

**PACIFIC GROVE  
UNIFIED SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2010**

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS JUNE 30, 2010

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### ***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 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	50
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	51

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	53
Local Education Agency Organization Structure	54
Schedule of Average Daily Attendance	55
Schedule of Instructional Time	56
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	57
Schedule of Financial Trends and Analysis	58
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	60
Note to Supplementary Information	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>	64
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	66
Report on State Compliance	68

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

Summary of Auditors' Results	71
Financial Statement Findings	72
Federal Awards Findings and Questioned Costs	73
State Awards Findings and Questioned Costs	74
Summary Schedule of Prior Audit Findings	75

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Grove Unified School District (the "District") as of and for the year ended June 30, 2010, 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 2009-10*, 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, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2010, 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 and other postemployment information on pages 50 and 51, 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.

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.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 11, 2010



www.pgusd.org

## PACIFIC GROVE UNIFIED SCHOOL DISTRICT

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This section of Pacific Grove Unified School District's (2009-10) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

#### ***The Financial Statements***

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

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

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

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

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

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

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

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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

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

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

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

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

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

**Governmental Activities** - The District'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, 2010

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

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

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

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

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

#### *Net Assets*

The District's net assets were \$22,937,423 for the fiscal year ended June 30, 2010, and \$21,365,976 for the fiscal year ended June 30, 2009, an increase of \$1,571,447. Of this amount, \$3,163,096 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, 2010**

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**Table 1**

	Governmental Activities		
	2010	2009	Variance
<b>Assets</b>			
Current and other assets	\$ 24,321,105	\$ 18,883,648	\$ 5,437,457
Capital assets (Net of accumulated depreciation)	46,385,278	40,683,509	5,701,769
<b>Total Assets</b>	<u>70,706,383</u>	<u>59,567,157</u>	<u>11,139,226</u>
<b>Liabilities</b>			
Current liabilities	3,407,104	1,672,591	1,734,513
Long-term obligations	44,361,856	36,528,590	7,833,266
<b>Total Liabilities</b>	<u>47,768,960</u>	<u>38,201,181</u>	<u>9,567,779</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	15,095,693	14,441,406	654,287
Restricted	3,892,086	4,082,916	(190,830)
Unrestricted	3,949,644	2,841,654	1,107,990
<b>Total Net Assets</b>	<u>\$ 22,937,423</u>	<u>\$ 21,365,976</u>	<u>\$ 1,571,447</u>

The \$3,949,644 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, 2010**

**Table 2**

	Governmental Activities		
	2010	2009	Variance
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 301,789	\$ 567,826	\$ (266,037)
Operating grants and contributions	1,956,432	4,071,686	(2,115,254)
General revenues:			
Federal and State aid not restricted	2,643,576	890,169	1,753,407
Property taxes	21,842,928	21,376,408	466,520
Other general revenues	3,390,600	3,334,444	56,156
<b>Total Revenues</b>	<b>30,135,325</b>	<b>30,240,533</b>	<b>(105,208)</b>
<b>Expenses</b>			
Instruction-related	18,814,850	19,899,469	(1,084,619)
Student support services	2,296,163	2,489,235	(193,072)
Administration	2,783,138	2,010,809	772,329
Plant services	1,927,904	2,471,500	(543,596)
Other	2,741,823	3,345,405	(603,582)
<b>Total Expenses</b>	<b>28,563,878</b>	<b>30,216,418</b>	<b>(1,652,540)</b>
<b>Change in Net Assets</b>	<b>\$ 1,571,447</b>	<b>\$ 24,115</b>	<b>\$ 1,547,332</b>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$28,563,878, as compared to \$30,216,418 in the prior year. The amount that our taxpayers financed for these activities through local taxes was \$21,842,928 because the cost was paid by those who benefited from the programs (\$301,789) or by other governments and organizations who subsidized certain programs with grants and contributions (\$1,956,432). We paid for the remaining "public benefit" portion of our governmental activities with \$2,643,576 in State funds and \$3,390,600 in other revenues, like interest and general entitlements.

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2010**

**Table 3**

	2010		2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 15,558,167	\$ 14,160,283	\$ 16,345,362	\$ 13,486,075
Instruction-related activities	3,256,683	3,162,266	3,554,107	2,931,987
Home-to-school transportation	323,360	188,828	448,474	280,767
Other pupil services	1,972,803	1,516,861	2,040,761	1,620,797
General administration	2,783,138	2,758,832	2,010,809	1,658,815
Plant services	1,927,904	1,882,957	2,471,500	2,469,677
Ancillary services	315,794	315,794	358,759	358,759
Community services	286,667	286,667	309,222	309,222
Interest on long-term obligations	1,612,843	1,612,843	1,187,705	1,187,705
Other outgo	526,519	420,326	1,489,719	1,273,102
<b>Total</b>	<b>\$ 28,563,878</b>	<b>\$ 26,305,657</b>	<b>\$ 30,216,418</b>	<b>\$ 25,576,906</b>

***THE DISTRICT'S FUNDS***

As the District completed this year, our governmental funds reported a combined fund balance of \$21,575,913 while the prior year reported \$17,211,057, which is an increase of \$4,364,856 (Table 4).

**Table 4**

	Balances		
	June 30, 2010	June 30, 2009	Variance
General	\$ 4,407,827	\$ 3,735,392	\$ 672,435
Adult Education	198,113	63,664	134,449
Cafeteria	76,818	89,512	(12,694)
Child Development	112	24,395	(24,283)
Building	13,310,154	10,094,366	3,215,788
Deferred Maintenance	831,499	726,103	105,396
Special Reserve Non-Capital	151	104	47
Retiree Benefits	57,483	37,617	19,866
Bond Interest and Redemption	1,586,274	1,261,927	324,347
Special Reserve Capital	1,107,482	1,177,977	(70,495)
<b>Total</b>	<b>\$ 21,575,913</b>	<b>\$ 17,211,057</b>	<b>\$ 4,364,856</b>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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The primary reasons for these changes are:

The General Fund is the District's principal operating fund. The fund balance in the General Fund increased \$672,435 to \$4,407,827. This increase is due to a combination of budget reductions and one-time Federal funding. The increase in the Building Fund was due to the issuance of general obligation bonds. The increase in Non-Major Funds was due to increases in various funds.

