

**PALOS VERDES PENINSULA UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2012

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds - Statement of Net Assets	19
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Proprietary Funds - Statement of Cash Flows	21
Fiduciary Funds - Statement of Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	53
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	54

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	56
Local Education Agency Organization Structure	58
Schedule of Average Daily Attendance	59
Schedule of Instructional Time	60
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	61
Schedule of Financial Trends and Analysis	62
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	64
Note to Supplementary Information	65

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	68
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	70
Report on State Compliance	72

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	75
Financial Statement Findings	76
Federal Awards Findings and Questioned Costs	77
State Awards Findings and Questioned Costs	78
Summary Schedule of Prior Audit Findings	79
Management Letter	80

FINANCIAL SECTION

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 11, budgetary comparison information and other postemployment benefits information on pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

VADIVANSK TIRINE, Day + Co, LLP

Rancho Cucamonga, California
December 10, 2012



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Palos Verdes Peninsula Unified School District

This section of Palos Verdes Peninsula Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

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

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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, 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 separate the District activities as follows:

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, and volunteer payroll withholdings of District employees. The District's fiduciary activities are reported in the *Statements of 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.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

1. The District experienced a decrease of approximately \$2.3 million in General Fund Federal revenue sources due to a decrease in Federal Revenue (ARRA, SFSF and Jobs).
2. Maintained manageable class sizes within contractual obligations.
3. Filed Notice of Completion on the modernization of Valmonte Elementary School site.
4. Filed Notice of Completion on the asphalt projects at Lunada Bay, Mira Catalina, Montemalaga, Rancho Vista, and Palos Verdes Peninsula High School.
5. Filed Notice of Completion on the plumbing projects at Miraleste Elementary School, Miraleste Intermediate School, Palos Verdes Peninsula High School, Vista Grande, Palos Verdes Intermediate, and Rancho del Mar.
6. Filed Notice of Completion on the Bleacher project at Palos Verdes High School.
7. Implemented point-of-sale software at all Elementary Cafeteria locations.
8. Despite the negative impact related to the State budget reductions, our teachers, school administrators, and support staff have remained focused on student achievement and meeting the needs of the whole child. In 2011-2012, the District API score grew from 920 to 923.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$106,540,595 for the fiscal year ended June 30, 2012. Of this amount, \$8,482,069 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the governing 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.

Table 1

	Governmental Activities		Business-Type Activities		School District Activities	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 52,174,733	\$ 50,441,620	\$ 3,506,112	\$ 3,055,893	\$ 55,680,845	\$ 53,497,513
Capital assets	164,179,081	160,662,454	212,090	239,470	164,391,171	160,901,924
Total Assets	216,353,814	211,104,074	3,718,202	3,295,363	220,072,016	214,399,437
Current liabilities	18,101,943	14,200,936	764,150	868,061	18,866,093	15,068,997
Long-term obligations	94,665,328	94,055,090	-	-	94,665,328	94,055,090
Total Liabilities	112,767,271	108,256,026	764,150	868,061	113,531,421	109,124,087
Net assets						
Invested in capital assets, net of related debt	84,325,476	83,248,916	212,090	239,470	84,537,566	83,488,386
Restricted	10,778,998	9,664,319	2,741,962	2,187,832	13,520,960	11,852,151
Unrestricted	8,482,069	9,934,813	-	-	8,482,069	9,934,813
Total Net Assets	\$ 103,586,543	\$ 102,848,048	\$ 2,954,052	\$ 2,427,302	\$ 106,540,595	\$ 105,275,350

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities		Business-Type Activities		School District Activities	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 33,867	\$ 4,676	\$ 4,943,246	\$ 4,802,222	\$ 4,977,113	\$ 4,806,898
Operating grants and contributions	12,384,074	13,116,073	-	-	12,384,074	13,116,073
Capital grants and contributions	3,657,095	4,620,423	-	-	3,657,095	4,620,423
General revenues:						
Federal and State aid not restricted	35,324,409	34,813,488	-	-	35,324,409	34,813,488
Property taxes	45,698,469	46,365,639	-	-	45,698,469	46,365,639
Other general revenues	11,650,471	12,651,601	24,135	27,093	11,674,606	12,678,694
Total Revenues	108,748,385	111,571,900	4,967,381	4,829,315	113,715,766	116,401,215
Expenses						
Instruction-related	74,789,707	75,018,669	-	-	74,789,707	75,018,669
Student support services	7,827,949	8,149,803	4,440,631	4,344,273	12,268,580	12,494,076
Administration	7,965,158	7,897,725	-	-	7,965,158	7,897,725
Plant services	9,098,286	9,051,614	-	-	9,098,286	9,051,614
Other	8,328,790	8,084,312	-	-	8,328,790	8,084,312
Total Expenses	108,009,890	108,202,123	4,440,631	4,344,273	112,450,521	112,546,396
Change in Net Assets	\$ 738,495	\$ 3,369,777	\$ 526,750	\$ 485,042	\$ 1,265,245	\$ 3,854,819

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$108,009,890. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$45,698,469 because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions (\$16,075,036). We paid for the remaining "public benefit" portion of our governmental activities with \$46,974,880 in Federal and State unrestricted funds and with other revenues, such as interest and general entitlements.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction	\$ 67,700,028	\$ 67,865,160	\$ 53,754,328	\$ 51,749,873
Instruction-related activities	7,089,679	7,153,509	6,497,942	6,747,020
Home-to-school transportation	708,100	782,142	378,417	460,449
Other pupil services	7,119,849	7,367,661	6,313,059	6,665,584
General administration	7,965,158	7,897,725	7,690,531	7,786,080
Maintenance and operations	9,098,286	9,051,614	9,077,336	9,051,614
Ancillary services	2,477,355	2,520,383	2,477,355	2,520,383
Interest on long-term obligations	4,140,153	4,422,342	4,140,153	4,422,342
Other	1,711,282	1,141,587	1,605,733	1,057,606
Total	\$ 108,009,890	\$ 108,202,123	\$ 91,934,854	\$ 90,460,951

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$33,277,998, which is a decrease of \$2,091,728 from last year.

Table 4

	Fund Balance			
	June 30, 2011	Revenues	Expenditures	June 30, 2012
General Fund	\$ 16,385,887	\$ 97,033,687	\$ 97,801,412	\$ 15,618,162
Building Fund	4,758,227	40,239	3,456,691	1,341,775
County School Facilities Fund	4,620,423	3,657,445	1,250,478	7,027,390
Adult Education Fund	159,351	248,090	219,474	187,967
Cafeteria Fund	154,762	2,574,638	2,460,754	268,646
Deferred Maintenance Fund	676,706	722,882	765,727	633,861
Capital Facilities Fund	998,742	413,352	634,929	777,165
Special Reserve Fund For Capital				
Outlay Projects	4,638,741	719,882	1,056,213	4,302,410
Bond Interest and Redemption Fund	2,976,887	4,144,936	4,001,201	3,120,622
Total	\$ 35,369,726	\$ 109,555,151	\$ 111,646,879	\$ 33,277,998

The primary reason for this decrease is the District has spent down the Construction Funds as part of the Facilities Master Plan.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

General Fund Budgetary Highlights

The Adopted Budget was presented to the Board on June 23, 2011. The 2011-2021 Budget Act was signed on June 30, 2011. As required by law, the District revised the operating budget to reflect the State adopted budget on July 28, 2011. Four more budget revisions were brought forth, with the last revision done in June 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$164.4 million in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of just under \$3.5 million, or 2.2 percent, from last year (Table 5).

