



**PACIFIC GROVE
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

PACIFIC GROVE UNIFIED SCHOOL DISTRICT
OF MONTEREY COUNTY
PACIFIC GROVE, CALIFORNIA
JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mike Niccum	President	2007
Rich Schramm	Vice President/Clerk	2007
Jessie Bray	Member	2009
Bill Phillips	Member	2009
Beth Shammass	Member	2009

ADMINISTRATION

Patrick Perry	Superintendent
Robin Blakley	Assistant Superintendent, Business
Billie Mankey	Human Resources Coordinator
Cathie McAweeney	Curriculum/Special Projects Coordinator

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2007

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 Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	17
Fiduciary Funds - Statement of Net Assets	18
Fiduciary Funds - Statement of Changes in Net Assets	19
Notes to Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	46
Adult Education Special Revenue Fund - Budgetary Comparison Schedule	47

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	49
Local Education Agency Organization Structure	50
Schedule of Average Daily Attendance	51
Schedule of Instructional Time	52
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	53
Schedule of Financial Trends and Analysis	54
Excess Sick Leave	55
Note to Supplementary Information	56

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	60
Note to Supplementary Information - Unaudited	61

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	65
Report on State Compliance	67

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	70
Financial Statement Findings	71
Federal Awards Findings and Questioned Costs	72
State Awards Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	75



INDEPENDENT AUDITORS' REPORT

Governing Board
Pacific Grove Unified School District
Pacific Grove, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Grove Unified School District (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Grove Unified School District, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 46 through 47, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The unaudited supplementary information listed in the table of contents, the Combining Statements - Non-Major Governmental Funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vavrinek, Trine, Day & Co., LLP

Fresno, California
December 15, 2007



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This section of Pacific Grove Unified School District's (2006-07) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

In the *Statement of Net Assets* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - The District'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.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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.

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, scholarships and 125 Cafeteria Plan. The District's fiduciary activities are reported in separate *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.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$20,562,871 for the fiscal year ended June 30, 2007, and \$21,038,909 for the fiscal year ended June 30, 2006, a decrease of \$476,038. Of this amount, \$2,267,435 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants grantors, constitutional provisions and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

Table 1

	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 13,076,487	\$ 11,288,821
Capital assets (Net of accumulated depreciation)	26,853,129	28,084,398
Total Assets	39,929,616	39,373,219
Liabilities		
Current liabilities	1,458,329	6,386,473
Long-term obligations	17,908,416	11,947,837
Total Liabilities	19,366,745	18,334,310
Net Assets		
Invested in capital assets, net of related debt	9,056,039	16,203,977
Restricted	9,239,397	1,997,996
Unrestricted	2,267,435	2,836,936
Total Net Assets	\$ 20,562,871	\$ 21,038,909

The \$2,267,435 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Assets

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Table 2

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 793,689	\$ 910,605
Operating grants and contributions	5,019,578	4,627,620
General revenues:		
Federal and State aid not restricted	1,081,673	786,759
Property taxes	17,961,323	16,547,829
Other general revenues	2,198,178	2,333,170
Total Revenues	<u>27,054,441</u>	<u>25,205,983</u>
Expenses		
Instruction-related	16,900,755	15,889,298
Student support services	1,753,550	1,525,468
Administration	2,322,137	1,967,745
Maintenance and operations	2,340,316	2,565,292
Other	4,213,721	2,824,264
Total Expenses	<u>27,530,479</u>	<u>24,772,067</u>
Change in Net Assets	<u>\$ (476,038)</u>	<u>\$ 433,916</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$27,530,479, as compared to \$24,772,067 in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$17,961,323 because the cost was paid by those who benefited from the programs (\$793,689) or by other governments and organizations who subsidized certain programs with grants and contributions (\$5,019,578). We paid for the remaining "public benefit" portion of our governmental activities with \$1,081,673 in State funds and \$2,198,178 in other revenues, like interest and general entitlements.