### 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 20, 2010. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

- Significant revenue revisions made to the 2009-10 Budget were due to increased Federal Funding of ARRA/IDEA, Reduced State funding due to Basic Aid "Fair Share" reduction, Increased State funding to reflect Fund 11 revenues coming to the General fund, along with a decrease in Property Tax Revenues.
- Significant expenditure increases made to the 2009-10 Budget occurred primarily due to Reduction of transfers to Fund 11, the reversal of prior compensation deferral for classified, confidential and management personnel, and increased to reflect carry-over from prior year.

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

#### Capital Assets

At June 30, 2009, the District had \$40,683,509 in a broad range of capital assets (net of depreciation), including land, buildings, and furniture and equipment. At June 30, 2010, the District's Capital Assets were \$46,385,278. This amount represents a net increase (including additions, deductions and depreciation) of \$5,701,769 from last year (Table 5).

**Table 5**

	Governmental Activities		
	2010	2009	Variance
Land and construction in process	\$ 7,747,474	\$ 3,423,395	\$ 4,324,079
Buildings and improvements	38,294,572	37,129,556	1,165,016
Furniture and equipment	343,232	130,558	212,674
<b>Total</b>	<b>\$ 46,385,278</b>	<b>\$ 40,683,509</b>	<b>\$ 5,701,769</b>

Several capital projects in process should be completed for the 2010-11 year including modernization at the school sites, the new maintenance facility and new District office. We present more detailed information about our capital assets in the Notes to Financial Statements.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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### Long-Term Obligations

At the end of this year, the District had \$44,561,000 in bonds outstanding versus \$36,106,000 last year, an increase of \$8,455,000. The long-term obligations of the District include the following:

**Table 6**

	Governmental Activities		
	2010	2009	Variance
General obligation bonds	\$ 44,561,000	\$ 36,106,000	\$ 8,455,000
Compensated absences	138,594	126,165	12,429
Capitalized lease obligations	38,739	50,946	(12,207)
Other postemployment benefits	168,958	65,956	103,002
Early retirement contracts	116,477	179,523	(63,046)
<b>Total</b>	<b>\$ 45,023,768</b>	<b>\$ 36,528,590</b>	<b>\$ 8,495,178</b>

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

### ***SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-10 ARE NOTED BELOW:***

Continued the implementation of the \$42 million school modernization project, funded by a general obligation bond (Measure D), which includes renovations and additions at all school sites. Major construction during the year included the initiation of work at the Pacific Grove Adult Education Center, Robert Down and Forest Grove Elementary Schools, the Pacific Grove Middle School, the Pacific Grove High School, the district maintenance and operations yard and the replacement district office. All projects continued on into fiscal year 2010.

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

In considering the District Budget for the 2010-11 year, the District Board and management used the following key assumptions in our revenue and expenditure forecasts:

1. Property tax revenues are budgeted to remain flat.
2. No "basic aid" will be received.
3. Federal income is expected to increase by \$326,000 due to one-time Education Jobs Fund Bill funding.
4. The District will receive an estimated \$267,000 for the local parcel tax approved in 2008.

### ***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, 831-646-6509 or e-mail at [rblakley@pgusd.org](mailto:rblakley@pgusd.org).

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 22,843,492
Receivables	1,475,194
Stores inventory	2,419
Nondepreciable capital assets	7,747,474
Depreciable capital assets	45,463,734
Accumulated depreciation	(6,825,930)
<b>Total Assets</b>	<u>70,706,383</u>
<b>LIABILITIES</b>	
Deficit cash	25,963
Accounts payable	2,604,033
Deferred revenue	115,196
Current portion of long-term obligations	661,912
Noncurrent portion of long-term obligations	44,361,856
<b>Total Liabilities</b>	<u>47,768,960</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	15,095,693
Restricted for:	
Debt service	1,586,274
Capital projects	1,107,482
Educational programs	34,154
Other activities	1,164,176
Unrestricted	3,949,644
<b>Total Net Assets</b>	<u>\$ 22,937,423</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, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
Instruction	\$ 15,558,167	\$ 20,650	\$ 1,377,234
Instruction-related activities:			
Supervision of instruction	161,588	-	-
Instructional library, media and technology	367,195	-	-
School site administration	2,727,900	1,155	93,262
Pupil services:			
Home-to-school transportation	323,360	12,045	122,487
Food services	580,935	267,069	106,485
All other pupil services	1,391,868	-	82,388
General administration:			
Data processing	9,742	-	-
All other general administration	2,773,396	870	23,436
Plant services	1,927,904	-	44,947
Ancillary services	315,794	-	-
Community services	286,667	-	-
Interest on long-term obligations	1,612,843	-	-
Other outgo	526,519	-	106,193
<b>Total Governmental Activities</b>	<b>\$ 28,563,878</b>	<b>\$ 301,789</b>	<b>\$ 1,956,432</b>
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Interagency revenues			
Miscellaneous			
<b>Subtotal, General Revenues</b>			
<b>Change in Net Assets</b>			
Net Assets - Beginning			
Net Assets - Ending			

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

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

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**Governmental  
Activities**

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\$ (14,160,283)

(161,588)

(367,195)

(2,633,483)

(188,828)

(207,381)

(1,309,480)

(9,742)

(2,749,090)

(1,882,957)

(315,794)

(286,667)

(1,612,843)

(420,326)

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(26,305,657)

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19,114,959

2,463,771

264,198

2,643,576

182,091

45,413

3,163,096

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27,877,104

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1,571,447

21,365,976

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\$ 22,937,423

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 3,960,755	\$ 15,162,107	\$ 3,720,630
Receivables	1,292,093	38,640	144,461
Due from other funds	-	-	38,405
Stores inventory	-	-	2,419
<b>Total Assets</b>	<b>\$ 5,252,848</b>	<b>\$ 15,200,747</b>	<b>\$ 3,905,915</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Deficit cash	\$ -	\$ -	\$ 25,963
Accounts payable	711,655	1,890,593	1,785
Due to other funds	38,405	-	-
Deferred revenue	94,961	-	20,235
<b>Total Liabilities</b>	<b>845,021</b>	<b>1,890,593</b>	<b>47,983</b>
<b>FUND BALANCES</b>			
Reserved for:			
Revolving cash	5,000	-	-
Stores inventory	-	-	2,419
Legally restricted balance	34,154	-	-
Unreserved:			
Designated	1,903,345	-	-
Undesignated, reported in:			
General Fund	2,465,328	-	-
Special revenue funds	-	-	1,161,757
Debt service funds	-	-	1,586,274
Capital projects funds	-	13,310,154	1,107,482
<b>Total Fund Balance</b>	<b>4,407,827</b>	<b>13,310,154</b>	<b>3,857,932</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,252,848</b>	<b>\$ 15,200,747</b>	<b>\$ 3,905,915</b>

