	1,612,843	1,612,843
Other outgo	544,000	441,459	526,519	420,326
<b>Total</b>	<b>\$ 28,569,142</b>	<b>\$ 26,525,352</b>	<b>\$ 28,563,878</b>	<b>\$ 26,305,657</b>

***THE DISTRICT'S FUNDS***

As the District completed this year, our governmental funds reported a combined fund balance of \$10.8 million while the prior year reported \$21.6 million, which is a decrease of \$10.8 million (Table 4).

**Table 4**

	Balances		
	June 30, 2011	June 30, 2010	Variance
General	\$ 4,935,152	\$ 4,465,460	\$ 469,692
Adult Education	288,997	198,114	90,883
Cafeteria	50,396	76,818	(26,422)
Child Development	38,919	112	38,807
Building	1,392,459	13,310,155	(11,917,696)
Deferred Maintenance	915,189	831,499	83,690
Bond Interest and Redemption	2,038,296	1,588,002	450,294
Special Reserve Capital Projects	1,124,728	1,107,482	17,246
<b>Total</b>	<b>\$ 10,784,136</b>	<b>\$ 21,577,642</b>	<b>\$ (10,793,506)</b>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2011**

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The primary reasons for these changes are:

The General Fund is the District's principal operating fund. The fund balance in the General Fund increased \$0.5 million to \$4.9 million due primarily to budget reductions. The decrease in the Building Fund was due to continued capital outlay. The increase in Bond Interest and Redemption Fund was due to local tax revenues in excess of debt requirements during the year.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on May 12, 2011. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### Capital Assets

At June 30, 2010, the District had \$46.4 million in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. At June 30, 2011, the District's Capital Assets were \$58.1 million. This amount represents a net increase (including additions, deductions and depreciation) of \$11.7 million from last year (Table 5).

**Table 5**

	Governmental Activities		
	2011	2010	Variance
Land and construction in process	\$ 8,479,314	\$ 7,747,474	\$ 731,840
Buildings and improvements	49,348,446	38,294,572	11,053,874
Furniture and equipment	314,608	343,232	(28,624)
<b>Total</b>	<b>\$ 58,142,368</b>	<b>\$ 46,385,278</b>	<b>\$ 11,757,090</b>

Several capital projects in process were completed in the 2010-11 year. We present more detailed information about our capital assets in the Notes to Financial Statements.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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### Long-Term Obligations

At the end of this year, the District had \$44.5 million in obligations outstanding versus \$45.0 million last year, a decrease of \$0.5 million. The long-term obligations of the District include the following:

**Table 6**

	Governmental Activities		
	2011	2010	Variance
General obligation bonds	\$ 43,971,000	\$ 44,561,000	\$ (590,000)
Compensated absences	136,602	138,594	(1,992)
Capitalized lease obligations	45,575	38,739	6,836
Other postemployment benefits	321,674	168,958	152,716
Early retirement contracts	56,636	116,477	(59,841)
<b>Total</b>	<b>\$ 44,531,487</b>	<b>\$ 45,023,768</b>	<b>\$ (492,281)</b>

The District's S&P bond rating as of the most recent bond issuance was "AA".

We present more detailed information regarding our long-term liabilities in the Notes to Financial Statements.

### ***SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-11 ARE NOTED BELOW:***

Continued the implementation of the \$42 million school modernization project, funded by a general obligation bond (Measure D), which includes renovations and additions at all school sites. Major construction during the year included the completion of work at the Pacific Grove Adult Education Center, Robert Down and Forest Grove Elementary Schools. The ongoing projects at the Pacific Grove Middle School, the Pacific Grove High School, the district maintenance and operations yard and the replacement district office continued on into fiscal year 2011.

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

In considering the District Budget for the 2011-12 year, the District Board and management used the following key assumptions in our revenue and expenditure forecasts:

1. Property tax revenues are budgeted to increase \$358,737 to \$19,094,897 based on the County Assessor's Property Valuation report.
2. No "basic aid" will be received.
3. Federal income is expected to remain flat due to the national economic outlook.
4. The District will receive an estimated \$267,000 for the parcel tax.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

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

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 11,131,124
Receivables	1,299,909
Stores inventories	2,419
Nondepreciable capital assets	8,479,314
Capital assets being depreciated	57,681,057
Accumulated depreciation	<u>(8,018,003)</u>
<b>Total Assets</b>	<u><u>70,575,820</u></u>
<b>LIABILITIES</b>	
Accounts payable	1,445,692
Deferred revenue	203,624
Current portion of long-term obligations	909,088
Noncurrent portion of long-term obligations	<u>43,622,399</u>
<b>Total Liabilities</b>	<u><u>46,180,803</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	15,518,252
Restricted for:	
Debt service	2,038,296
Capital projects	1,124,728
Educational programs	395,970
Other activities	47,977
Unrestricted	<u>5,269,794</u>
<b>Total Net Assets</b>	<u><u>\$ 24,395,017</u></u>

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
Instruction	\$ 15,408,940	\$ -	\$ 1,335,365
Instruction-related activities:			
Supervision of instruction	159,042	-	-
Instructional library, media, and technology	351,457	-	-
School site administration	2,588,882	-	92,844
Pupil services:			
Home-to-school transportation	403,475	15,992	18,085
Food services	634,804	265,685	123,503
All other pupil services	1,575,153	-	65,358
Administration:			
Data processing	11,874	-	-
All other administration	2,556,352	232	16,345
Plant services	1,645,094	-	7,840
Ancillary services	362,931	-	-
Community services	277,273	-	-
Interest on long-term obligations	2,049,865	-	-
Other outgo	544,000	-	102,541
<b>Total Governmental Activities</b>	<b>\$ 28,569,142</b>	<b>\$ 281,909</b>	<b>\$ 1,761,881</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			
Transfers			
Miscellaneous			
<b>Subtotal, General Revenues</b>			
<b>Change in Net Assets</b>			
Net Assets - Beginning			
Net Assets - Ending			

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

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

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**Governmental  
Activities**

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\$ (14,073,575)

(159,042)

(351,457)

(2,496,038)

(369,398)

(245,616)

(1,509,795)

(11,874)

(2,539,775)