Table 5

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land and construction in process	\$ 21,181,413	\$ 18,615,316	\$ -	\$ -	\$ 21,181,413	\$ 18,615,316
Buildings and improvements	141,022,866	140,303,663	212,090	239,470	141,234,956	140,543,133
Furniture and equipment	1,974,802	1,743,475	-	-	1,974,802	1,743,475
Total	\$ 164,179,081	\$ 160,662,454	\$ 212,090	\$ 239,470	\$ 164,391,171	\$ 160,901,924

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Long-Term Obligations

At the end of this year, the District had \$94.7 million in obligations versus \$94.1 million last year, an increase of 0.6 percent. These obligations consisted of:

Table 6

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation bonds - net (Financed with property taxes)	\$ 91,260,922	\$ 91,061,222	\$ -	\$ -	\$ 91,260,922	\$ 91,061,222
Capitalized lease obligations	700,898	-	-	-	700,898	-
Compensated absences	1,412,140	1,451,137	-	-	1,412,140	1,451,137
Supplemental early retirement plan (SERP)	-	564,235	-	-	-	564,235
Other postemployment benefits (OPEB)	1,291,368	978,496	-	-	1,291,368	978,496
Total	\$ 94,665,328	\$ 94,055,090	\$ -	\$ -	\$ 94,665,328	\$ 94,055,090

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 Deputy Superintendent, Business Services at 310-378-9966, at Palos Verdes Peninsula Unified School District, Palos Verde Estates, California.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 32,983,042	\$ 3,484,083	\$ 36,467,125
Receivables	17,546,380	14,113	17,560,493
Prepaid expenses	21,890	7,916	29,806
Stores inventories	234,520	-	234,520
Deferred cost on issuance	1,279,081	-	1,279,081
Deferred charges on issuance	109,820	-	109,820
Capital assets			
Land and construction in process	21,181,413	-	21,181,413
Other capital assets	193,837,735	753,500	194,591,235
Less: Accumulated depreciation	(50,840,067)	(541,410)	(51,381,477)
Total Capital Assets	<u>164,179,081</u>	<u>212,090</u>	<u>164,391,171</u>
Total Assets	<u>216,353,814</u>	<u>3,718,202</u>	<u>220,072,016</u>
LIABILITIES			
Accounts payable	12,465,647	387,367	12,853,014
Accrued interest payable	594,109	-	594,109
Deferred revenue	42,187	376,783	418,970
Current loans	5,000,000	-	5,000,000
Long-term obligations			
Current portion of long-term obligations	2,080,029	-	2,080,029
Noncurrent portion of long-term obligations	92,585,299	-	92,585,299
Total Long-Term Obligations	<u>94,665,328</u>	<u>-</u>	<u>94,665,328</u>
Total Liabilities	<u>112,767,271</u>	<u>764,150</u>	<u>113,531,421</u>
NET ASSETS			
Invested in capital assets, net of related debt	84,325,476	212,090	84,537,566
Restricted for:			
Debt service	2,526,513	-	2,526,513
Capital projects	7,804,555	-	7,804,555
Educational programs	226,122	-	226,122
Other activities	221,808	2,741,962	2,963,770
Unrestricted	8,482,069	-	8,482,069
Total Net Assets	<u>\$ 103,586,543</u>	<u>\$ 2,954,052</u>	<u>\$ 106,540,595</u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Instruction	\$ 67,700,028	\$ 28,167	\$ 10,260,438	\$ 3,657,095
Instruction-related activities:				
Supervision of instruction	1,070,383	219	443,864	-
Instructional library, media, and technology	409,029	-	4,056	-
School site administration	5,610,267	94	143,504	-
Pupil services:				
Home-to-school transportation	708,100	-	329,683	-
Food services	2,380,490	-	221,823	-
All other pupil services	4,739,359	1,563	583,404	-
Administration:				
Data processing	1,054,549	-	6,393	-
All other administration	6,910,609	675	267,559	-
Plant services	9,098,286	2,479	18,471	-
Facility acquisition and construction	256,474	392	34,691	-
Ancillary services	2,477,355	-	-	-
Community services	2,055	-	-	-
Interest on long-term obligations	4,140,153	-	-	-
Other outgo	1,452,753	278	70,188	-
Total Governmental Activities	108,009,890	33,867	12,384,074	3,657,095
Business-Type Activities				
Child Care	4,440,631	4,943,246	-	-
Total School District	\$ 112,450,521	\$ 4,977,113	\$ 12,384,074	\$ 3,657,095

General revenues and subventions:

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

Subtotal, General Revenues

Change in Net Assets

- Net Assets - Beginning
- Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (53,754,328)	\$ -	\$ (53,754,328)
(626,300)	-	(626,300)
(404,973)	-	(404,973)
(5,466,669)	-	(5,466,669)
(378,417)	-	(378,417)
(2,158,667)	-	(2,158,667)
(4,154,392)	-	(4,154,392)
(1,048,156)	-	(1,048,156)
(6,642,375)	-	(6,642,375)
(9,077,336)	-	(9,077,336)
(221,391)	-	(221,391)
(2,477,355)	-	(2,477,355)
(2,055)	-	(2,055)
(4,140,153)	-	(4,140,153)
(1,382,287)	-	(1,382,287)
(91,934,854)	-	(91,934,854)
-	502,615	502,615
(91,934,854)	502,615	(91,432,239)
34,126,936	-	34,126,936
4,105,523	-	4,105,523
7,466,010	-	7,466,010
35,324,409	-	35,324,409
487,103	24,135	511,238
11,163,368	-	11,163,368
92,673,349	24,135	92,697,484
738,495	526,750	1,265,245
102,848,048	2,427,302	105,275,350
\$ 103,586,543	\$ 2,954,052	\$ 106,540,595

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 12,341,554	\$ 4,090,190	\$ 7,162,210
Receivables	16,899,062	6,266	15,617
Prepaid expenditures	390	-	-
Stores inventories	195,775	-	-
Total Assets	\$ 29,436,781	\$ 4,096,456	\$ 7,177,827
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 8,776,432	\$ 2,754,681	\$ 150,437
Current loan	5,000,000	-	-
Deferred revenue	42,187	-	-
Total Liabilities	13,818,619	2,754,681	150,437
Fund Balances:			
Nonspendable	206,165	-	-
Restricted	226,122	1,341,775	7,027,390
Committed	-	-	-
Assigned	5,855,395	-	-
Unassigned	9,330,480	-	-
Total Fund Balances	15,618,162	1,341,775	7,027,390
Total Liabilities and Fund Balances	\$ 29,436,781	\$ 4,096,456	\$ 7,177,827

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



Non-Major Governmental Funds	Total Governmental Funds
\$ 9,389,088	\$ 32,983,042
625,435	17,546,380
21,500	21,890
38,745	234,520
<u>\$ 10,074,768</u>	<u>\$ 50,785,832</u>

\$ 784,097	\$ 12,465,647
-	5,000,000
-	42,187
<u>784,097</u>	<u>17,507,834</u>

46,838	253,003
4,119,595	12,714,882
821,828	821,828
4,302,410	10,157,805
-	9,330,480
<u>9,290,671</u>	<u>33,277,998</u>