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

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**Total  
Governmental  
Funds**

\$ 22,843,492  
1,475,194  
38,405  
2,419  
\$ 24,359,510

\$ 25,963  
2,604,033  
38,405  
115,196  
2,783,597

5,000  
2,419  
34,154

1,903,345

2,465,328  
1,161,757  
1,586,274  
14,417,636  
21,575,913

\$ 24,359,510

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

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

<b>Total Fund Balance - Governmental Funds</b>		\$21,575,913
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	\$ 53,211,208	
Accumulated depreciation is	<u>(6,825,930)</u>	
Total capital assets - net		46,385,278
Long-term obligations, including general obligation bonds, compensated absences, capital lease obligations and early retirement contracts are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year end consist of:		
General obligation bonds	(44,561,000)	
Compensated absences	(138,594)	
Capital lease obligations	(38,739)	
Other postemployment benefits	(168,958)	
Early retirement	<u>(116,477)</u>	
Total long-term obligations		<u>(45,023,768)</u>
<b>Total Net Assets - Governmental Activities</b>		<u><u>\$22,937,423</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, 2010**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 19,025,848	\$ -	\$ -
Federal sources	803,501	-	158,794
Other State sources	3,660,490	-	263,615
Other local sources	2,338,136	197,791	3,630,280
<b>Total Revenues</b>	<u>25,827,975</u>	<u>197,791</u>	<u>4,052,689</u>
<b>EXPENDITURES</b>			
Current			
Instruction	13,684,664	-	1,450,081
Instruction-related activities:			
Supervision of instruction	161,234	-	-
Instructional library, media and technology	366,758	-	-
School site administration	2,197,953	-	488,704
Pupil services:			
Home-to-school transportation	209,735	-	-
Food services	-	-	486,247
All other pupil services	1,352,979	-	17,348
General administration:			
All other general administration	2,398,411	-	275,941
Plant services	2,120,791	-	1,329
Facility acquisition and construction	-	6,034,140	225,135
Ancillary services	315,783	-	-
Community services	-	-	286,667
Other outgo	526,519	-	-
Debt service			
Principal	12,207	-	545,000
Interest and other	1,558	9,038	1,602,247
<b>Total Expenditures</b>	<u>23,348,592</u>	<u>6,043,178</u>	<u>5,378,699</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>2,479,383</u>	<u>(5,845,387)</u>	<u>(1,326,010)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	4,305	1,802,643
Other sources	-	9,056,870	-
Transfers out	(1,806,948)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(1,806,948)</u>	<u>9,061,175</u>	<u>1,802,643</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>672,435</u>	<u>3,215,788</u>	<u>476,633</u>
<b>Fund Balance - Beginning</b>	<u>3,735,392</u>	<u>10,094,366</u>	<u>3,381,299</u>
<b>Fund Balance - Ending</b>	<u>\$ 4,407,827</u>	<u>\$ 13,310,154</u>	<u>\$ 3,857,932</u>

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

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<b>Total Governmental Funds</b>	
\$	19,025,848
	962,295
	3,924,105
	6,166,207
	<u>30,078,455</u>
	15,134,745
	161,234
	366,758
	2,686,657
	209,735
	486,247
	1,370,327
	2,674,352
	2,122,120
	6,259,275
	315,783
	286,667
	526,519
	557,207
	1,612,843
	<u>34,770,469</u>
	<u>(4,692,014)</u>
	1,806,948
	9,056,870
	<u>(1,806,948)</u>
	9,056,870
	<u>4,364,856</u>
	17,211,057
\$	<u><u>21,575,913</u></u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010**

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**Total Net Change in Fund Balances - Governmental Funds** \$ 4,364,856  
**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	\$ 6,648,644	
Depreciation expense	<u>(946,875)</u>	5,701,769

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 net change of these items is:

50,617

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the statement of net assets and does not affect the statement of activities:

Sale of general obligation bonds	(9,000,000)
----------------------------------	-------------

Repayment of debt 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	545,000	
Capital lease obligations	<u>12,207</u>	557,207

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

(103,002)

<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ 1,571,447</u></u>
--	----------------------------

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

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	<u>Scholarships</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 231,660	\$ 65,634
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>		
Due to student groups	\$ -	\$ 65,634
	<u>                    </u>	<u>                    </u>
<b>NET ASSETS</b>		
Unreserved	\$ 231,660	
	<u>                    </u>	

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

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	<u>Scholarships</u>
<b>ADDITIONS</b>	
Interest	\$ 9,157
<b>Total Additions</b>	<u>9,157</u>
<b>DEDUCTIONS</b>	
Other expenditures	2,779
Scholarships awarded	4,975
<b>Total Deductions</b>	<u>7,754</u>
<b>Change in Net Assets</b>	1,403
<b>Net Assets - Beginning</b>	<u>230,257</u>
<b>Net Assets - Ending</b>	<u>\$ 231,660</u>

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

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

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

#### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

**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.

#### 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 or for major capital projects) that are restricted to the financing of particular activities:

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

---

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

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

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

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

**Special Reserve Non-Capital Fund** The Special Reserve Non-Capital Fund is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

**Retiree Benefits Fund** The Retiree Benefits Fund may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of retiree benefits but has not contributed irrevocably to a separate trust for the retiree benefit plan.

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

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

**Debt Service Funds** The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on 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).

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

---

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

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

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

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

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

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 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, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### Stores Inventories

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

### Capital Assets and Depreciation

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

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

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

### Interfund Balances

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

### Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations.

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties and other purposes.

### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$3,892,086 of restricted net assets, of which \$1,165,116 is restricted by enabling legislation.