(1,637,254)

(362,931)

(277,273)

(2,049,865)

(441,459)

(26,525,352)

18,878,723

3,079,580

274,547

3,607,001

26,557

10,040

2,104,769

27,981,217

1,455,865

22,939,152

\$ 24,395,017

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 4,636,060	\$ 2,101,216	\$ 2,038,296
Receivables	1,238,330	-	-
Stores inventories	-	-	-
<b>Total Assets</b>	<b>\$ 5,874,390</b>	<b>\$ 2,101,216</b>	<b>\$ 2,038,296</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 735,614	\$ 708,757	\$ -
Deferred revenue	203,624	-	-
<b>Total Liabilities</b>	<b>939,238</b>	<b>708,757</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	5,000	-	-
Restricted	68,054	1,392,459	2,038,296
Committed	77,147	-	-
Assigned	1,799,072	-	-
Unassigned	2,985,879	-	-
<b>Total Fund Balances</b>	<b>4,935,152</b>	<b>1,392,459</b>	<b>2,038,296</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,874,390</b>	<b>\$ 2,101,216</b>	<b>\$ 2,038,296</b>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,355,552	\$ 11,131,124
61,579	1,299,909
2,419	2,419
<u>\$ 2,419,550</u>	<u>\$ 12,433,452</u>
\$ 1,321	\$ 1,445,692
-	203,624
<u>1,321</u>	<u>1,649,316</u>
2,419	7,419
86,896	3,585,705
1,204,186	1,281,333
1,124,728	2,923,800
-	2,985,879
<u>2,418,229</u>	<u>10,784,136</u>
<u>\$ 2,419,550</u>	<u>\$ 12,433,452</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 10,784,136</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets 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	\$ 66,160,371	
Accumulated depreciation is	<u>(8,018,003)</u>	
Net Capital Assets		58,142,368
Long-term obligations at year-end consist of:		
Bonds payable	43,971,000	
Compensated absences (vacations)	136,602	
Capital leases payable	45,575	
Other postemployment benefits	321,674	
Early retirement	<u>56,636</u>	
Total Long-Term Obligations		<u>(44,531,487)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u><u>\$ 24,395,017</u></u></b>

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 18,842,645	\$ -	\$ -
Federal sources	706,923	-	-
Other State sources	4,125,882	-	17,281
Other local sources	1,591,887	59,782	3,064,234
<b>Total Revenues</b>	<u>25,267,337</u>	<u>59,782</u>	<u>3,081,515</u>
<b>EXPENDITURES</b>			
Current			
Instruction	13,928,349	-	-
Instruction-related activities:			
Supervision of instruction	158,282	-	-
Instructional library, media and technology	349,262	-	-
School site administration	2,110,392	-	-
Pupil services:			
Home-to-school transportation	258,467	-	-
Food services	-	-	-
All other pupil services	1,557,653	-	-
Administration:			
All other administration	2,123,450	-	-
Plant services	2,314,794	-	-
Facility acquisition and construction	-	11,971,518	-
Ancillary services	360,178	-	-
Community services	-	-	-
Other outgo	544,000	-	-
Debt service			
Principal	16,578	-	590,000
Interest and other	2,684	5,960	2,041,221
<b>Total Expenditures</b>	<u>23,724,089</u>	<u>11,977,478</u>	<u>2,631,221</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>1,543,248</u>	<u>(11,917,696)</u>	<u>450,294</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	15,209	-	-
Other sources	23,414	-	-
Transfers out	(1,112,179)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(1,073,556)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	469,692	(11,917,696)	450,294
<b>Fund Balance - Beginning as Restated</b>	4,465,460	13,310,155	1,588,002
<b>Fund Balance - Ending</b>	<u>\$ 4,935,152</u>	<u>\$ 1,392,459</u>	<u>\$ 2,038,296</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 18,842,645
148,721	855,644
256,111	4,399,274
1,211,541	5,927,444
<u>1,616,373</u>	<u>30,025,007</u>
891,204	14,819,553
-	158,282
-	349,262
418,076	2,528,468
-	258,467
515,609	515,609
16,091	1,573,744
334,306	2,457,756
1,168	2,315,962
55,412	12,026,930
-	360,178
277,273	277,273
-	544,000
-	606,578
-	2,049,865
<u>2,509,139</u>	<u>40,841,927</u>
<u>(892,766)</u>	<u>(10,816,920)</u>
1,112,179	1,127,388
-	23,414
<u>(15,209)</u>	<u>(1,127,388)</u>
<u>1,096,970</u>	<u>23,414</u>
204,204	(10,793,506)
2,214,025	21,577,642
<u>\$ 2,418,229</u>	<u>\$ 10,784,136</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011**

**Total Net Change in Fund Balances - Governmental Funds** **\$ (10,793,506)**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

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

This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 12,949,163	
Depreciation expense	(1,192,073)	
Net Expense Adjustment		11,757,090

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Assets. (23,414)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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, there were special termination benefits paid in the amount of \$59,841. Vacation earned was less than the amounts paid by \$1,992. 61,833

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (152,716)

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

General obligation bonds	590,000	
Capital lease obligations	16,578	
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,455,865</b>	

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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	<u>Scholarship Trust</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 230,486	\$ 78,584
<b>Total Assets</b>	<u>230,486</u>	<u>\$ 78,584</u>
 <b>LIABILITIES</b>		
Due to student groups	-	\$ 78,584
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 78,584</u>
 <b>NET ASSETS</b>		
Reserved for scholarships	230,486	
<b>Total Net Assets</b>	<u>\$ 230,486</u>	

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Scholarship Trust</b>
<b>ADDITIONS</b>	
Private donations	\$ 2,473
Interest	856
<b>Total Additions</b>	<u>3,329</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	3,700
Other expenditures	803
<b>Total Deductions</b>	<u>4,503</u>
<b>Change in Net Assets</b>	(1,174)
<b>Net Assets - Beginning</b>	<u>231,660</u>
<b>Net Assets - Ending</b>	<u><u>\$ 230,486</u></u>

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Pacific Grove Unified School District was organized in 1895 under the laws of the State of California. The District operates under a locally-elected five member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates two elementary schools, one middle school, one high school, one adult education center, one continuation high school and two before and after school recreation centers.