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Table 3

	2007		2006	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 14,088,966	\$ 10,217,918	\$ 13,211,788	\$ 9,631,641
Instruction-related activities	2,811,789	2,155,849	2,677,510	1,900,941
Home-to-school transportation	161,357	28,848	180,196	31,619
Other pupil services	1,592,193	1,134,709	1,345,272	962,374
General administration	2,322,137	1,920,453	1,967,745	1,620,520
Maintenance and operations	2,340,316	2,209,493	2,565,292	2,440,152
Ancillary services	342,180	342,180	300,967	300,967
Community services	284,832	284,832	325,442	147,773
Interest on long-term obligations	689,439	689,439	470,793	470,793
Other outgo	640,597	476,818	1,253,069	1,253,069
Other	2,256,673	2,256,673	473,993	473,993
Totals	\$ 27,530,479	\$ 21,717,212	\$ 24,772,067	\$ 19,233,842

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$11,618,158 while the prior year reported \$4,902,348, which is an increase of \$6,715,810 (Table 4).

Table 4

	Balances and Activity			
	July 1, 2006	Revenues	Expenditures	June 30, 2007
General	\$ 2,846,430	\$ 22,362,440	\$ 21,947,498	\$ 3,261,372
Adult Education	55,503	2,459,662	2,489,811	25,354
Building	284,234	6,092,618	287,274	6,089,578
Non-Major Governmental	1,716,181	8,675,178	8,149,505	2,241,854
Totals	\$ 4,902,348	\$ 39,589,898	\$ 32,874,088	\$ 11,618,158

The primary reasons for these increases are:

The General Fund is the District's principal operating fund. The fund balance in the General Fund increased \$414,942 to \$3,261,372. This increase is due primarily to expenditures being carefully monitored. The increase in the Building Fund was due to a new bond issue. The increase in Non-Major Funds was due to increases in various funds.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on May 3, 2007. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 46).

- Significant revenue revisions made to the 2006-07 Budget were due to revised property tax projections made after the budget adoption.
- Significant expenditure increases made to the 2006-07 Budget occurred primarily due to negotiated employee compensation increases and the carryover of prior year funds both of which occurred after budget adoption.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had \$28,084,398 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. At June 30, 2007, the District's Capital Assets were \$26,853,129. This amount represents a net decrease (including additions, deductions and depreciation) of \$1,231,269 from last year (Table 5).

Table 5

	Governmental Activities	
	2007	2006
Land and construction in process	\$ 486,823	\$ 217,496
Buildings and improvements	26,284,920	27,758,498
Furniture and equipment	81,386	108,404
Totals	\$ 26,853,129	\$ 28,084,398

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

Long-Term Obligations

At the end of this year, the District had \$17,461,000 in bonds outstanding versus \$11,315,000 last year, an increase of \$6,146,000. The long-term obligations of the District include the following:

Table 6

	Governmental Activities	
	2007	2006
General obligation bonds (financed with property taxes)	\$ 17,461,000	\$ 11,315,000
Compensated absences	111,326	67,416
Capitalized lease obligations	20,856	177,523
Early retirement contracts	315,234	387,898
Totals	\$ 17,908,416	\$ 11,947,837

We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2007-08 year, the District Board and management used the following key assumptions in our revenue and expenditure forecasts:

1. Property tax revenues will increase by 7.5 percent due to an estimated rise in assessed valuation.
2. Interest earnings will continue at the 2006-07 levels.
3. No "basic aid" will be received.
4. Federal income will not increase over 2006-07 levels.
5. State income will increase a net 2% over 2006-07 levels.
6. The District will receive an estimated \$270,271 for the new local parcel tax.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at Pacific Grove Unified School District, 555 Sinex Avenue, Pacific Grove, California, 93950, or e-mail at rblakley@pgusd.org.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental Activities
ASSETS	
Deposits and investments	\$ 11,860,212
Receivables	1,213,856
Stores inventory	2,419
Nondepreciable capital assets	486,823
Depreciable capital assets	30,673,896
Accumulated depreciation	(4,307,590)
Total Assets	<u>39,929,616</u>
LIABILITIES	
Deficit cash	17,132
Accounts payable	1,365,624
Deferred revenue	75,573
Current portion of long-term obligations	494,278
Noncurrent portion of long-term obligations	17,414,138
Total Liabilities	<u>19,366,745</u>
NET ASSETS	
Invested in capital assets, net of related debt	9,056,039
Restricted for:	
Debt service	696,404
Capital projects	7,175,324
Educational programs	894,029
Other activities	473,640
Unrestricted	2,267,435
Total Net Assets	<u>\$ 20,562,871</u>