### Interfund Activity

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### Estimates

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

### Budgetary Data

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

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

### Property Tax

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

### New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 22,817,529
Fiduciary funds	297,294
Total Deposits and Investments	<u>\$ 23,114,823</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 255,839
Cash in revolving	5,000
Investments	22,853,984
Total Deposits and Investments	<u>\$ 23,114,823</u>

The Child Development Fund ended the year with a deficit cash in County Treasury balance of \$25,963.

#### Policies and Practices

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

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

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2010**

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

### Segmented Time Distribution

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Corporate Bonds	\$ 41,455	\$ -	\$ -	\$ -	\$ 41,455
County Pool	22,812,529	22,812,529	-	-	-
Total	<u>\$ 22,853,984</u>	<u>\$ 22,812,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,455</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Corporate Bonds	\$ 41,455	N/A	\$ -	\$41,455	\$ -
County Pool	22,812,529	N/A	-	-	22,812,529
Total	<u>\$ 22,853,984</u>		<u>\$ -</u>	<u>\$41,455</u>	<u>\$ 22,812,529</u>

N/A - Not applicable

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, none of the District's bank balance was exposed to custodial credit risk.

**Custodial Credit Risk - Investments**

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Corporate Bonds of \$41,455, the District has a custodial credit risk exposure of \$41,455 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 478,950	\$ -	\$ 40,723	\$ 519,673
State Government				
Categorical aid	156,627	-	-	156,627
Lottery	113,539	-	-	113,539
Other State	413,930	-	6,773	420,703
Local Government				
Interest	-	38,640	-	38,640
Other Local	129,047	-	96,965	226,012
Total	<u>\$ 1,292,093</u>	<u>\$ 38,640</u>	<u>\$ 144,461</u>	<u>\$ 1,475,194</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 217,496	\$ -	\$ -	\$ 217,496
Construction in process	3,205,899	6,648,644	2,324,565	7,529,978
Total Capital Assets Not Being Depreciated	<u>3,423,395</u>	<u>6,648,644</u>	<u>2,324,565</u>	<u>7,747,474</u>
Capital Assets Being Depreciated				
Buildings and improvements	42,746,650	2,061,172	-	44,807,822
Furniture and equipment	392,519	263,393	-	655,912
Total Capital Assets Being Depreciated	<u>43,139,169</u>	<u>2,324,565</u>	<u>-</u>	<u>45,463,734</u>
Less Accumulated Depreciation				
Buildings and improvements	5,617,094	896,156	-	6,513,250
Furniture and equipment	261,961	50,719	-	312,680
Total Accumulated Depreciation	<u>5,879,055</u>	<u>946,875</u>	<u>-</u>	<u>6,825,930</u>
Governmental Activities Capital Assets, Net	<u>\$40,683,509</u>	<u>\$ 8,026,334</u>	<u>\$ 2,324,565</u>	<u>\$ 46,385,278</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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

Governmental Activities	
Instruction	\$ 482,906
School site administration	37,875
Home-to-school transportation	113,625
Food services	94,688
Data processing	18,938
All other general administration	9,468
Plant services	189,375
Total Depreciation Expenses Governmental Activities	<u><u>\$ 946,875</u></u>

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ -	\$ 38,405
Total Major Governmental Funds	<u>-</u>	<u>38,405</u>
Non-Major Governmental Funds	<u>38,405</u>	<u>-</u>
Total All Governmental Funds	<u><u>\$ 38,405</u></u>	<u><u>\$ 38,405</u></u>

**Operating Transfers**

Interfund transfers for the year ended June 30, 2010, consisted of the following:

The General Fund transferred to the Adult Fund to transfer grant funding.	\$ 1,644,812
The General Fund transferred to the Child Development Fund for cash flow purposes.	38,405
The General Fund transferred to the Cafeteria Fund to supplement operations.	100,000
The General Fund transferred to the Retiree Benefits Fund for future retiree benefits.	19,426
The General Fund transferred to the Building Fund a donation to a construction project.	4,305
Total	<u><u>\$ 1,806,948</u></u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 281,661	\$ 1,890,593	\$ 1,785	\$ 2,174,039
Deferred payroll	429,994	-	-	429,994
Total	<u>\$ 711,655</u>	<u>\$ 1,890,593</u>	<u>\$ 1,785</u>	<u>\$ 2,604,033</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 89,820	\$ -	\$ 89,820
State categorical aid	5,141	20,235	25,376
Total	<u>\$ 94,961</u>	<u>\$ 20,235</u>	<u>\$ 115,196</u>

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

At July 1, 2009, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$3,175,000, which matured on July 6, 2009. On July 6, 2009, the District issued \$5,000,000 Tax and Revenue Anticipation Notes will yield interest at the rate of the County Investment Pool. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2010. By May 1, 2010, 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.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2010</u>
July 1, 2008	1.65%	July 6, 2009	\$3,175,000	\$ -	\$ 3,175,000	\$ -
July 6, 2009	[1]	July 6, 2010	-	5,000,000	-	5,000,000
Total			<u>\$3,175,000</u>	<u>\$5,000,000</u>	<u>\$ 3,175,000</u>	<u>\$ 5,000,000</u>

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

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Due in One Year</u>
General obligation bonds	\$36,106,000	\$ 9,000,000	\$ 545,000	\$44,561,000	\$ 590,000
Compensated absences - net	126,165	12,429	-	138,594	-
Capital leases	50,946	-	12,207	38,739	12,071
Other postemployment benefits	65,956	564,821	461,819	168,958	-
Early retirement	179,523	-	63,046	116,477	59,841
Total	<u>\$36,528,590</u>	<u>\$ 9,577,250</u>	<u>\$ 1,082,072</u>	<u>\$45,023,768</u>	<u>\$ 661,912</u>

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

**Bonded Debt**

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

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

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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