<u>\$ 10,074,768</u>	<u>\$ 50,785,832</u>
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PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds		\$ 33,277,998
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
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:	\$ 215,019,148	
Accumulated depreciation is:	<u>(50,840,067)</u>	
Net Capital Assets		164,179,081
The District has refunded debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2012.		109,820
Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis.		1,279,081
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(594,109)
Long-term obligations at year-end consist of:		
General obligation bonds	79,376,640	
Unamortized premium on general obligation bonds	1,276,498	
Unamortized discount on general obligation bonds	(48,836)	
Capital lease obligations	700,898	
Compensated absences	1,412,140	
Other postemployment benefits (OPEB)	1,291,368	
In addition, the District has issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is:	<u>10,656,620</u>	
Total Long-Term Obligations		<u>(94,665,328)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 103,586,543</u></u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Revenue limit sources	\$ 60,691,239	\$ -	\$ -
Federal sources	3,186,815	-	-
Other State sources	17,012,905	-	3,602,597
Other local sources	15,379,924	40,239	54,848
Total Revenues	96,270,883	40,239	3,657,445
EXPENDITURES			
Current			
Instruction	66,022,085	-	-
Instruction-related activities:			
Supervision of instruction	1,066,641	-	-
Instructional library, media and technology	407,972	-	-
School site administration	5,501,382	-	-
Pupil services:			
Home-to-school transportation	708,100	-	-
Food services	-	-	-
All other pupil services	4,723,916	-	-
Administration:			
Data processing	1,052,913	-	-
All other administration	4,525,010	-	-
Plant services	9,008,785	-	-
Facility acquisition and construction	857,879	3,456,691	1,250,478
Ancillary services	2,471,921	-	-
Community services	2,055	-	-
Other outgo	980,706	-	-
Debt service			
Principal	61,906	-	-
Interest and other	110,141	-	-
Total Expenditures	97,501,412	3,456,691	1,250,478
Excess (Deficiency) of Revenues Over Expenditures	(1,230,529)	(3,416,452)	2,406,967
Other Financing Sources (Uses)			
Transfers in	-	-	-
Other sources	762,804	-	-
Transfers out	(300,000)	-	-
Net Financing Sources (Uses)	462,804	-	-
NET CHANGE IN FUND BALANCES	(767,725)	(3,416,452)	2,406,967
Fund Balances - Beginning	16,385,887	4,758,227	4,620,423
Fund Balances - Ending	\$ 15,618,162	\$ 1,341,775	\$ 7,027,390

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 60,691,239
318,031	3,504,846
482,386	21,097,888
7,723,363	23,198,374
<u>8,523,780</u>	<u>108,492,347</u>
119,981	66,142,066
-	1,066,641
-	407,972
92,071	5,593,453
-	708,100
2,377,509	2,377,509
-	4,723,916
-	1,052,913
100,308	4,625,318
35,428	9,044,213
2,411,800	7,976,848
-	2,471,921
-	2,055
-	980,706
1,655,000	1,716,906
2,346,201	2,456,342
<u>9,138,298</u>	<u>111,346,879</u>
<u>(614,518)</u>	<u>(2,854,532)</u>
300,000	300,000
-	762,804
-	(300,000)
<u>300,000</u>	<u>762,804</u>
(314,518)	(2,091,728)
9,605,189	35,369,726
<u>\$ 9,290,671</u>	<u>\$ 33,277,998</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ (2,091,728)**
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	\$ 7,720,374	
Depreciation expense	<u>(4,159,785)</u>	
Net Expense Adjustment		3,560,589

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (43,962)

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. (762,804)

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual required contribution. (312,872)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (supplemental early retirement plan) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits paid was more than the amount added by \$564,235. Vacation used was less than the amounts earned by \$38,997. 603,232

Repayment of bond principal 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	1,655,000
Capital lease obligations	61,906

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2012

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

Amortization of debt premium	\$ 70,390	
Amortization of debt discount	(3,637)	
Amortization of deferred cost of issuance	(75,008)	
Amortization of deferred amount on refunding	<u>(9,152)</u>	
Combined Adjustment		\$ (17,407)

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$7,994, and second, \$1,921,453 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

	<u>(1,913,459)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 738,495</u></u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Business-Type Activities Enterprise Funds Child Care
ASSETS	
Current Assets	
Deposits and investments	\$ 3,484,083
Receivables	14,113
Prepaid expenses	7,916
Total Current Assets	<u>3,506,112</u>
Noncurrent Assets	
Capital assets	753,500
Less: accumulated depreciation	<u>(541,410)</u>
Total Noncurrent Assets	<u>212,090</u>
Total Assets	<u>3,718,202</u>
LIABILITIES	
Current Liabilities	
Accounts payable	387,367
Deferred revenue	<u>376,783</u>
Total Current Liabilities	<u>764,150</u>
NET ASSETS	
Invested in capital assets, net of related debt	212,090
Restricted	<u>2,741,962</u>
Total Net Assets	<u>\$ 2,954,052</u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds Child Care
OPERATING REVENUES	
Charges for services	\$ 4,934,411
Charges to other funds and miscellaneous revenues	8,835
Total Operating Revenues	<u>4,943,246</u>
OPERATING EXPENSES	
Payroll costs	3,788,831
Supplies and materials	252,927
Facility rental	4,717
Other operating cost	366,776
Depreciation	27,380
Total Operating Expenses	<u>4,440,631</u>
Operating Income	<u>502,615</u>
NONOPERATING REVENUES	
Interest income	24,135
Change in Net Assets	<u>526,750</u>
Total Net Assets - Beginning	<u>2,427,302</u>
Total Net Assets - Ending	<u>\$ 2,954,052</u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds Child Care
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 4,867,704
Other operating cash receipts	8,835
Cash payments to employees for services	(3,788,831)
Cash payments to other suppliers of goods or services	(301,133)
Other operating cash payments	(366,776)
Net Cash Provided by Operating Activities	<u>419,799</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>24,135</u>
Net Increase in Cash and Cash Equivalents	443,934
Cash and Cash Equivalents - Beginning	3,040,149
Cash and Cash Equivalents - Ending	<u><u>\$ 3,484,083</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 502,615
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	27,380
Changes in assets and liabilities:	
Receivables	1,631
Prepaid expense	(7,916)
Accounts payable	(35,573)
Deferred revenue	(68,338)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 419,799</u></u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 1,449,601
Amounts due from employees	489,507
Stores inventories	31,053
Total Assets	<u><u>\$ 1,970,161</u></u>
 LIABILITIES	
Due to student groups	<u><u>\$ 1,970,161</u></u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Palos Verdes Peninsula Unified School District (the District) was established in 1961, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies for nine K-5 schools, one 1-5 school, two kindergarten schools, three 6-8 schools, two four-year high schools, one continuation high school and one adult education school, a special education early childhood education program, a fee-based preschool and a child care program.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements. In addition, a formal trust agreement does not exist for Fund 71, Retiree Benefit Fund, and accordingly has also been combined with the General Fund for presentation in these audited financial statements.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

As a result, the General Fund reflects an increase/(decrease) in assets, fund balance, revenues, and expenditures of \$4,652,127, \$4,954,836, \$(172,287), and \$627,285, respectively.

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.

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

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).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

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

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

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

Basis of Accounting - Measurement Focus

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

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

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

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

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

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

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 before the eligibility requirements are met, 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 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

Compensated Absences

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

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Accrued Liabilities and Long-Term Obligations

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

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net 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. The District has related debt outstanding as of June 30, 2012. 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 report \$13,520,960 of net assets which is restricted by enabling legislation.

Interfund Activity

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

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

Estimates

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

In November 2010, the GASB issued 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.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 32,983,042
Business-type activities	3,484,083
Fiduciary funds	1,449,601
Total Deposits and Investments	<u>\$ 37,916,726</u>

Deposits and investments as of June 30, 2012, consisted of the following:

Cash on hand and in banks	\$ 4,147,460
Cash in revolving	12,850
Investments	33,756,416
Total Deposits and Investments	<u>\$ 37,916,726</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.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 Los Angeles County Investment Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

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

Investment Type	Amortized Cost	Fair Value	Average Maturity in Days
Los Angeles County Investment Pool	\$ 33,756,416	\$ 33,859,886	617

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. While the District's investment in the Los Angeles County Investment Pool is not required to be rated, nor has been rated as of June 30, 2012.