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 14,088,966	\$ 437,724	\$ 3,433,324
Instruction-related activities:			
Supervision of instruction	119,939	2,967	14,314
Instructional library, media and technology	374,430	-	-
School site administration	2,317,420	57,728	580,931
Pupil services:			
Home-to-school transportation	161,357	9,694	122,815
Food services	414,471	232,475	67,079
All other pupil services	1,177,722	1,217	156,713
General administration:			
All other general administration	2,322,137	51,675	350,009
Plant services	2,340,316	90	130,733
Ancillary services	342,180	-	-
Community services	284,832	-	-
Enterprise services	695,051	-	-
Interest on long-term obligations	689,439	-	-
Other outgo	640,597	119	163,660
Depreciation (unallocated)	1,561,622	-	-
Total Governmental Activities	\$ 27,530,479	\$ 793,689	\$ 5,019,578
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			
Total General Revenues and Transfers			
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**

\$ (10,217,918)

(102,658)

(374,430)

(1,678,761)

(28,848)

(114,917)

(1,019,792)

(1,920,453)

(2,209,493)

(342,180)

(284,832)

(695,051)

(689,439)

(476,818)

(1,561,622)

(21,717,212)

16,683,456

1,011,514

266,353

1,081,673

332,944

1,865,234

21,241,174

(476,038)

21,038,909

\$ 20,562,871

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	<u>General Fund</u>	<u>Adult Fund</u>	<u>Building Fund</u>
ASSETS			
Deposits and investments	\$ 2,984,992	\$ 41,118	\$ 6,071,789
Receivables	835,156	176,001	79,824
Due from other funds	699,796	-	-
Stores inventory	-	-	-
Total Assets	<u>\$ 4,519,944</u>	<u>\$ 217,119</u>	<u>\$ 6,151,613</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deficit cash	-	-	-
Accounts payable	1,111,781	191,765	62,035
Due to other funds	71,218	-	-
Deferred revenue	75,573	-	-
Total Liabilities	<u>1,258,572</u>	<u>191,765</u>	<u>62,035</u>
FUND BALANCES			
Reserved	887,611	11,418	-
Unreserved:			
Designated	1,152,455	-	-
Undesignated, reported in:			
General Fund	1,221,306	-	-
Special revenue funds	-	13,936	-
Debt service funds	-	-	-
Capital projects funds	-	-	6,089,578
Total Fund Balance	<u>3,261,372</u>	<u>25,354</u>	<u>6,089,578</u>
Total Liabilities and Fund Balances	<u>\$ 4,519,944</u>	<u>\$ 217,119</u>	<u>\$ 6,151,613</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 2,762,313	\$ 11,860,212
122,875	1,213,856
71,218	771,014
2,419	2,419
<u>\$ 2,958,825</u>	<u>\$ 13,847,501</u>
17,132	17,132
43	1,365,624
699,796	771,014
-	75,573
<u>716,971</u>	<u>2,229,343</u>
2,419	901,448
-	
18,498	1,170,953
-	1,221,306
438,787	452,723
696,404	696,404
1,085,746	7,175,324
<u>2,241,854</u>	<u>11,618,158</u>
<u>\$ 2,958,825</u>	<u>\$ 13,847,501</u>

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

**Amounts Reported for Governmental Activities in the Statement of Net
Assets are Different Because:**

Total Fund Balance - Governmental Funds		\$ 11,618,158
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	\$ 31,160,719	
Accumulated depreciation is	<u>(4,307,590)</u>	
Total capital assets - net		26,853,129
Long-term liabilities, including general obligation bonds, compensated absences, capital lease obligations and early retirement consultancy contracts are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
General obligation bonds	(17,461,000)	
Early retirement	(315,234)	
Compensated absences	(111,326)	
Capital lease obligations	<u>(20,856)</u>	
Total long-term liabilities		<u>(17,908,416)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 20,562,871</u></u>