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

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

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

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

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

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

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding Beginning of Year	Issued	Redeemed	Bonds Outstanding End of Year
4/25/2001	8/1/2015	3.25 - 5.1	\$4,000,000	\$ 745,000	\$ -	\$ 95,000	\$ 650,000
3/26/2002	8/1/2031	2.25 - 5.0	3,000,000	2,710,000	-	70,000	2,640,000
2/26/2003	8/1/2032	3.80 - 5.0	2,000,000	1,785,000	-	45,000	1,740,000
12/16/2005	8/1/2029	3.5 - 4.625	3,065,000	2,671,000	-	70,000	2,601,000
3/21/2007	8/1/2036	3.7 - 4.150	6,000,000	5,975,000	-	115,000	5,860,000
3/27/2007	8/1/2030	3.5 - 4.20	3,035,000	3,000,000	-	15,000	2,985,000
3/11/2008	8/1/2037	2.20 - 4.30	9,720,000	9,720,000	-	135,000	9,585,000
4/8/2009	8/1/2039	5.0 - 7.0	9,500,000	9,500,000	-	-	9,500,000
2/9/2010	8/1/2039	2.0-5.0%	9,000,000	-	9,000,000	-	9,000,000
Total				<u>\$36,106,000</u>	<u>\$ 9,000,000</u>	<u>\$ 545,000</u>	<u>\$44,561,000</u>

**Debt Service Requirements to Maturity**

1999 Series B. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 95,000	\$ 26,428	\$ 121,428
2012	100,000	22,380	122,380
2013	105,000	18,023	123,023
2014	110,000	13,345	123,345
2015	115,000	8,338	123,338
2016	125,000	2,875	127,875
Total	<u>\$ 650,000</u>	<u>\$ 91,389</u>	<u>\$ 741,389</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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1999 Series C. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 75,000	\$ 126,395	\$ 201,395
2012	75,000	123,395	198,395
2013	80,000	120,215	200,215
2014	80,000	116,785	196,785
2015	85,000	113,123	198,123
2016-2020	485,000	500,471	985,471
2021-2025	610,000	367,000	977,000
2026-2030	780,000	193,750	973,750
2031-2032	370,000	18,750	388,750
Total	<u>\$ 2,640,000</u>	<u>\$ 1,679,884</u>	<u>\$ 4,319,884</u>

1999 Series D. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 45,000	\$ 79,106	\$ 124,106
2012	50,000	77,088	127,088
2013	50,000	75,075	125,075
2014	50,000	73,150	123,150
2015	55,000	71,075	126,075
2016-2020	300,000	317,026	617,026
2021-2025	370,000	242,429	612,429
2026-2030	475,000	143,299	618,299
2031-2033	345,000	25,584	370,584
Total	<u>\$ 1,740,000</u>	<u>\$ 1,103,832</u>	<u>\$ 2,843,832</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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2005 Refunding Bonds. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 75,000	\$ 141,909	\$ 216,909
2012	81,000	138,466	219,466
2013	80,000	134,517	214,517
2014	85,000	130,542	215,542
2015	90,000	126,288	216,288
2016-2020	540,000	553,198	1,093,198
2021-2025	710,000	382,691	1,092,691
2026-2030	940,000	164,378	1,104,378
Total	<u>\$ 2,601,000</u>	<u>\$ 1,771,989</u>	<u>\$ 4,372,989</u>

2006 Series A. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 120,000	\$ 263,883	\$ 383,883
2012	125,000	255,308	380,308
2013	135,000	246,208	381,208
2014	140,000	236,583	376,583
2015	145,000	226,608	371,608
2016-2020	810,000	989,340	1,799,340
2021-2025	1,005,000	795,515	1,800,515
2026-2030	1,210,000	573,310	1,783,310
2031-2035	1,485,000	299,024	1,784,024
2036-2037	685,000	28,555	713,555
Total	<u>\$ 5,860,000</u>	<u>\$ 3,914,334</u>	<u>\$ 9,774,334</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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2007 Refunding Bonds. The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 15,000	\$ 119,387	\$ 134,387
2012	15,000	118,862	133,862
2013	15,000	118,337	133,337
2014	15,000	117,812	132,812
2015	15,000	117,280	132,280
2016-2020	630,000	535,192	1,165,192
2021-2025	920,000	372,550	1,292,550
2026-2030	1,115,000	167,074	1,282,074
2031	245,000	5,024	250,024
Total	<u>\$ 2,985,000</u>	<u>\$ 1,671,518</u>	<u>\$ 4,656,518</u>

2006 Series B. The annual requirements to amortize general obligation bonds payable outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 150,000	\$ 429,850	\$ 579,850
2012	160,000	419,000	579,000
2013	180,000	407,100	587,100
2014	190,000	394,150	584,150
2015	200,000	380,500	580,500
2016-2020	1,220,000	1,695,062	2,915,062
2021-2025	1,550,000	1,401,025	2,951,025
2026-2030	1,655,000	1,058,274	2,713,274
2031-2035	2,475,000	658,002	3,133,002
2036-2038	1,805,000	118,644	1,923,644
Total	<u>\$ 9,585,000</u>	<u>\$ 6,961,607</u>	<u>\$ 16,546,607</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

2006 Series C - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 15,000	\$ 253,839	\$ 268,839
2012	145,000	497,760	642,760
2013	150,000	487,610	637,610
2014	160,000	477,110	637,110
2015	170,000	465,910	635,910
2016-2020	1,010,000	2,192,500	3,202,500
2021-2025	1,310,000	1,920,550	3,230,550
2026-2030	1,655,000	1,560,800	3,215,800
2031-2035	2,115,000	1,093,000	3,208,000
2036-2040	2,770,000	461,981	3,231,981
Total	<u>\$ 9,500,000</u>	<u>\$ 9,411,060</u>	<u>\$ 18,911,060</u>

2006 Series D - Debt Service Requirements to Maturity

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ -	\$ -	\$ -
2012	80,000	549,325	629,325
2013	140,000	381,650	521,650
2014	155,000	378,850	533,850
2015	160,000	374,975	534,975
2016-2020	950,000	1,805,625	2,755,625
2021-2025	1,220,000	1,628,375	2,848,375
2026-2030	1,580,000	1,361,063	2,941,063
2031-2035	2,030,000	983,512	3,013,512
2036-2040	2,685,000	418,750	3,103,750
Total	<u>\$ 9,000,000</u>	<u>\$ 7,882,125</u>	<u>\$ 16,882,125</u>

**Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2010, amounted to \$138,594.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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**Early Retirement Incentive Program**

The District has obligations for an early retirement incentive program with CalSTRS under Education Code Section 22714. The outstanding balance for the District at June 30, 2010, was \$116,477 and is payable over the next two years.