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, 2012, the District's bank balance of \$1,109,594 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 1,675,647	\$ -	\$ -	\$ 50,160
State Government				
Apportionment	10,585,096	-	-	-
Categorical aid	3,494,986	-	-	4,670
Lottery	911,698	-	-	-
Special Education	-	-	-	341,162
Local Government				
Interest	25,462	6,264	15,617	13,238
Other Local Sources	206,173	2	-	216,205
Total	<u>\$ 16,899,062</u>	<u>\$ 6,266</u>	<u>\$ 15,617</u>	<u>\$ 625,435</u>

	Total Governmental Activities	Child Care Enterprise Fund
Federal Government		
Categorical aid	\$ 1,725,807	\$ -
State Government		
Apportionment	10,585,096	-
Categorical aid	3,499,656	-
Lottery	911,698	-
Special Education	341,162	-
Local Government		
Interest	60,581	14,113
Other Local Sources	422,380	-
Total	<u>\$ 17,546,380</u>	<u>\$ 14,113</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 9,460,558	\$ -	\$ -	\$ 9,460,558
Construction in process	9,154,758	7,119,163	4,553,066	11,720,855
Total Capital Assets Not Being Depreciated	<u>18,615,316</u>	<u>7,119,163</u>	<u>4,553,066</u>	<u>21,181,413</u>
Capital Assets Being Depreciated				
Land improvements	7,785,216	2,444,549	-	10,229,765
Buildings and improvements	176,298,465	2,146,247	-	178,444,712
Furniture and equipment	4,790,559	563,481	190,782	5,163,258
Total Capital Assets Being Depreciated	<u>188,874,240</u>	<u>5,154,277</u>	<u>190,782</u>	<u>193,837,735</u>
Less Accumulated Depreciation				
Land improvements	2,760,131	360,950	-	3,121,081
Buildings and improvements	41,019,887	3,510,643	-	44,530,530
Furniture and equipment	3,047,084	288,192	146,820	3,188,456
Total Accumulated Depreciation	<u>46,827,102</u>	<u>4,159,785</u>	<u>146,820</u>	<u>50,840,067</u>
Governmental Activities Capital Assets, Net	<u>\$ 160,662,454</u>	<u>\$ 8,113,655</u>	<u>\$ 4,597,028</u>	<u>\$ 164,179,081</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 753,500	\$ -	\$ -	\$ 753,500
Less Accumulated Depreciation				
Buildings and improvements	514,030	27,380	-	541,410
Business-Type Activities Capital Assets, Net	<u>\$ 239,470</u>	<u>\$ (27,380)</u>	<u>\$ -</u>	<u>\$ 212,090</u>

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

Governmental Activities		
Instruction		\$ 1,913,501
All other general administration		2,204,686
Plant services		41,598
Total Depreciation Expenses Governmental Activities		<u>4,159,785</u>
Business-Type Activities		
Child Care		27,380
Total Depreciation Expenses All Activities		<u>\$ 4,187,165</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>
<u>Deferred Maintenance Fund</u>	<u>General Fund</u>
	<u>\$ 300,000</u>

The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for the required contributory match.

\$ 300,000

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities	Child Care Enterprise Fund
Salaries and benefits	\$ 6,464,277	\$ 12,905	\$ -	\$ 90,442	\$ 6,567,624	\$ 355,130
Supplies	1,489,591	-	-	11,176	1,500,767	30,388
Services	365,870	-	-	18,205	384,075	-
Construction	-	2,741,776	150,437	664,274	3,556,487	-
Other	456,694	-	-	-	456,694	1,849
Total	<u>\$ 8,776,432</u>	<u>\$ 2,754,681</u>	<u>\$ 150,437</u>	<u>\$ 784,097</u>	<u>\$ 12,465,647</u>	<u>\$ 387,367</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund	Child Care Enterprise Fund
Federal financial assistance	\$ 5,133	\$ -
Other local	37,054	376,783
Total	<u>\$ 42,187</u>	<u>\$ 376,783</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On March 24, 2011, the District issued \$3,300,000 of Tax and Revenue Anticipation Notes bearing interest at 2.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on February 2012. By November 2011, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

The District issued \$5,000,000 of Tax and Revenue Anticipation Notes dated February 23, 2012, through the California School Cash Reserve Program Authority. The notes mature in January 2013, and bear interest at 2.00 percent. The notes were sold to supplement cash flow. Repayment requirements are that a 100 percent of principal and interest be deposited with the Fiscal Agent on account in December 2012.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2011	Additions	Payments	Outstanding June 30, 2012
March 24, 2011	2.00%	2/1/2012	\$ 3,300,000	\$ -	\$ 3,300,000	\$ -
February 23, 2012	2.00%	1/31/2013	-	5,000,000	-	5,000,000
			<u>\$ 3,300,000</u>	<u>\$ 5,000,000</u>	<u>\$ 3,300,000</u>	<u>\$ 5,000,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 89,766,807	\$ 1,921,453	\$ 1,655,000	\$ 90,033,260	\$ 1,900,000
Premium on issuance	1,346,888	-	70,390	1,276,498	-
Discount on issuance	(52,473)	-	(3,637)	(48,836)	-
Capital leases	-	762,804	61,906	700,898	180,029
Accumulated vacation - net	1,451,137	-	38,997	1,412,140	-
Supplemental early retirement plan (SERP)	564,235	-	564,235	-	-
Other postemployment benefits (OPEB)	978,496	693,628	380,756	1,291,368	-
Total	<u>\$ 94,055,090</u>	<u>\$ 3,377,885</u>	<u>\$ 2,767,647</u>	<u>\$ 94,665,328</u>	<u>\$ 2,080,029</u>

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

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

General Obligations Bonds

The outstanding general obligation bonded debt is as follows:

	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted	Redeemed	Bonds Outstanding June 30, 2012
2000, Series B	3/14/02	11/1/26	3.00-7.72%	\$15,020,098	\$ 3,689,720	\$ 219,917	\$ 415,000	\$ 3,494,637
2000, Series C	3/7/03	11/1/27	2.00-5.42%	10,427,362	13,568,051	703,299	460,000	13,811,350
2005, Refunding	1/20/05	11/1/25	2.50-4.38%	20,400,000	19,335,000	-	560,000	18,775,000
2006, Refunding	3/9/06	11/1/23	3.50-5.00%	11,865,000	11,495,000	-	35,000	11,460,000
2005 (Measure R), Series 2006	3/9/06	3/1/31	3.50-5.00%	23,004,233	25,095,256	535,551	165,000	25,465,807
2005 (Measure S), Series 2006	3/9/06	3/1/31	3.50-7.65%	2,003,988	1,248,735	14,966	20,000	1,243,701
2005 (Measure R), Series 2009	10/6/09	8/1/34	5.68-6.18%	6,994,337	7,530,045	447,720	-	7,977,765
2005 (Measure S), Series 2009	10/6/09	8/1/34	2.00-5.00%	7,995,000	7,805,000	-	-	7,805,000
					<u>\$ 89,766,807</u>	<u>\$ 1,921,453</u>	<u>\$ 1,655,000</u>	<u>\$ 90,033,260</u>

2000 General Obligation Bonds, Series B

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

On March 9, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of \$11,865,000 to advance refund \$11,205,000 of the 2000 General Obligation Bonds, Series B. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide statement of net assets. At June, 30, 2012, 2000 General Obligation Bonds, Series B, totaling \$3,494,637 were still outstanding.