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 Pacific Grove Unified School District, this includes general operations, food service, and student related activities of the District.

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another 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 Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund, 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 consolidated with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$77,315, \$77,315, and \$255, respectively.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

---

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

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

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

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

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds category are composed of agency funds and trust funds. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District has a scholarship trust fund and an ASB student body agency fund.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

---

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

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

Net assets 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. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

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

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

**Deferred Revenue** Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **Investments**

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Stores Inventories

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

### Capital Assets and Depreciation

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

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental column of the *Statement of Net Assets*.

### 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 assets as long-term obligations.

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Accrued Liabilities and Long-Term Obligations

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

### Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

In fiscal year 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-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.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are 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 assets are available. The government-wide financial statements reports \$3,606,971 of restricted net assets.

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

### Estimates

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

### Budgetary Data

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

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

### Property Tax

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Changes in Accounting Principles

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 11,131,124
Fiduciary funds	309,070
Total Deposits and Investments	<u>\$ 11,440,194</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 320,213
Cash in revolving	5,000
Investments	11,114,981
Total Deposits and Investments	<u>\$ 11,440,194</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.

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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 manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase 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.

**Segmented Time Distribution**

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Corporate Bonds	\$ 40,852	\$ -	\$ -	\$ -	\$ 40,852
County Pool	11,074,129	11,074,129	-	-	-
Total	<u>\$ 11,114,981</u>	<u>\$ 11,074,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,852</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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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. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Corporate Bonds	\$ 40,852	N/A	\$ -	\$ 40,852	\$ -
County Pool	11,074,129	N/A	-	-	11,074,129
Total	<u>\$ 11,114,981</u>		<u>\$ -</u>	<u>\$ 40,852</u>	<u>\$ 11,074,129</u>

N/A - Not applicable

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, none of the District's bank balance was exposed to custodial credit risk.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Corporate Bonds of \$40,852, the District has a custodial credit risk exposure of \$40,852 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2011, 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
Federal Government			
Categorical aid	\$ 130,579	\$ 30,863	\$ 161,442
State Government			
Categorical aid	132,883	13,746	146,629
Lottery	159,736	-	159,736
Other State	720,581	-	720,581
Local Sources	94,551	16,970	111,521
Total	<u>\$ 1,238,330</u>	<u>\$ 61,579</u>	<u>\$ 1,299,909</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 217,496	\$ -	\$ -	\$ 217,496
Construction in process	7,529,978	5,116,978	4,385,138	8,261,818
Total Capital Assets Not Being Depreciated	<u>7,747,474</u>	<u>5,116,978</u>	<u>4,385,138</u>	<u>8,479,314</u>
Capital Assets Being Depreciated				
Buildings and improvements	44,807,822	12,193,909	-	57,001,731
Furniture and equipment	655,912	23,414	-	679,326
Total Capital Assets Being Depreciated	<u>45,463,734</u>	<u>12,217,323</u>	<u>-</u>	<u>57,681,057</u>
Less Accumulated Depreciation				
Buildings and improvements	6,513,250	1,140,035	-	7,653,285
Furniture and equipment	312,680	52,038	-	364,718
Total Accumulated Depreciation	<u>6,825,930</u>	<u>1,192,073</u>	<u>-</u>	<u>8,018,003</u>
Governmental Activities Capital Assets, Net	<u>\$46,385,278</u>	<u>\$16,142,228</u>	<u>\$ 4,385,138</u>	<u>\$ 58,142,368</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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

Governmental Activities	
Instruction	\$ 607,957
School site administration	47,683
Home-to-school transportation	143,049
Food services	119,207
Data processing	23,841
All other general administration	11,921
Plant services	238,415
Total Depreciation Expenses Governmental Activities	<u>\$ 1,192,073</u>

### NOTE 5 - INTERFUND TRANSACTIONS

#### Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. There were no interfund receivable and payable balances at June 30, 2011.

#### Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

The General Fund transferred grant funding to the Adult Education Fund.	\$ 962,578
The General Fund transferred to the Child Development Fund for cash flow purposes.	49,601
The General Fund transferred to the Cafeteria Fund to supplement operations.	100,000
The Deferred Maintenance Fund transferred to the General Fund for maintenance costs.	15,209
Total	<u>\$ 1,127,388</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 291,553	\$ 708,757	\$ 1,321	\$ 1,001,631
Deferred payroll	444,061	-	-	444,061
Total	<u>\$ 735,614</u>	<u>\$ 708,757</u>	<u>\$ 1,321</u>	<u>\$ 1,445,692</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2011, consists of the following:

	General Fund
Federal financial assistance	\$ 200,438
State categorical aid	3,186
Total	<u>\$ 203,624</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

At July 1, 2010, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$5,000,000, which matured on July 6, 2010.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2010	Additions	Payments	Outstanding June 30, 2011
July 6, 2009	[1]	July 6, 2010	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>

[1] Interest at the rate of the County Investment Pool

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 44,561,000	\$ -	\$ 590,000	\$ 43,971,000	\$ 831,000
Compensated absences - net	138,594	-	1,992	136,602	-
Capital leases	38,739	23,414	16,578	45,575	18,247
Other postemployment benefits	168,958	676,287	523,571	321,674	-
Early retirement	116,477	-	59,841	56,636	59,841
Total	<u>\$ 45,023,768</u>	<u>\$ 699,701</u>	<u>\$ 1,191,982</u>	<u>\$ 44,531,487</u>	<u>\$ 909,088</u>

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

**Bonded Debt**

On April 10, 2001, the District issued \$4,000,000 of 1999 Election, Series B General Obligation Bonds. The Bonds represent a portion of the \$12,000,000 of General Obligation Bonds approved by voters within the District at an election held on November 2, 1999. The Bonds were issued to fund classroom and school facility improvements in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2002.

On March 12, 2002, the District issued \$3,000,000 of 1999 Election, Series C General Obligation Bonds. The Bonds represent a portion of the \$12,000,000 of General Obligation Bonds approved by voters within the District at an election held on November 2, 1999. The Bonds were issued to fund classroom and school facility improvements in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2003.