**Capital Leases**

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

	John Deere Tractor	Bus	Total
Balance, July 1, 2009	\$ 35,393	\$ 20,567	\$ 55,960
Payments	(9,652)	(4,113)	(13,765)
Balance, June 30, 2010	<u>\$ 25,741</u>	<u>\$ 16,454</u>	<u>\$ 42,195</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 13,765
2011	13,765
2012	10,551
2013	4,114
Total	<u>42,195</u>
Less: Amount Representing Interest	3,456
Present Value of Minimum Lease Payments	<u>\$ 38,739</u>

Leased equipment under capital leases in capital assets at June 30, 2010, include the following:

Equipment	\$ 110,622
Less: Accumulated depreciation	(26,392)
Total	<u>\$ 84,230</u>

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

**Other Postemployment Benefit (OPEB) Obligation**

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District had an annual required contribution of \$564,821 for the year ended June 30, 2010, and made a contribution of \$461,819. The net OPEB obligation at June 30, 2010, is \$168,958. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefit plan.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 10 - FUND BALANCES**

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 5,000
Stores inventory	-	-	2,419	2,419
Restricted programs	34,154	-	-	34,154
Total Reserved	<u>39,154</u>	<u>-</u>	<u>2,419</u>	<u>41,573</u>
Unreserved				
Designated				
Economic uncertainties	744,073	-	-	744,073
Other designations	1,159,272	-	-	1,159,272
Total Designated	<u>1,903,345</u>	<u>-</u>	<u>-</u>	<u>1,903,345</u>
Undesignated	<u>2,465,328</u>	<u>13,310,154</u>	<u>3,855,513</u>	<u>19,630,995</u>
Total Unreserved	<u>4,368,673</u>	<u>13,310,154</u>	<u>3,855,513</u>	<u>21,534,340</u>
Total	<u>\$ 4,407,827</u>	<u>\$ 13,310,154</u>	<u>\$ 3,857,932</u>	<u>\$ 21,575,913</u>

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

At June 30, 2010, there were no District major funds that exceeded the budgeted amounts.

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

**Plan Description**

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pacific Grove Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 118 retirees and beneficiaries currently receiving benefits and 219 active plan members.

**Contribution Information**

The contribution requirements of plan members and the District are established and may be amended by the District, bargaining units, and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$461,819 to the plan, all of which was used for current premiums (approximately 51 percent of total premiums). Plan members receiving benefits contributed \$440,274, or approximately 49 percent of the total premiums.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 564,821
Contributions made	<u>(461,819)</u>
Increase in net OPEB obligation	103,002
Net OPEB obligation, beginning of year	<u>65,956</u>
Net OPEB obligation, end of year	<u><u>\$ 168,958</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past two years are as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$ 564,821	81.76%	\$ 168,958
2009	\$ 564,821	88.32%	\$ 65,956

**Funded Status and Funding Progress**

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

**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.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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In the June 30, 2009, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. A healthcare cost trend rate of 4.0 percent per year was assumed. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2010, was 28 years.

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

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Monterey County Liability and Property Self-Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

For fiscal year 2010, the District participated in the Monterey County Schools Workers' Compensation (MCSWC), an insurance purchasing pool. The intent of the MCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the MCSWC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in MCSWC.

#### **Employee Medical Benefits**

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

### **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).

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### CalSTRS

#### Plan Description

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

#### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010, 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, 2010, 2009, and 2008, were \$1,073,347, \$1,133,336, and \$1,079,168, respectively, and equal 100 percent of the required contributions for each year.

### CalPERS

#### Plan Description

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

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The District is making their contribution in accordance with contractual agreements. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 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, 2010, 2009, and 2008, were \$648,688, \$665,876, and \$601,557, respectively, and equal 100 percent of the required contributions for each year.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### **Tax Deferred Annuity/Social Security**

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

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$555,753 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## **NOTE 15 - COMMITMENTS AND CONTINGENCIES**

### **Sick Leave**

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

### **Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

### **Litigation**

The District is not currently a party to any legal proceedings.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

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**Construction Commitments**

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects - Description/Main Contractor</u>	Remaining Construction Commitment - Estimate	Expected Completion Date	Funding Source
New District Office - DMC	\$ 612,030	2/11	Measure D/Local (40)
Forest Grove Elem. Modernization - Dilbeck & Sons	526,006	11/10	Measure D
HS Modernization - DMC	7,363,240	8/11	Measure D
New Maintenance Facility - DMC	1,433,831	2/11	Measure D/Local (40)
MS Track Improvements - Mty Pen. Engineering	93,737	10/10	Measure D
MS Modernization - DMC	2,141,339	5/11	Measure D
RD Modernization - Dilbeck & Sons	2,447,483	12/10	Measure D
Total	<u>\$ 14,617,666</u>		

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

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

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

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

During the year ended June 30, 2010, the District made payment of \$1,496,641 to MCSIG for medical, dental, vision, and life insurance.

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

During the year ended June 30, 2010, the District made payment of \$145,893 to MCLPSIA for liability and property insurance.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2010**

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

During the year ended June 30, 2010, the District made payment of \$359,041 to MCSWC for workers' compensation insurance.

The District participates in the Mission Trails Regional Occupational Program which is operated by a joint powers agency comprised of seven high school districts within Monterey County. Pursuant to the joint powers agreement, each member district provides occupational training classes and is required to maintain separate accounts to record related transactions. Average daily attendance, which is the basis for State apportionment, is reported to the State by the district educating pupils.