2000 General Obligation Bonds, Series C

On March 7, 2003, the District issued the 2000 Series C current and capital appreciation General Obligation Bonds in the amount of \$10,471,362 (accreting to \$26,280,000) to fund reconstruction and modernization of school facilities. The bonds have a final maturity to occur on November 1, 2027, with interest yields varying from 2.00 to 5.42 percent. At June, 30, 2012, 2000 General Obligation Bonds, Series C, totaling \$13,811,350 were still outstanding.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2005 General Obligation Refunding Bonds

On January 20, 2005, the District issued the 2005 General Obligation Refunding Bonds in the amount of \$20,400,000. The bonds were issued to advance refund \$18,080,000 of the outstanding 2000 General Obligation Bonds, Series A. The bonds have a final maturity to occur on November 1, 2025, with interest yields varying from 2.50 to 4.38 percent. At June 30, 2012, the principal balance outstanding was \$18,775,000.

2006 General Obligation Refunding Bonds

On March 9, 2006, the District issued the 2006 General Obligation Refunding Bonds in the amount of \$11,865,000. The bonds were issued to advance refund \$11,205,000 of the outstanding 2000 General Obligation Bonds, Series B. The bonds associated with the issuance were placed in an escrow account with U.S. Bank for the future redemption of Series A bonds to occur on November 1, 2012. The bonds have a final maturity to occur on November 1, 2023, with interest yields varying from 3.50 to 5.00 percent. At June 30, 2012, the principal balance outstanding was \$11,460,000.

2005 General Obligation Bonds, Series 2006 (Measure R)

On March 9, 2006, the District issued the 2005 Series 2006 (Measure R) current and capital appreciation General Obligation Bonds in the amount of \$23,004,233 (accreting to \$41,815,000) to fund specific construction, repair and improvement projects for the District's core academic facilities. The bonds have a final maturity to occur on March 1, 2031, with interest yields varying from 3.50 to 5.00 percent. At June, 30, 2012, Measure R 2005 General Obligation Bonds, Series 2006, totaling \$25,465,807 were still outstanding.

2005 General Obligation Bonds, Series 2006 (Measure S)

On March 9, 2006, the District issued the 2005 Series 2006 (Measure S) current and capital appreciation General Obligation Bonds in the amount of \$2,003,988 (accreting to \$2,615,000) to fund specific construction, repair and improvement projects for the District's co-curricular facilities. The bonds have a final maturity to occur on March 1, 2031, with interest yields varying from 3.50 to 7.65 percent. At June, 30, 2012, Measure S 2005 General Obligation Bonds, Series 2006, totaling \$1,243,701 were still outstanding.

2005 General Obligation Bonds, Series 2009 (Measure R)

On October 6, 2009, the District issued the 2005 Series 2009 (Measure R) capital appreciation General Obligation Bonds in the amount of \$6,994,337 (accreting to \$27,325,000) to fund specific construction, repair and improvement projects for the District's core academic facilities. These bonds represent the final issuance authorized under the election held November 8, 2005 in an aggregate principal amount not to exceed \$30,000,000. The bonds have a final maturity to occur on August 1, 2034, with interest yields varying from 5.68 to 6.18 percent. At June, 30, 2012, Measure R 2005 General Obligation Bonds, Series 2009, totaling \$7,977,765 were still outstanding.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2005 General Obligation Bonds, Series 2006 (Measure S)

On October 6, 2009, the District issued the 2005 Series 2009 (Measure S) current General Obligation Bonds in the amount of \$7,995,000 to fund specific construction, repair and improvement projects for the District's co-curricular facilities. These bonds represent the final issuance authorized under the election held November 8, 2005 in an aggregate principal amount not to exceed \$10,000,000. The bonds have a final maturity to occur on August 1, 2034, with interest yields varying from 2.00 to 5.00 percent. At June, 30, 2012, Measure S 2005 General Obligation Bonds, Series 2009, totaling \$7,805,000 were still outstanding.

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest to Maturity	Current Interest to Maturity	Total
2013	\$ 1,888,159	\$ 11,841	\$ 2,300,089	\$ 4,200,089
2014	2,131,006	38,994	2,245,126	4,415,126
2015	2,395,292	697,078	2,180,583	5,272,953
2016	2,760,576	104,424	2,100,827	4,965,827
2017	3,096,843	143,157	2,006,771	5,246,771
2018-2022	21,270,095	1,574,905	8,134,463	30,979,463
2023-2027	26,681,766	10,078,234	3,691,528	40,451,528
2028-2032	19,724,911	22,391,089	1,172,171	43,288,171
2033-2035	10,084,612	17,340,388	245,250	27,670,250
Total	<u>\$ 90,033,260</u>	<u>\$ 52,380,110</u>	<u>\$ 24,076,808</u>	<u>\$ 166,490,178</u>

Capital Leases

This District has entered into agreements to lease networking 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:

	Networking Equipment
Balance, July 1, 2012	\$ -
Additions	807,282
Payments	(70,961)
Balance, June 30, 2013	<u>\$ 736,321</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The capital leases have minimum lease payments as follows:

Year Ending Balance	Lease Payment
2013	\$ 195,088
2014	195,088
2015	158,537
2016	132,429
2017	55,179
Total	<u>736,321</u>
Less: Amount Representing Interest	(35,423)
Present Value of Minimum Lease Payments	<u><u>\$ 700,898</u></u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$1,412,140.

Supplemental Early Retirement Plans (SERP)

The District has offered supplemental early retirement plans (SERP) to its certificated employees. Eligible employees who meet specific criteria for participation in SERP are provided an annuity to supplement the retirement benefits they are entitled to, through their respective retirement systems. The annuities offered to the employees were paid over a five-year period. The District provided the final annuity payment during the 2011-2012 fiscal period.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$705,325, and contributions made by the District during the year were \$380,756. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$48,925 and \$(60,622), respectively, which resulted in an increase to the net OPEB obligation of \$312,872. As of June 30, 2012, the net OPEB obligation was \$1,291,368. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ 2,850	\$ 12,850
Stores inventories	195,775	-	-	38,745	234,520
Prepaid expenditures	390	-	-	5,243	5,633
Total Nonspendable	<u>206,165</u>	<u>-</u>	<u>-</u>	<u>46,838</u>	<u>253,003</u>
Restricted					
Legally restricted programs	226,122	-	-	-	226,122
Cafeteria program	-	-	-	221,808	221,808
Capital projects	-	1,341,775	7,027,390	777,165	9,146,330
Debt services	-	-	-	3,120,622	3,120,622
Total Restricted	<u>226,122</u>	<u>1,341,775</u>	<u>7,027,390</u>	<u>4,119,595</u>	<u>12,714,882</u>
Committed					
Adult education program	-	-	-	187,967	187,967
Deferred maintenance program	-	-	-	633,861	633,861
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>821,828</u>	<u>821,828</u>
Assigned					
Postemployment benefits	3,769,985	-	-	-	3,769,985
Site gift/PTA carryover	900,559	-	-	-	900,559
Capital projects	-	-	-	4,302,410	4,302,410
Other	1,184,851	-	-	-	1,184,851
Total Assigned	<u>5,855,395</u>	<u>-</u>	<u>-</u>	<u>4,302,410</u>	<u>10,157,805</u>
Unassigned					
Reserve for economic uncertainties	9,330,480	-	-	-	9,330,480
Total Unassigned	<u>9,330,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,330,480</u>
Total	<u>\$ 15,618,162</u>	<u>\$ 1,341,775</u>	<u>\$ 7,027,390</u>	<u>\$ 9,290,671</u>	<u>\$ 33,277,998</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following District major funds exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	<u>\$ 95,572,525</u>	<u>\$ 97,801,412</u>	<u>\$ 2,228,887</u>

General Fund actual expenditures include on-behalf payments of \$2,186,707.