On February 11, 2003, the District issued \$2,000,000 of 1999 Election, Series C General Obligation Bonds. The Bonds represent the final portion of the \$12,000,000 of General Obligation Bonds approved by voters within the District at an election held on November 2, 1999. The Bonds were issued to fund classroom and school facility improvements in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2004.

On December 16, 2005, the District issued \$3,065,000 of 2005 General Obligation Refunding Bonds. The Bonds were issued to refund a portion of the District General Obligation Bonds, 1999 Election, Series A Bonds. Interest on the Bonds is payable each February 1 and August 1 commencing August 1, 2006.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

On March 21, 2007, the District issued \$6,000,000 of 2006 Election, Series A General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2008.

On March 27, 2007, the District issued \$3,035,000 of 2007 General Obligation Refunding Bonds. The Bonds were issued to refund a portion of the District General Obligation Bonds, 1999 Election, Series B Bonds. Interest on the Bonds is payable each February 1 and August 1 commencing August 1, 2007.

On March 11, 2008, the District issued \$9,720,000 of 2006 Election, Series B General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2009.

On April 8, 2009, the District issued \$9,500,000 of 2006 Election, Series C General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2010.

On February 9, 2010, the District issued \$9,000,000 of 2006 Election, Series D General Obligation Bonds. The Bonds represent a portion of the \$42,000,000 of General Obligation Bonds approved by more than fifty-five percent of the voters within the District at an election held on June 6, 2006. The Bonds were issued to repair and renovate schools, and build new classrooms and educational facilities in the District. Interest on the Bonds is payable each February 1 and August 1 commencing February 1, 2011.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding Beginning of Year	Issued	Redeemed	Bonds Outstanding End of Year
4/25/2001	8/1/2015	3.25 - 5.1	\$4,000,000	\$ 650,000	\$ -	\$ 95,000	\$ 555,000
3/26/2002	8/1/2031	2.25 - 5.0	3,000,000	2,640,000	-	75,000	2,565,000
2/26/2003	8/1/2032	3.80 - 5.0	2,000,000	1,740,000	-	45,000	1,695,000
12/16/2005	8/1/2029	3.5 - 4.625	3,065,000	2,601,000	-	75,000	2,526,000
3/21/2007	8/1/2036	3.7 - 4.150	6,000,000	5,860,000	-	120,000	5,740,000
3/27/2007	8/1/2030	3.5 - 4.20	3,035,000	2,985,000	-	15,000	2,970,000
3/11/2008	8/1/2037	2.20 - 4.30	9,720,000	9,585,000	-	150,000	9,435,000
4/8/2009	8/1/2039	5.0 - 7.0	9,500,000	9,500,000	-	15,000	9,485,000
2/9/2010	8/1/2039	2.0-5.0%	9,000,000	9,000,000	-	-	9,000,000
Total				\$44,561,000	\$ -	\$ 590,000	\$43,971,000

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**Debt Service Requirements to Maturity**

1999 Series B. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 100,000	\$ 22,380	\$ 122,380
2013	105,000	18,023	123,023
2014	110,000	13,345	123,345
2015	115,000	8,338	123,338
2016	125,000	2,875	127,875
Total	<u>\$ 555,000</u>	<u>\$ 64,960</u>	<u>\$ 619,960</u>

1999 Series C. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 75,000	\$ 123,395	\$ 198,395
2013	80,000	120,215	200,215
2014	80,000	116,785	196,785
2015	85,000	113,123	198,123
2016	90,000	109,140	199,140
2017-2021	505,000	476,581	981,581
2022-2026	640,000	335,750	975,750
2027-2031	820,000	153,750	973,750
2032	190,000	4,750	194,750
Total	<u>\$ 2,565,000</u>	<u>\$ 1,553,489</u>	<u>\$ 4,118,489</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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1999 Series D. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 50,000	\$ 77,088	\$ 127,088
2013	50,000	75,075	125,075
2014	50,000	73,150	123,150
2015	55,000	71,075	126,075
2016	55,000	68,738	123,738
2017-2021	310,000	303,300	613,300
2022-2026	390,000	224,962	614,962
2027-2031	500,000	119,819	619,819
2032-2033	235,000	11,519	246,519
Total	<u>\$ 1,695,000</u>	<u>\$ 1,024,726</u>	<u>\$ 2,719,726</u>

2005 Refunding Bonds. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 81,000	\$ 138,466	\$ 219,466
2013	80,000	134,517	214,517
2014	85,000	130,542	215,542
2015	90,000	126,288	216,288
2016	96,000	121,653	217,653
2017-2021	574,000	518,432	1,092,432
2022-2026	745,000	351,680	1,096,680
2027-2030	775,000	108,502	883,502
Total	<u>\$ 2,526,000</u>	<u>\$ 1,630,080</u>	<u>\$ 4,156,080</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

2006 Series A. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 125,000	\$ 255,308	\$ 380,308
2013	135,000	246,208	381,208
2014	140,000	236,583	376,583
2015	145,000	226,608	371,608
2016	150,000	216,283	366,283
2017-2021	845,000	947,840	1,792,840
2022-2026	1,045,000	754,515	1,799,515
2027-2031	1,260,000	523,262	1,783,262
2032-2036	1,545,000	236,636	1,781,636
2037	350,000	7,208	357,208
Total	<u>\$ 5,740,000</u>	<u>\$ 3,650,451</u>	<u>\$ 9,390,451</u>

2007 Refunding Bonds. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 15,000	\$ 118,862	\$ 133,862
2013	15,000	118,337	133,337
2014	15,000	117,812	132,812
2015	15,000	117,280	132,280
2016	15,000	116,740	131,740
2017-2021	785,000	507,412	1,292,412
2022-2026	960,000	334,950	1,294,950
2027-2031	1,150,000	120,748	1,270,748
Total	<u>\$ 2,970,000</u>	<u>\$ 1,552,141</u>	<u>\$ 4,522,141</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