Contract revenues are recognized in the General Fund as reimbursement for providing instruction to classes in the name of Mission Trails Occupational Program. Expenditures are recorded in the General Fund by object category. Fiscal 2009-2010 revenues and expenditures for the classes the District conducts are summarized as follows:

	<u>Amount</u>
Revenues	
Local	\$ 337,359
Total Revenue	<u>337,359</u>
Expenditures	
Certificated salaries	331,756
Classified salaries	17,417
Employee benefits	53,183
Books and supplies	14,416
Service and other operating expenses	448
Other outgo	10,722
Total Expenditures	<u>427,942</u>
Excess Expenditures Over Revenues	<u>\$ (90,583)</u>

### NOTE 17 - SUBSEQUENT EVENTS

The District issued \$4,520,000 of Tax and Revenue Anticipation Notes dated July 1, 2010. The notes mature on July 1, 2011. 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 2011, until 100 percent of principal and interest due is on account on April 30, 2011.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 19,636,122	\$ 19,193,753	\$ 19,025,848	\$ (167,905)
Federal sources	167,321	211,847	803,501	591,654
Other State sources	1,496,437	3,058,780	3,150,398	91,618
Other local sources	1,533,337	2,256,412	2,338,136	81,724
<b>Total Revenues</b> <sup>1</sup>	<b>22,833,217</b>	<b>24,720,792</b>	<b>25,317,883</b>	<b>597,091</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	11,466,051	11,518,221	11,263,257	254,964
Classified salaries	3,356,912	3,568,510	3,554,536	13,974
Employee benefits	3,406,858	3,972,577	3,899,053	73,524
Books and supplies	763,698	1,732,683	1,119,255	613,428
Services and operating expenditures	2,780,084	3,172,981	2,747,708	425,273
Other outgo	717,809	726,588	250,578	476,010
Capital outlay	-	4,113	4,113	-
<b>Total Expenditures</b> <sup>1</sup>	<b>22,491,412</b>	<b>24,695,673</b>	<b>22,838,500</b>	<b>1,857,173</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>341,805</b>	<b>25,119</b>	<b>2,479,383</b>	<b>2,454,264</b>
<b>Other Financing Sources (Uses):</b>				
Transfers out	(147,004)	(1,768,543)	(1,806,948)	(38,405)
<b>Net Financing Sources (Uses)</b>	<b>(147,004)</b>	<b>(1,768,543)</b>	<b>(1,806,948)</b>	<b>(38,405)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>194,801</b>	<b>(1,743,424)</b>	<b>672,435</b>	<b>2,415,859</b>
<b>Fund Balance - Beginning</b>	<b>3,735,392</b>	<b>3,735,392</b>	<b>3,735,392</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 3,930,193</b>	<b>\$ 1,991,968</b>	<b>\$ 4,407,827</b>	<b>\$ 2,415,859</b>

<sup>1</sup> On behalf payments of \$510,092 are excluded from the revenues and expenditures.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 FUNDING PROGRESS  
 FOR THE YEAR ENDED JUNE 30, 2010**

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

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***SUPPLEMENTARY INFORMATION***

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the California Department of Education:			
Special Education Cluster			
IDEA Basic Local Assistance	84.027	13379	\$ 281,031
ARRA: IDEA Basic Local Assistance	84.391	15003	232,779
California Preschool Instructional Network (CPIN)			
Special Education Leads	84.173	14530	500
Subtotal - Special Education Cluster			<u>514,310</u>
ARRA: State Fiscal Stabilization Fund	84.394	25008	372,611
Adult Education - Adult Ed Secondary Ed	84.002	13978	34,972
Adult Education - Basic Education	84.002A	14508	25,871
No Child Left Behind Act			
Title I - Basic	84.010	14981	68,082
Title II - Improving Teacher Quality	84.367	14341	72,322
Title III - Limited English Proficient	84.365	10084	18,326
Title IV - Safe and Drug Free School	84.186	14347	4,238
Title V - Part A, Innovative Education	84.298A	13340	3,206
Vocational Education Technology Secondary	84.048	13924	15,987
Total U.S. Department of Education			<u>1,129,925</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the California Department of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	81,096
Especially Needy Breakfast	10.553	13526	16,355
Subtotal - Child Nutrition Cluster			<u>97,451</u>
Total U.S. Department of Agriculture			<u>97,451</u>
Total Expenditures of Federal Awards			<u>\$ 1,227,376</u>

See accompanying note to supplementary information.

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

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### ORGANIZATION

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

### GOVERNING BOARD

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

### ADMINISTRATION

Ralph Porras	Superintendent
Robin Blakley	Assistant Superintendent, Business
Billie Mankey	Director, Human Resources
Cathie McAweeney	Director, Curriculum/Special Projects
Cindy Gallo	Director, Student Services

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

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	<u>Second Period Report</u>	<u>Annual Report</u>
<b>ELEMENTARY</b>		
Kindergarten	118.79	119.92
First through third	369.05	368.88
Fourth through sixth	356.72	355.99
Seventh and eighth	259.12	259.65
Home and hospital	0.87	1.14
Special education	27.52	27.13
Total Elementary	<u>1,132.07</u>	<u>1,132.71</u>
<b>SECONDARY</b>		
Regular classes	544.95	542.68
Continuation education	17.81	19.73
Special education	13.79	13.87
Total Secondary	<u>576.55</u>	<u>576.28</u>
Total K-12	<u><u>1,708.62</u></u>	<u><u>1,708.99</u></u>

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2010**

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-10	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Actual	Traditional	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,860	30,975	36,000	35,000	45,500	180	N/A	Complied
Grades 1 - 3	42,480	41,300	50,400	49,000				
Grade 1					54,740	180	N/A	Complied
Grade 2					54,740	180	N/A	Complied
Grade 3					54,740	180	N/A	Complied
Grades 4 - 6	53,100	51,625	54,000	52,500				
Grade 4					54,740	180	N/A	Complied
Grade 5					54,740	180	N/A	Complied
Grade 6					56,384	180	N/A	Complied
Grades 7 - 8	53,100	51,625	54,000	52,500				
Grade 7					56,384	180	N/A	Complied
Grade 8					56,384	180	N/A	Complied
Grades 9 - 12	57,525	56,000	64,800	63,000				
Grade 9					67,640	180	N/A	Complied
Grade 10					67,640	180	N/A	Complied
Grade 11					67,640	180	N/A	Complied
Grade 12					67,640	180	N/A	Complied

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2010, Unaudited Actuals	\$ 4,143,008
Increase in:	
Accounts receivable	140,814
Decrease in:	
Accounts receivable	(32,974)
Accounts payable	156,979
Balance, June 30, 2010, Audited Financial Statement	<u>\$ 4,407,827</u>