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 Palos Verdes Peninsula Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 251 retirees and beneficiaries currently receiving benefits, and 803 active Plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Palos Verdes Faculty Association (PVFA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the District contributed \$380,756 to the Plan, all of which was used for current premiums.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 705,325
Interest on net OPEB obligation	48,925
Adjustment to annual required contribution	(60,622)
Annual OPEB cost (expense)	<u>693,628</u>
Contributions made	<u>(380,756)</u>
Increase in net OPEB obligation	312,872
Net OPEB obligation, beginning of year	978,496
Net OPEB obligation, end of year	<u><u>\$ 1,291,368</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 Employer Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$ 698,456	\$ 380,694	55%	\$ 645,454
2011	697,609	364,567	52%	978,496
2012	693,628	380,756	55%	1,291,368

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2010	\$ -	\$ 6,610,213	\$ 6,610,213	0%	\$ 64,215,594	10%

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the unit credit cost method was used. Currently, the District does not set aside assets in an irrevocable employee benefit trust. The assumptions include a five percent discount rate based on employer assets that are not restricted for other purposes and are expected to be used to finance benefit payments. Healthcare cost trend rates reflected an ultimate rate of seven percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2012, was 26 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; and natural disasters. During the fiscal year ending June 30, 2012, the District participated in the Alliance of Schools for Cooperative Insurance Program (ASCIP) public entity risk pool for property and liability insurance coverage. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2012, the District participated in the Alliance of Schools for Cooperative Insurance Program (ASCIP) public entity risk pool. The intent of ASCIP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in ASCIP. The workers' compensation experience of the participating districts is calculated and applied to a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Employee Medical Benefits

The District purchases medical, dental and vision insurance from commercial insurance companies. Dental and vision benefits are self-insured by the District and accounted for in a separate internal service fund for self-insurance.

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 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, CA 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 2011-2012 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, 2012, 2011, and 2010, were \$3,610,531, \$3,662,866, and \$3,716,134, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under 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, CA 95811.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 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 2011-2012 was 10.923 percent of covered payroll. 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, 2012, 2011, and 2010, were \$1,967,417, \$1,901,235, and \$1,744,076, respectively, and equal 100 percent of the required contributions for each year.

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. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension 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 \$2,186,707 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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, 2012.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Operating Leases

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. These leases, therefore, have not been accounted for as capital leases.

The following is a schedule, by years, for future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year, as of June 30, 2012.

<u>Year Ending</u> <u>June 30,</u> 2013	<u>Lease</u> <u>Payment</u> <u>\$ 162,444</u>
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Rental expenditures for the year ended June 30, 2012 amounted to \$324,888.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

<u>CAPITAL PROJECT</u>	<u>Remaining</u> <u>Construction</u> <u>Commitment</u>	<u>Expected</u> <u>Date of</u> <u>Completion</u>
Asphalt Replacement Projects	\$ 497,803	08/19/12
New Pool	1,551,500	12/17/12
Plumbing Replacement Projects	1,020,747	08/10/12
Baseball Clubhouse	69,365	10/31/12
New Gymnasium/Band Room	766,022	12/10/12
	<u>\$ 3,905,437</u>	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

During the year ended June 30, 2012, the District made payments of \$1,863,079 and \$520,499 to ASCIP and Southern California Regional Occupational Program, respectively, for services received.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 17 - SUBSEQUENT EVENTS

The District received \$5,000,000 of Tax and Revenue Anticipation Notes on July 2, 2012. The notes mature on June 29, 2013, and yield 2.00 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January 2013, until 100 percent of principal and interest due is on account in February 2013.

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 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has 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.

REQUIRED SUPPLEMENTARY INFORMATION

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final
				to Actual
REVENUES				
Revenue limit sources	\$ 57,075,896	\$ 60,840,319	\$ 60,691,239	\$ (149,080)
Federal sources	3,451,731	3,349,460	3,186,815	(162,645)
Other State sources	14,403,952	14,448,213	17,012,905	2,564,692
Other local sources	13,142,711	14,469,862	15,379,924	910,062
Total Revenues ¹	88,074,290	93,107,854	96,270,883	3,163,029
EXPENDITURES				
Current				
Certificated salaries	42,481,196	44,889,499	45,067,397	(177,898)
Classified salaries	16,607,159	17,702,069	17,155,947	546,122
Employee benefits	14,081,057	14,811,467	17,223,252	(2,411,785)
Books and supplies	3,212,831	4,261,714	3,209,512	1,052,202
Services and operating expenditures	12,779,508	12,009,518	12,830,938	(821,420)
Capital outlay	156,668	197,353	1,124,327	(926,974)
Other outgo	1,004,325	918,520	890,039	28,481
Total Expenditures ¹	90,322,744	94,790,140	97,501,412	(2,711,272)
Excess (Deficiency) of Revenues Over Expenditures	(2,248,454)	(1,682,286)	(1,230,529)	451,757
Other Financing Sources (Uses)				
Transfers in	-	347,310	-	(347,310)
Other sources	-	-	762,804	762,804
Transfers out	(760,458)	(782,385)	(300,000)	482,385
Net Financing Sources (Uses)	(760,458)	(435,075)	462,804	897,879
NET CHANGE IN FUND BALANCES	(3,008,912)	(2,117,361)	(767,725)	1,349,636
Fund Balances - Beginning	16,385,887	16,385,887	16,385,887	-
Fund Balances - Ending	\$ 13,376,975	\$ 14,268,526	\$ 15,618,162	\$ 1,349,636

¹ On behalf payments of \$2,186,707 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, as Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, Fund 20, Special Reserve Fund for Postemployment Benefits and Fund 71, Retiree Benefit Fund have, for reporting purposes, been consolidated into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	\$ -	\$ 6,725,494	\$ 6,725,494	0%	\$ 49,002,632	14%
July 1, 2010	-	6,610,213	6,610,213	0%	64,215,594	10%

SUPPLEMENTARY INFORMATION

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Award			
Foreign Language Assistance Program	84.293A	[1]	\$ 294,817
Passed through California Department of Education (CDE):			
Educational Technology State Grants Cluster			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	82
ARRA Title II, Part D - Enhancing Education Through Technology, Formula Grants	84.386	15019	4,228
Total Educational Technolgy State Grants Cluster			<u>4,310</u>
Title I, Part A - Low Income and Neglected	84.010	14329	226,642
Title I, Part G-Advanced Placement Test Fee Reimbursement Program	84.330B	14831	5,877
Title II, Part A - Improving Teacher Quality	84.367	14341	134,304
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	68,175
Title V, Part A, Innovative Education Strategies	84.298A	14354	1,682
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048A	14894	31,353
ARRA - State Fiscal Stabilization Funds	84.394	24997, 25008	1,333,133
Education Jobs Fund	84.410	25152	33,319
Passed through Los Angeles County Office of Education (LACOE):			
Individuals with Disabilities Education Act (IDEA) Cluster:			
Local Assistance Entitlement	84.027	13379	1,729,885
Preschool Local Entitlement	84.027A	13682	126,768
Preschool Grants, Part B, Section 619	84.173	13430	62,957
Preschool Staff Development, Part B, Section 619	84.173A	13431	737
ARRA IDEA Local Assistance	84.391	15003	432,853
ARRA IDEA Federal Preschool	84.392	15000	1,655
ARRA IDEA Part B, Section 611, Preschool Local Entitlement	84.391	15002	21,611
Subtotal Individuals with Disabilities Education Act			<u>2,376,466</u>
Total U.S. Department of Education			<u>4,510,078</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through California Emergency Management Agency			
FEMA Public Assistance Funds	97.036	10014	<u>7,357</u>