2006 Series B. The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 160,000	\$ 419,000	\$ 579,000
2013	180,000	407,100	587,100
2014	190,000	394,150	584,150
2015	200,000	380,500	580,500
2016	215,000	365,975	580,975
2017-2021	1,290,000	1,633,512	2,923,512
2022-2026	1,615,000	1,337,628	2,952,628
2027-2031	1,755,000	988,996	2,743,996
2032-2036	2,600,000	551,351	3,151,351
2037-2038	1,230,000	53,535	1,283,535
Total	\$ 9,435,000	\$ 6,531,747	\$ 15,966,747

2006 Series C - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 145,000	\$ 497,760	\$ 642,760
2013	150,000	487,610	637,610
2014	160,000	477,110	637,110
2015	170,000	465,910	635,910
2016	175,000	454,010	629,010
2017-2021	1,075,000	2,147,650	3,222,650
2022-2026	1,370,000	1,855,050	3,225,050
2027-2031	1,735,000	1,477,685	3,212,685
2032-2036	2,235,000	981,342	3,216,342
2037-2040	2,270,000	313,094	2,583,094
Total	\$ 9,485,000	\$ 9,157,221	\$ 18,642,221

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

2006 Series D - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 80,000	\$ 219,700	\$ 299,700
2013	140,000	381,650	521,650
2014	155,000	378,850	533,850
2015	160,000	374,975	534,975
2016	170,000	370,975	540,975
2017-2021	1,000,000	1,777,375	2,777,375
2022-2026	1,285,000	1,581,863	2,866,863
2027-2031	1,660,000	1,297,862	2,957,862
2032-2036	2,140,000	884,750	3,024,750
2037-2040	2,210,000	284,500	2,494,500
Total	<u>\$ 9,000,000</u>	<u>\$ 7,552,500</u>	<u>\$ 16,552,500</u>

**Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2011, amounted to \$136,602.

**Capital Leases**

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

	<u>Equipment</u>
Balance, July 1, 2010	\$ 42,195
Additions	26,386
Payments	(19,262)
Balance, June 30, 2011	<u>\$ 49,319</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 20,362
2013	17,148
2014	10,711
2015	1,098
Total	<u>49,319</u>
Less: Amount Representing Interest	3,744
Present Value of Minimum Lease Payments	<u><u>\$ 45,575</u></u>

Leased equipment under capital leases in capital assets at June 30, 2011, include the following:

Equipment	\$ 134,036
Less: Accumulated depreciation	<u>(42,137)</u>
Total	<u><u>\$ 91,899</u></u>

Amortization of leased equipment under capital assets is included with depreciation expense.

### **Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2011, was \$677,013, and contributions made by the District during the year were \$523,571. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$6,758 and \$(7,484), respectively, which resulted in an increase to the net OPEB obligation of \$152,716. As of June 30, 2011, the net OPEB obligation was \$321,674. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

### **Early Retirement Incentive Program**

The District has obligations for an early retirement incentive program with CalSTRS under Education Code Section 22714. The outstanding balance for the District at June 30, 2011, was \$56,636 and is payable over the next two years.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 5,000	\$ -	\$ -		\$ 5,000
Stores inventories	-	-	-	2,419	2,419
Total Nonspendable	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>2,419</u>	<u>7,419</u>
Restricted					
Legally restricted programs	68,054	-	-	38,919	106,973
Capital projects	-	1,392,459	-	-	1,392,459
Debt services	-	-	2,038,296	-	2,038,296
Other activities	-	-	-	47,977	47,977
Total Restricted	<u>68,054</u>	<u>1,392,459</u>	<u>2,038,296</u>	<u>86,896</u>	<u>3,585,705</u>
Committed					
Retiree benefits	77,147	-	-	-	77,147
Adult education program	-	-	-	288,997	288,997
Deferred maintenance program	-	-	-	915,189	915,189
Total Committed	<u>77,147</u>	<u>-</u>	<u>-</u>	<u>1,204,186</u>	<u>1,281,333</u>
Assigned					
Propert tax reserve	94,394	-	-	-	94,394
Sick leave incentive reserve	72,500	-	-	-	72,500
State funding/basic aid reserve	609,342	-	-	-	609,342
Building/deferred maintenance	340,000	-	-	-	340,000
Locally restricted	277,168	-	-	-	277,168
Discretionary carryover	405,668	-	-	-	405,668
Capital projects	-	-	-	1,124,728	1,124,728
Total Assigned	<u>1,799,072</u>	<u>-</u>	<u>-</u>	<u>1,124,728</u>	<u>2,923,800</u>
Unassigned	<u>2,985,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,985,879</u>
Total Unassigned	<u>2,985,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,985,879</u>
Total	<u>\$ 4,935,152</u>	<u>\$ 1,392,459</u>	<u>\$ 2,038,296</u>	<u>\$ 2,418,229</u>	<u>\$ 10,784,136</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)**

At June 30, 2011, the following District major fund exceeded the budgeted amounts as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated salaries	<u>\$ 11,569,868</u>	<u>\$ 11,586,196</u>	<u>\$ 16,328</u>

**NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

**Plan Description**

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pacific Grove Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 110 retirees and beneficiaries currently receiving benefits and 230 active plan members.

**Contribution Information**

The contribution requirements of plan members and the District are established and may be amended by the District, bargaining units, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2010-11, the District contributed \$523,571 to the plan, all of which was used for current premiums (approximately 54 percent of total premiums). Plan members receiving benefits contributed \$444,391, or approximately 46 percent of the total premiums.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 677,013
Interest on net OPEB obligation	6,758
Adjustment to annual required contribution	(7,484)
Annual OPEB cost (expense)	<u>676,287</u>
Contributions made	<u>(523,571)</u>
Increase in net OPEB obligation	152,716
Net OPEB obligation, beginning of year	<u>168,958</u>
Net OPEB obligation, end of year	<u><u>\$ 321,674</u></u>

**Trend Information**

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2011	\$ 676,287	\$ 523,571	77.42%	\$ 321,674
2010	\$ 564,821	\$ 461,819	81.76%	\$ 168,958
2009	\$ 564,821	\$ 498,865	88.32%	\$ 65,956

**Funded Status and Funding Progress**

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

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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### **Actuarial Methods and Assumptions**

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

In the April 1, 2011, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. A healthcare cost trend rate of 4.0 percent per year was assumed. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2011, was 27 years.