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>General Fund</u>	<u>Adult Fund</u>	<u>Building Fund</u>
REVENUES			
Revenue limit sources	\$ 16,728,800	\$ 2,090,027	\$ -
Federal sources	515,679	55,800	-
Other State sources	2,935,945	47,399	-
Other local sources	2,182,016	266,436	92,618
Total Revenues	<u>22,362,440</u>	<u>2,459,662</u>	<u>92,618</u>
EXPENDITURES			
Current			
Instruction	12,464,084	1,610,478	-
Instruction-related activities:			
Supervision of instruction	119,939	-	-
Instructional library, media and technology	374,430	-	-
School site administration	1,758,552	558,868	-
Pupil services:			
Home-to-school transportation	161,357	-	-
Food services	-	-	-
All other pupil services	1,163,507	14,215	-
General administration:			
All other general administration	1,927,753	305,202	-
Plant services	2,083,656	1,048	-
Facility acquisition and construction	-	-	281,759
Ancillary services	342,180	-	-
Community services	-	-	-
Other outgo	640,597	-	-
Enterprise services	-	-	-
Debt service			
Principal	127,739	-	-
Interest and other	28,247	-	5,515
Total Expenditures	<u>21,192,041</u>	<u>2,489,811</u>	<u>287,274</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,170,399</u>	<u>(30,149)</u>	<u>(194,656)</u>
Other Financing Sources (Uses):			
Transfers in	-	-	-
Other sources	-	-	6,000,000
Transfers out	(755,457)	-	-
Net Financing Sources (Uses)	<u>(755,457)</u>	<u>-</u>	<u>6,000,000</u>
NET CHANGE IN FUND BALANCES	<u>414,942</u>	<u>(30,149)</u>	<u>5,805,344</u>
Fund Balance - Beginning	2,846,430	55,503	284,234
Fund Balance - Ending	<u>\$ 3,261,372</u>	<u>\$ 25,354</u>	<u>\$ 6,089,578</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 18,818,827
61,992	633,471
213,311	3,196,655
2,304,418	4,845,488
<u>2,579,721</u>	<u>27,494,441</u>
87,068	14,161,630
-	119,939
-	374,430
-	2,317,420
-	161,357
414,471	414,471
-	1,177,722
27,416	2,260,371
255,612	2,340,316
66,450	348,209
-	342,180
284,832	284,832
-	640,597
695,051	695,051
5,662,928	5,790,667
655,677	689,439
<u>8,149,505</u>	<u>32,118,631</u>
<u>(5,569,784)</u>	<u>(4,624,190)</u>
755,457	755,457
5,340,000	11,340,000
-	(755,457)
<u>6,095,457</u>	<u>11,340,000</u>
<u>525,673</u>	<u>6,715,810</u>
<u>1,716,181</u>	<u>4,902,348</u>
<u>\$ 2,241,854</u>	<u>\$ 11,618,158</u>

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds		\$ 6,715,810
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 depreciation exceeds capital outlays in the period.		
Capital outlays	\$ 330,353	
Depreciation expense	<u>(1,561,622)</u>	(1,231,269)
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement consultancy contracts) 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). The is the net change of these items:		28,754
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities:		
Sale of general obligation bonds		(11,780,000)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:		
General obligation bonds	5,634,000	
Capital lease obligations	<u>156,667</u>	<u>5,790,667</u>
Change in Net Assets of Governmental Activities		<u><u>\$ (476,038)</u></u>

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	<u>Scholarships</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	<u>\$ 224,753</u>	<u>\$ 54,103</u>
LIABILITIES		
Due to student groups	<u>\$ -</u>	<u>\$ 54,103</u>
NET ASSETS		
Unreserved	<u>\$ 224,753</u>	<u>\$ -</u>

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Scholarships</u>
ADDITIONS	
Interest	\$ 4,824
Total Additions	<u>4,824</u>
DEDUCTIONS	
Other expenditures	-
Total Deductions	<u>-</u>
Change in Net Assets	4,824
Net Assets - Beginning	219,929
Net Assets - Ending	<u>\$ 224,753</u>

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

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with one joint powers agency and three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 16 to the financial statements. These organizations are:

Mission Trails Regional Occupational Program (ROP)
Monterey County Schools' Insurance Group (MCSIG)
Monterey County Liability and Property, Self-Insurance Authority (MCLPSIA)
Monterey County Schools' Workers' Compensation (MCSWC)

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:

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Special Reserve Fund for Other than Capital Outlay The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

Retiree Benefits Fund The Retiree Benefits Fund is used to account for funds set aside for payment of retirees health benefit costs.

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

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. The District maintains the following capital projects fund:

Special Reserve Fund The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

PACIFIC GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 no proprietary funds.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary funds category are composed of agency funds and trust funds. The District has a scholarship trust fund and an ASB student body agency fund.

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. 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.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

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

Governmental Funds All governmental funds are accounted for using 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 balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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.