[1] Direct Award

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast Program	10.553	13526	\$ 13,882
National School Lunch Program	10.555	13396	207,941
Commodities	10.555	13396	<u>96,208</u>
Total U.S. Department of Agriculture			<u><u>318,031</u></u>
U.S. DEPARTMENT OF STATE BUREAU OF EDUCATIONAL AND CULTURAL AFFAIRS			
Passed through American Councils for International Education (ACTR):			
National Security Language Initiative for Youth	19.415	[1]	<u>2,513</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,837,979</u></u>

[1] Direct Award

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Palos Verdes Peninsula Unified School District was established in 1961 and consists of an area comprising approximately 24.4 square miles. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies for nine K-5 schools, one 1-5 school, two kindergarten schools, three 6-8 schools, two four-year high schools, one continuation high school and one adult education school, a special education early childhood education program, a fee-based preschool and a child care program. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Barbara Lucky	President	2013
Larry Vanden Bos	Vice President	2015
Anthony Collatos	Clerk	2013
Erin G. LaMonte	Member	2015
Malcolm S. Sharp	Member	2013

ADMINISTRATION

Walker Williams	Superintendent of Schools
Lydia Cano	Deputy Superintendent, Business Services
Susan Liberati, Ed.D.	Assistant Superintendent, Curriculum and Instruction
William Franchini	Director, Human Resources

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	721	725
First through third	2,141	2,142
Fourth through sixth	2,484	2,482
Seventh and eighth	1,825	1,822
Home and hospital	1	1
Special education	154	154
Total Elementary	<u>7,326</u>	<u>7,326</u>
SECONDARY		
Regular classes	4,016	4,003
Continuation education	76	76
Home and hospital	3	4
Special education	105	103
Total Secondary	<u>4,200</u>	<u>4,186</u>
Total K-12	<u>11,526</u>	<u>11,512</u>

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced	1986-87	Reduced	2011-12	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	31,680	29,568	36,000	33,600	38,940	176	N/A	Complied
Grades 1 - 3	45,460	42,429	50,400	47,040				
Grade 1					49,686	176	N/A	Complied
Grade 2					49,686	176	N/A	Complied
Grade 3					49,686	176	N/A	Complied
Grades 4 - 8	51,536	48,194	54,000	50,400				
Grade 4					52,884	176	N/A	Complied
Grade 5					52,884	176	N/A	Complied
Grade 6					52,884	176	N/A	Complied
Grade 7					52,884	176	N/A	Complied
Grade 8					52,884	176	N/A	Complied
Grades 9 - 12	62,851	58,661	64,800	60,480				
Grade 9					60,520	176	N/A	Complied
Grade 10					60,520	176	N/A	Complied
Grade 11					60,520	176	N/A	Complied
Grade 12					60,520	176	N/A	Complied

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget)			
	2013 ¹	2012	2011	2010
GENERAL FUND ⁴				
Revenues	\$ 87,116,040	\$ 96,068,560	\$ 98,206,288	\$ 88,721,050
Other sources	347,310	792,840	1,512,070	-
Total Revenues and Other Sources	<u>87,463,350</u>	<u>96,861,400</u>	<u>99,718,358</u>	<u>88,721,050</u>
Expenditures	91,992,324	96,738,606	95,559,506	91,382,349
Other uses and transfers out	782,385	435,521	1,993,042	2,029,107
Total Expenditures and Other Uses	<u>92,774,709</u>	<u>97,174,127</u>	<u>97,552,548</u>	<u>93,411,456</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (5,311,359)</u>	<u>\$ (312,727)</u>	<u>\$ 2,165,810</u>	<u>\$ (4,690,406)</u>
ENDING FUND BALANCE	<u>\$ 5,351,967</u>	<u>\$ 10,663,326</u>	<u>\$ 10,976,053</u>	<u>\$ 8,810,243</u>
AVAILABLE RESERVES ²	<u>\$ 4,920,071</u>	<u>\$ 9,330,480</u>	<u>\$ 9,260,283</u>	<u>\$ 2,810,978</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>5.30%</u>	<u>9.82%</u>	<u>9.68%</u>	<u>3.01%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 94,665,328</u>	<u>\$ 94,055,090</u>	<u>\$ 91,882,060</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>11,495</u>	<u>11,526</u>	<u>11,574</u>	<u>11,530</u>

The General Fund balance has increased by \$1,853,083 over the past two years. However, the fiscal year 2012-2013 budget projects a decrease of \$5,311,359 (49.8 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 deficits in two of the past three years and anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$2,783,268 over the past two years.

Average daily attendance has decreased by four over the past two years. A decline of 31 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$2,186,707 and \$1,894,477 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012 and 2011, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, Fund 20, Special Reserve Fund for Postemployment Benefits, and Fund 71, Retiree Benefit Fund, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	<u>Adult Education Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>
ASSETS			
Deposits and investments	\$ 156,185	\$ 261,161	\$ 635,333
Receivables	38,737	58,390	246
Prepaid expenses	-	5,243	16,257
Stores inventories	-	38,745	-
Total Assets	<u>\$ 194,922</u>	<u>\$ 363,539</u>	<u>\$ 651,836</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	<u>\$ 6,955</u>	<u>\$ 94,893</u>	<u>\$ 17,975</u>
Fund Balances:			
Nonspendable	-	46,838	-
Restricted	-	221,808	-
Committed	187,967	-	633,861
Assigned	-	-	-
Total Fund Balances	<u>187,967</u>	<u>268,646</u>	<u>633,861</u>
Total Liabilities and Fund Balances	<u>\$ 194,922</u>	<u>\$ 363,539</u>	<u>\$ 651,836</u>

See accompanying note to supplementary information.

Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 764,972	\$ 4,450,815	\$ 3,120,622	\$ 9,389,088
12,597	515,465	-	625,435
-	-	-	21,500
-	-	-	38,745
<u>\$ 777,569</u>	<u>\$ 4,966,280</u>	<u>\$ 3,120,622</u>	<u>\$ 10,074,768</u>
\$ 404	\$ 663,870	\$ -	\$ 784,097
-	-	-	46,838
777,165	-	3,120,622	4,119,595
-	-	-	821,828
-	4,302,410	-	4,302,410
<u>777,165</u>	<u>4,302,410</u>	<u>3,120,622</u>	<u>9,290,671</u>
<u>\$ 777,569</u>	<u>\$ 4,966,280</u>	<u>\$ 3,120,622</u>	<u>\$ 10,074,768</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES				
Federal sources	\$ -	\$ 318,031	\$ -	\$ -
Other State sources	37,714	-	418,971	-
Other local sources	210,376	2,256,607	3,911	413,352
Total Revenues	<u>248,090</u>	<u>2,574,638</u>	<u>422,882</u>	<u>413,352</u>
EXPENDITURES				
Current				
Instruction	119,981	-	-	-
Instruction-related activities:				
School site administration	92,071	-	-	-
Pupil services:				
Food services	-	2,377,509	-	-
Administration:				
All other administration	7,422	83,245	-	9,641
Plant services	-	-	-	35,428
Facility acquisition and construction	-	-	765,727	589,860
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>219,474</u>	<u>2,460,754</u>	<u>765,727</u>	<u>634,929</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>28,616</u>	<u>113,884</u>	<u>(342,845)</u>	<u>(221,577)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	300,000	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	28,616	113,884	(42,845)	(221,577)
Fund Balances - Beginning	159,351	154,762	676,706	998,742
Fund Balances - Ending	<u>\$ 187,967</u>	<u>\$ 268,646</u>	<u>\$ 633,861</u>	<u>\$ 777,165</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 318,031
-	25,701	482,386
719,882	4,119,235	7,723,363
<u>719,882</u>	<u>4,144,936</u>	<u>8,523,780</u>
-	-	119,981
-	-	92,071
-	-	2,377,509
-	-	100,308
-	-	35,428
1,056,213	-	2,411,800
-	1,655,000	1,655,000
-	2,346,201	2,346,201
<u>1,056,213</u>	<u>4,001,201</u>	<u>9,138,298</u>
<u>(336,331)</u>	<u>143,735</u>	<u>(614,518)</u>
-	-	300,000
-	-	300,000
<u>(336,331)</u>	<u>143,735</u>	<u>(314,518)</u>
4,638,741	2,976,887	9,605,189
<u>\$ 4,302,410</u>	<u>\$ 3,120,622</u>	<u>\$ 9,290,671</u>

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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 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 Balance:		\$ 3,504,846
ARRA - State Fiscal Stabilization Funds	84.394	1,333,133
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,837,979</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

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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.