### **NOTE 13 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2011, the District contracted with Monterey County Liability and Property Self-Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

For fiscal year 2011, the District participated in the Monterey County Schools Workers' Compensation (MCSWC), an insurance purchasing pool. The intent of the MCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the MCSWC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MCSWC.

#### **Employee Medical Benefits**

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

#### CalSTRS

##### Plan Description

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

##### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11, was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$989,685, \$1,073,347, and \$1,133,336, respectively, and equal 100 percent of the required contributions for each year.

#### CalPERS

##### Plan Description

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The District is making their contribution in accordance with contractual agreements. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-11 was 10.707 percent of covered payroll. However, the District contributed 17.707 percent. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$700,692, \$648,688, and \$665,876, respectively, and equal 100 percent of the required contributions for each year.

### Tax Deferred Annuity/Social Security

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

### 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 \$513,213 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted and actual amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

### Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; the certificated, management, and classified employees do gain a vested right to accumulated sick leave. In addition, certificated, management, and confidential employees are paid an incentive amount for any sick leave balance at year-end and at termination of employment, subject to a contracted sick leave incentive program. Therefore, the value of accumulated sick leave incentive payments are recognized in the District's financial statements.

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**Litigation**

The District is involved in one case of potential litigation. In the opinion of management the likelihood of an unfavorable outcome is low.

**Construction Commitments**

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects - Description/Main Contractor</u>	<u>Remaining Construction Commitment - Estimate</u>	<u>Expected Completion Date</u>	<u>Funding Source</u>
HS Modernization - DMC	<u>\$ 1,670,199</u>	Spring 2012	Measure D

**NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES**

The District is a member of the Monterey County Schools' Insurance Group (MCSIG), Monterey County Liability and Property Self-Insurance Authority (MCLPSIA), the Monterey County Schools' Workers' Compensation (MCSWC) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

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

During the year ended June 30, 2011, the District made payment of \$1,190,555 to MCSIG for medical, dental, vision, and life insurance.

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

During the year ended June 30, 2011, the District made payment of \$142,332 to MCLPSIA for liability and property insurance.

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

During the year ended June 30, 2011, the District made payment of \$289,719 to MCSWC for workers' compensation insurance.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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### **NOTE 17 - SUBSEQUENT EVENTS**

The District issued \$3,400,000 of Tax and Revenue Anticipation Notes dated July 1, 2011. The notes mature on May 29, 2012, and yield 2.0 percent interest. The notes were sold to supplement cash flow.

On July 12, 2011, the District issued Qualified School Construction Bonds in the amount of \$7,780,000 for the purpose of raising money for the acquisition, construction, and rehabilitation of school facilities. The bonds are payable from the proceeds of the levy of ad valorem taxes on all property subject to taxes in the District, which are unlimited as to rate or amount. The bonds are further payable from, and secured by a pledge of and lien on, amounts which are payable by the Federal government under Section 6431 of the Internal Revenue Code of 1986, which the District has elected to receive.

### **NOTE 18 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS**

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

### **NOTE 19 - RESTATEMENT OF PRIOR YEAR FUND BALANCES**

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011, to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balances for Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**General Fund**

Fund Balance - Beginning	\$ 4,407,826
Change in accounting principles to conform to GASB Statement No. 54	<u>57,634</u>
Fund Balance - Beginning as Restated	<u><u>\$ 4,465,460</u></u>

**Non-Major Governmental Funds**

Fund Balance - Beginning	\$ 2,271,659
Change in accounting principles to conform to GASB Statement No. 54	<u>(57,634)</u>
Fund Balance - Beginning as Restated	<u><u>\$ 2,214,025</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable</b>
				<b>(Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 18,847,625	\$ 18,670,984	\$ 18,842,645	\$ 171,661
Federal sources	473,277	917,491	706,923	(210,568)
Other State sources	2,356,604	3,146,706	3,638,777	492,071
Other local sources	1,932,471	1,490,713	1,591,887	101,174
<b>Total Revenues <sup>1</sup></b>	<b>23,609,977</b>	<b>24,225,894</b>	<b>24,780,232</b>	<b>554,338</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	10,936,726	11,569,868	11,586,196	(16,328)
Classified salaries	3,528,387	3,756,565	3,723,951	32,614
Employee benefits	4,004,577	3,544,273	3,445,008	99,265
Books and supplies	688,651	1,663,477	1,090,278	573,199
Services and operating expenditures	2,959,126	3,460,444	3,168,090	292,354
Other outgo	398,766	342,889	200,085	142,804
Capital outlay	4,114	4,114	4,114	-
Debt service - principal	16,578	16,578	16,578	-
Debt service - interest	2,684	2,684	2,684	-
<b>Total Expenditures <sup>1</sup></b>	<b>22,539,609</b>	<b>24,360,892</b>	<b>23,236,984</b>	<b>1,123,908</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,070,368</b>	<b>(134,998)</b>	<b>1,543,248</b>	<b>1,678,246</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	15,209	15,209
Other sources	-	-	23,414	23,414
Transfers out	(1,082,004)	(1,131,605)	(1,112,179)	19,426
<b>Net Financing Sources (Uses)</b>	<b>(1,082,004)</b>	<b>(1,131,605)</b>	<b>(1,073,556)</b>	<b>58,049</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(11,636)</b>	<b>(1,266,603)</b>	<b>469,692</b>	<b>1,736,295</b>
<b>Fund Balance - Beginning as Restated</b>	<b>4,465,460</b>	<b>4,465,460</b>	<b>4,465,460</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 4,453,824</b>	<b>\$ 3,198,857</b>	<b>\$ 4,935,152</b>	<b>\$ 1,736,295</b>

<sup>1</sup> On behalf payments are not included in revenues and expenditures in this schedule. In addition, due to the consolidation of Fund 17, Special Reserve Non-Capital Fund, and Fund 20, Special Reserve Postemployment Benefits Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 FUNDING PROGRESS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) - Entry Age Normal (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
April 1, 2011	\$ -	\$ 5,503,560	\$ 5,503,560	0%	\$ 16,742,630	32.87%
June 30, 2009	\$ -	\$ 5,439,918	\$ 5,439,918	0%	\$ 16,875,247	32.24%

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***SUPPLEMENTARY INFORMATION***

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the California Department of Education:			
Special Education Cluster			
IDEA Basic Local Assistance	84.027	13379	\$ 276,899
ARRA: IDEA Basic Local Assistance	84.391	15003	33,594
Subtotal - Special Education Cluster			<u>310,493</u>
ARRA: State Fiscal Stabilization Fund	84.394	25008	248,610
Education Jobs Fund	84.410	25152	178,751
Adult Education - Adult Ed Secondary Ed	84.002	13978	24,785
Adult Education - Basic Education	84.002A	14508	10,624
No Child Left Behind Act			
Title I Cluster			
Title I, Part A, Basic Grants	84.010	14981	107,596
ARRA: Title I, Part A, Basic Grants	84.389	15005	50
Subtotal Title I Cluster			<u>107,646</u>
Title II - Improving Teacher Quality	84.367	14341	71,470
Title II, Part A, Administrator Training	84.366	14344	981
Title III - Limited English Proficient	84.365	14346	19,733
Vocational Education Technology Secondary	84.048	14894	17,757
Total U.S. Department of Education			<u>990,850</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	92,239
Especially Needy Breakfast	10.553	13526	21,073
Food Distribution	10.555	13391	12,087
Subtotal - Child Nutrition Cluster			<u>125,399</u>
Total U.S. Department of Agriculture			<u>125,399</u>
Total Expenditures of Federal Awards			<u>\$ 1,116,249</u>

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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### ORGANIZATION

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

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mike Niccum	President	2011
Joanne Vanderhorst	Member	2011
John Thibeau	Clerk	2013
Bill Phillips	Member	2013
Tony Sollecito	Member	2011

### ADMINISTRATION

Ralph Porras	Superintendent
Robin Blakley	Assistant Superintendent, Business
Billie Mankey	Director, Human Resources
Cathie McAweeney	Director, Curriculum/Special Projects
Cindy Gallo	Director, Student Services
Bruce Cates	Director, Education & Information Technology

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2011

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	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	139.58	140.37
First through third	398.59	400.56
Fourth through sixth	362.99	366.13
Seventh and eighth	259.19	266.50
Special education	31.59	31.57
Total Elementary	<u>1,191.94</u>	<u>1,205.13</u>
SECONDARY		
Regular classes	521.88	525.62
Continuation education	20.51	19.36
Home and hospital	0.69	0.85
Special education	10.92	10.82
Total Secondary	<u>554.00</u>	<u>556.65</u>
Total K-12	<u><u>1,745.94</u></u>	<u><u>1,761.78</u></u>

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,860	30,975	36,000	35,000	43,370	180	N/A	Complied
Grades 1 - 3	42,480	41,300	50,400	49,000				
Grade 1					53,935	180	N/A	Complied
Grade 2					53,935	180	N/A	Complied
Grade 3					53,935	180	N/A	Complied
Grades 4 - 6	53,100	51,625	54,000	52,500				
Grade 4					53,935	180	N/A	Complied
Grade 5					53,935	180	N/A	Complied
Grade 6					55,824	180	N/A	Complied
Grades 7 - 8	53,100	51,625	54,000	52,500				
Grade 7					55,824	180	N/A	Complied
Grade 8					55,824	180	N/A	Complied
Grades 9 - 12	57,525	56,000	64,800	63,000				
Grade 9					67,205	180	N/A	Complied
Grade 10					67,205	180	N/A	Complied
Grade 11					67,205	180	N/A	Complied
Grade 12					67,205	180	N/A	Complied

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

	Adult Education Fund
FUND BALANCE	
Balance, June 30, 2011, Unaudited Actuals	\$ 237,002
Increase in:	
Cash in banks	51,995
Balance, June 30, 2011, Audited Financial Statement	<u>\$ 288,997</u>

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 <sup>1</sup>	2011	2010	2009
GENERAL FUND				
Revenues and other financing sources	\$ 22,327,007	\$ 24,795,186	\$ 25,317,883	\$ 24,420,103
Expenditures	22,898,451	23,213,570	22,838,500	22,888,953
Other financing uses	894,989	1,131,605	1,806,948	734,830
Total Expenditures and Other Uses	23,793,440	24,345,175	24,645,448	23,623,783
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,466,433)	\$ 450,011	\$ 672,435	\$ 796,320
ENDING FUND BALANCE	\$ 3,391,405	\$ 4,857,838	\$ 4,407,827	\$ 3,735,392
AVAILABLE RESERVES <sup>2,3</sup>	\$ 1,080,256	\$ 2,985,879	\$ 3,326,965	\$ 940,776
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.5%	12.3%	13.5%	4.0%
LONG-TERM OBLIGATIONS	Not Available	\$ 44,531,487	\$ 45,023,768	\$ 36,528,590
AVERAGE DAILY ATTENDANCE AT P-2	1,763	1,746	1,709	1,642

The General Fund balance has increased by \$1,122,446 over the past two years. The fiscal year 2011-12 budget projects a decrease of \$1,466,433 (30.2 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2011-12 fiscal year. Total long-term obligations have increased by \$8,002,897 over the past two years primarily due to the issuance of general obligation bonds.

Average daily attendance has increased by 104 ADA over the past two years. Growth of 17 ADA is anticipated during fiscal year 2011-12.

<sup>1</sup> Budget 2012 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On behalf payments have been excluded from this schedule and the calculation of available reserves.

<sup>4</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Fund and the Special Reserve Retiree Benefits Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 261,860	\$ 27,510	\$ 32,990
Receivables	28,127	11,704	14,987
Stores inventories	-	-	2,419
<b>Total Assets</b>	<b>\$ 289,987</b>	<b>\$ 39,214</b>	<b>\$ 50,396</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 990	\$ 295	\$ -
<b>Total Liabilities</b>	<b>990</b>	<b>295</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	-	-	2,419
Restricted	-	38,919	47,977
Committed	288,997	-	-
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>288,997</b>	<b>38,919</b>	<b>50,396</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 289,987</b>	<b>\$ 39,214</b>	<b>\$ 50,396</b>

See accompanying note to supplementary information.