INDEPENDENT AUDITORS' REPORTS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palos Verdes Peninsula 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Palos Verdes Peninsula Unified School District in a separate letter dated December 10, 2012.

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, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California
December 10, 2012

Internal Control Over Compliance

The management of Palos Verdes Peninsula 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 Palos Verdes Peninsula 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 Palos Verdes Peninsula Unified School District's internal control over compliance.

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

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, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California
December 10, 2012

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable
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
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts 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	5	Not applicable
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	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	4	Not applicable

We did not perform testing for Independent Study and Continuation Education because the ADA for these programs were below the materiality threshold as indicated in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2011-2012 Audit Guide*.

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, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California
December 10, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency 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 Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.394 (ARRA)</u>	<u>ARRA - State Fiscal Stabilization Funds</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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

ASSOCIATED STUDENT BODY (ASB)

Palos Verdes Intermediate School

Observations

During our review of associated student body (ASB) procedures, the following issues were noted:

1. Receipts are not issued for monies being collected.
2. The site does not use fundraiser request forms or revenue potential forms.
3. Purchases are not pre-approved by ASB. Approval is obtained after the purchases are made using reimbursement request forms.
4. Three of 21 disbursements reviewed involved donations and gift cards.
5. Disbursements do not contain all three required signatures for approval.
6. The ASB bookkeeper is currently an authorized signor.
7. The monthly bank statements were not reconciled for the entire year. Therefore, the site is not aware of their available cash balance or if the financial records of the clubs accurately reflect true financial information.

Recommendations

1. A pre-numbered receipt should be issued as monies are collected. These sequential receipts improve the ASB's ability to track and reconcile to the bank deposits. Without these receipts, it is difficult to determine where the funds are collected from and if the amount deposited is reflective of the amount collected.
2. Fundraisers should be approved by ASB prior to its start. This is essential as ASB can evaluate whether or not there is sufficient funds to support the fundraiser and if it is appropriate. Additionally, it is recommended that the fundraiser request forms and revenue potential forms are completed. Fundraiser request forms provide verification that the fundraiser has been approved by ASB and appropriate administrator. Revenue potentials will help identify any significant differences between anticipated profits and actual profits/losses and possible potential misappropriation of ASB funds. Analysis of actual profit/loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.
3. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases.
4. Donations are usually not allowable disbursements since they would be considered a gift of public funds. The site should consider reviewing the FCMAT ASB manual specifically the allowable and questionable expenditures chapter to ensure compliance.
5. Pursuant to *California Education Code* Section 48933, three signatures are required on all disbursements from a student body account. These signatures are District appointed representatives, an advisor and a student representative. Currently, the site does not have a District appointed representative sign.
6. To ensure a segregation of duties, the ASB bookkeeper should not be an authorized signor as her responsibilities include the issuance of checks and recording ASB activity.

7. Monthly bank reconciliation's must be performed in order to ensure that the cash balance reported on the books is accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. Differences between these two amounts could be caused by mispostings to the student body accounts.

Palos Verdes High School

Observations

During our review of associated student body procedures, the following issues were noted:

1. Two receipts were not deposited in a timely manner.
2. Pre-numbered cash receipts are not issued sequentially.
3. Purchases are not pre-approved by ASB. Approval is obtained after the purchases are made using reimbursement request forms.
4. Six of 27 disbursements reviewed did not have receiving documentation.
5. Fourteen of 27 disbursements reviewed did not all three required signatures for approval.
6. Revenue potential forms are not used for fundraising events.
7. A master ticket control log is not maintained.
8. Perpetual inventory for the student store is not maintained.
9. In reviewing the sites outstanding check listing for the February reconciliation, we noted that numerous checks were over six months old making the probability of them clearing the account quite low. There were checks outstanding from 2003.

Recommendations

1. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should communicate guidelines for such a procedure including the maximum cash on hand that should be maintained at the site.
2. Pre-numbered cash receipts should be issued sequentially as it improves the sites ability to track and ensure that all cash received is deposited intact and in a timely manner.
3. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases.
4. All expenditures should indicate whether the items purchased have been received. This can be noted with a stamp, signature, packing slip, etc. This reduces the risk of items being paid for but not received.
5. Pursuant to *California Education Code* Section 48933, three signatures are required on all disbursements from a student body account. The purpose of receiving the signature of approval from the club advisor is to ensure that the club advisor has reviewed the requested disbursement and deemed the expenditure as appropriate for ASB and the club.
6. Revenue potentials must be completed for each fundraiser. This includes the expected profit and loss section associated with the fundraisers. This will help identify any significant differences between anticipated profits and actual profits/losses and possible potential misappropriation of ASB funds. Analysis of actual profit/loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.

7. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. The site should log all ticket roll inventory, even if the rolls are not in use. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the event.
8. To prevent the loss or the misappropriation of assets, the site should reconcile the physical inventory count to a perpetual inventory of items available for sale. A perpetual inventory tracks beginning inventory, purchases and other additions to inventory and total number of items sold based on daily sales and receipts. The site should also establish a procedure to investigate any significant differences noted between the actual physical inventory counts and the perpetual inventory count. This information is necessary to analyze sales activity and applicable profit or loss and to determine if merchandise has been lost or stolen.
9. Outstanding checks over six months old should be credited back to the appropriate account and taken off the subsequent bank reconciliations. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

Palos Verdes Peninsula High School

Observations

During our review of associated student body procedures, the following issues were noted:

1. Purchases are not pre-approved by ASB. Approval is obtained after the purchases are made using reimbursement request forms.
2. Four of 24 cash disbursements reviewed did not require signatures for approval.
3. Currently, a daily sales recap is not prepared where the items sold are reconciled to the cash collected.
4. Perpetual inventory for the student store is not maintained.
5. In reviewing the sites outstanding check listing for the February reconciliation, we noted that five checks were over six months old making the probability of them clearing the account quite low.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases.
2. Pursuant to *California Education Code* Section 48933, three signatures are required on all disbursements from a student body account. The purpose of receiving the signature of approval from the club advisor is to ensure that the club advisor has reviewed the requested disbursement and deemed the expenditure as appropriate for ASB and the club.
3. The student store can issue physical receipts for items purchased or generate a tally sheet of all items sold at the student store to tally total sales of items as they are being sold. A daily sales recap should then be prepared where the items sold are reconciled to the cash collected.

Governing Board
Palos Verdes Peninsula Unified School District

4. To prevent the loss or the misappropriation of assets, the site should reconcile the physical inventory count to a perpetual inventory of items available for sale. A perpetual inventory tracks beginning inventory, purchases and other additions to inventory and total number of items sold based on daily sales and receipts. The site should also establish a procedure to investigate any significant differences noted between the actual physical inventory counts and the perpetual inventory count. This information is necessary to analyze sales activity and applicable profit or loss and to determine if merchandise has been lost or stolen.
5. Outstanding checks over six months old should be credited back to the appropriate account and taken off the subsequent bank reconciliations. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

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

Rancho Cucamonga, California
December 10, 2012