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<b>Deferred Maintenance Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 915,189	\$ 1,118,003	\$ 2,355,552
-	6,761	61,579
-	-	2,419
<u>\$ 915,189</u>	<u>\$ 1,124,764</u>	<u>\$ 2,419,550</u>
\$ -	\$ 36	\$ 1,321
-	36	1,321
-	-	2,419
-	-	86,896
915,189	-	1,204,186
-	1,124,728	1,124,728
<u>915,189</u>	<u>1,124,728</u>	<u>2,418,229</u>
<u>\$ 915,189</u>	<u>\$ 1,124,764</u>	<u>\$ 2,419,550</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 35,409	\$ -	\$ 113,312
Other State sources	24,117	126,863	9,852
Other local sources	586,261	282,979	266,023
<b>Total Revenues</b>	<b>645,787</b>	<b>409,842</b>	<b>389,187</b>
<b>EXPENDITURES</b>			
Current			
Instruction	769,513	121,691	-
Instruction-related activities:			
School site administration	418,076	-	-
Pupil services:			
Food services	-	-	515,609
All other pupil services	16,091	-	-
Administration:			
All other administration	312,634	21,672	-
Plant services	1,168	-	-
Facility acquisition and construction	-	-	-
Community services	-	277,273	-
<b>Total Expenditures</b>	<b>1,517,482</b>	<b>420,636</b>	<b>515,609</b>
<b>Excess (Deficiency) of Revenues</b>			
<b>Over Expenditures</b>	<b>(871,695)</b>	<b>(10,794)</b>	<b>(126,422)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	962,578	49,601	100,000
Transfers out	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>962,578</b>	<b>49,601</b>	<b>100,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>90,883</b>	<b>38,807</b>	<b>(26,422)</b>
<b>Fund Balance - Beginning as Restated</b>	<b>198,114</b>	<b>112</b>	<b>76,818</b>
<b>Fund Balance - Ending</b>	<b>\$ 288,997</b>	<b>\$ 38,919</b>	<b>\$ 50,396</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ 148,721
95,279	-	256,111
3,620	72,658	1,211,541
<u>98,899</u>	<u>72,658</u>	<u>1,616,373</u>
-	-	891,204
-	-	418,076
-	-	515,609
-	-	16,091
-	-	334,306
-	-	1,168
-	55,412	55,412
-	-	277,273
<u>-</u>	<u>55,412</u>	<u>2,509,139</u>
<u>98,899</u>	<u>17,246</u>	<u>(892,766)</u>
-	-	1,112,179
(15,209)	-	(15,209)
<u>(15,209)</u>	<u>-</u>	<u>1,096,970</u>
83,690	17,246	204,204
831,499	1,107,482	2,214,025
<u>\$ 915,189</u>	<u>\$ 1,124,728</u>	<u>\$ 2,418,229</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA State Fiscal Stabilization funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 855,644
Reconciling items:		
Food Distribution	10.555	12,087
ARRA: State Fiscal Stabilization	84.394	248,518
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,116,249</u>

#### Local Education Agency Organization Structure

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

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

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

#### Schedule of Instructional Time

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required for all districts, including basic aid districts.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011**

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

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

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

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 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 AUDITORS' REPORTS***

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

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Grove Unified School District as of and for the year ended June 30, 2011, which collectively comprise Pacific Grove Unified School District's basic financial statements and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of Pacific Grove Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pacific Grove Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pacific Grove Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pacific Grove Unified School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pacific Grove Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1.

We noted certain matters that we reported to management of Pacific Grove Unified School District in a separate letter dated December 14, 2011.

Pacific Grove Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pacific Grove Unified School District's response and, accordingly, express no opinion on the response.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Varinck, Trine, Day + Co. LLP*

Fresno, California  
December 14, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

**Compliance**

We have audited Pacific Grove Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pacific Grove Unified School District's major Federal programs for the year ended June 30, 2011. Pacific Grove Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Pacific Grove Unified School District's management. Our responsibility is to express an opinion on Pacific Grove Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Pacific Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pacific Grove Unified School District's compliance with those requirements.

In our opinion, Pacific Grove Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of Pacific Grove Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Pacific Grove Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pacific Grove Unified School District's internal control over compliance.

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

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 14, 2011



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Pacific Grove Unified School District  
 Pacific Grove, California

We have audited Pacific Grove Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Pacific Grove Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Pacific Grove Unified School District's management. Our responsibility is to express an opinion on Pacific Grove Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Pacific Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Pacific Grove Unified School District's compliance with those requirements.

In our opinion, Pacific Grove Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannink, Trine, Day + Co. LLP*

Fresno, California  
December 14, 2011

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

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.391 (ARRA)</u>	<u>Special Education Cluster (includes ARRA)</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization Fund</u>
<u>84.410</u>	<u>Education Jobs Fund</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
Unqualified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>Instructional Materials</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Materials

2011-1 70000

### ***DISTRICT OFFICE***

#### ***Instructional Materials Funding Realignment Program***

##### **Criteria**

The Instructional Materials Funding Realignment Program (IMFRP) provides funding to districts for the purpose of purchasing standards-aligned textbooks. To receive the allowance from the state, the district's board must pass a resolution indicating whether or not each pupil has been provided with a standards-aligned textbook or basic instructional materials. Per the compliance requirement stated in Education Code Section 60119, a public hearing must be held on or before the eighth week from the first day pupils attended school for that year.

##### **Condition**

During our audit of the IMFRP board resolution passed by the District's Board of Directors, we found that the District's hearing was held on April 7, 2011. This date is not within the required eight weeks from the first day pupils attended school.

##### **Effect**

The District was not eligible to receive an Instructional Materials Funding Realignment Program allowance for the fiscal year audited. The result is a questioned cost of the District's entire allowance for the 2010-11 school year in the amount of \$92,710.

##### **Cause**

It appears that this was an oversight on the part of the District.

##### **Recommendation**

The District should apply for a waiver from the Monterey County Office of Education for the questioned cost associated with this finding. Also, the District should make sure that future hearings on the sufficiency of instructional materials are held within the eighth week of the start of classes for students as required by the California Department of Education.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011**

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### **District Response**

The District has filed for and received a waiver from the Monterey County Office of Education and we have added the public hearing on instructional materials to our calendar of required hearings. The public hearing for the 2011-12 school year was held timely.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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