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

	(Budget) 2011 <sup>1</sup>	2010	2009	2008
<b>GENERAL FUND</b>				
Revenues and other financing sources	\$ 23,374,809	\$ 25,317,883	\$ 24,420,103	\$ 22,078,575
Expenditures	23,951,290	22,838,500	22,888,953	21,535,780
Other financing uses	1,082,004	1,806,948	734,830	865,095
Total Expenditures and Other Uses	25,033,294	24,645,448	23,623,783	22,400,875
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ (1,658,485)</b>	<b>\$ 672,435</b>	<b>\$ 796,320</b>	<b>\$ (322,300)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 2,749,342</b>	<b>\$ 4,407,827</b>	<b>\$ 3,735,392</b>	<b>\$ 2,939,072</b>
<b>AVAILABLE RESERVES<sup>2,3</sup></b>	<b>\$ 2,546,979</b>	<b>\$ 3,326,965</b>	<b>\$ 940,776</b>	<b>\$ 1,360,336</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>10.2%</b>	<b>13.5%</b>	<b>4.0%</b>	<b>6.1%</b>
<b>LONG-TERM OBLIGATIONS</b>	<b>Not Available</b>	<b>\$ 45,023,768</b>	<b>\$ 36,528,590</b>	<b>\$ 27,334,957</b>
<b>AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>1,757</b>	<b>1,709</b>	<b>1,642</b>	<b>1,584</b>

The General Fund balance has increased by \$1,468,775 over the past two years. The fiscal year 2010-11 budget projects a decrease of \$1,658,485 (36.65 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2010-11 fiscal year. Total long-term obligations have increased by \$17,688,811 over the past two years primarily due to the issuance of general obligation bonds.

Average daily attendance has increased by 125 ADA over the past two years. Growth of 48 ADA is anticipated during fiscal year 2010-11.

<sup>1</sup> Budget 2011 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Non-Capital Fund.

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

See accompanying note to supplementary information.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2010**

	<b>Adult Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 169,579	\$ -	\$ 63,252
Receivables	29,201	7,905	11,147
Due from other funds	-	38,405	-
Stores inventory	-	-	2,419
<b>Total Assets</b>	<b>\$ 198,780</b>	<b>\$ 46,310</b>	<b>\$ 76,818</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Deficit cash	-	\$ 25,963	\$ -
Accounts payable	667	-	-
Deferred revenue	-	20,235	-
<b>Total Liabilities</b>	<b>667</b>	<b>46,198</b>	<b>-</b>
<b>Fund Balances:</b>			
Reserved for:			
Stores inventory	-	-	2,419
Unreserved:			
Undesignated, reported in:			
Special revenue funds	198,113	112	74,399
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>Total Fund Balances</b>	<b>198,113</b>	<b>112</b>	<b>76,818</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 198,780</b>	<b>\$ 46,310</b>	<b>\$ 76,818</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Special Reserve Non-Capital Fund</b>	<b>Retiree Benefits Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 831,499	\$ 151	\$ 57,483	\$ 1,012,392	\$ 1,586,274	\$ 3,720,630
-	-	-	96,208	-	144,461
-	-	-	-	-	38,405
-	-	-	-	-	2,419
<u>\$ 831,499</u>	<u>\$ 151</u>	<u>\$ 57,483</u>	<u>\$ 1,108,600</u>	<u>\$ 1,586,274</u>	<u>\$ 3,905,915</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,963
-	-	-	1,118	-	1,785
-	-	-	-	-	20,235
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,118</u>	<u>-</u>	<u>47,983</u>
-	-	-	-	-	2,419
831,499	151	57,483	-	-	1,161,757
-	-	-	-	1,586,274	1,586,274
-	-	-	1,107,482	-	1,107,482
<u>831,499</u>	<u>151</u>	<u>57,483</u>	<u>1,107,482</u>	<u>1,586,274</u>	<u>3,857,932</u>
<u>\$ 831,499</u>	<u>\$ 151</u>	<u>\$ 57,483</u>	<u>\$ 1,108,600</u>	<u>\$ 1,586,274</u>	<u>\$ 3,905,915</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Adult Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 60,843	\$ 500	\$ 97,451
Other State sources	45,661	100,970	8,328
Other local sources	481,718	257,327	267,774
<b>Total Revenues</b>	<b>588,222</b>	<b>358,797</b>	<b>373,553</b>
<b>EXPENDITURES</b>			
Current			
Instruction	1,336,935	113,146	-
Instruction-related activities:			
School site administration	488,704	-	-
Pupil Services:			
Food services	-	-	486,247
All other pupil services	17,348	-	-
General administration:			
All other general administration	254,269	21,672	-
Plant services	1,329	-	-
Facility acquisition and construction	-	-	-
Community services	-	286,667	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>2,098,585</b>	<b>421,485</b>	<b>486,247</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,510,363)</b>	<b>(62,688)</b>	<b>(112,694)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,644,812	38,405	100,000
<b>Net Financing Sources (Uses)</b>	<b>1,644,812</b>	<b>38,405</b>	<b>100,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>134,449</b>	<b>(24,283)</b>	<b>(12,694)</b>
<b>Fund Balance - Beginning</b>	<b>63,664</b>	<b>24,395</b>	<b>89,512</b>
<b>Fund Balance - Ending</b>	<b>\$ 198,113</b>	<b>\$ 112</b>	<b>\$ 76,818</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Special Reserve Non-Capital Fund</b>	<b>Retiree Benefits Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 158,794
95,054	-	-	-	13,602	263,615
10,342	47	440	154,640	2,457,992	3,630,280
<u>105,396</u>	<u>47</u>	<u>440</u>	<u>154,640</u>	<u>2,471,594</u>	<u>4,052,689</u>
-	-	-	-	-	1,450,081
-	-	-	-	-	488,704
-	-	-	-	-	486,247
-	-	-	-	-	17,348
-	-	-	-	-	275,941
-	-	-	-	-	1,329
-	-	-	225,135	-	225,135
-	-	-	-	-	286,667
-	-	-	-	545,000	545,000
-	-	-	-	1,602,247	1,602,247
-	-	-	225,135	2,147,247	5,378,699
<u>105,396</u>	<u>47</u>	<u>440</u>	<u>(70,495)</u>	<u>324,347</u>	<u>(1,326,010)</u>
-	-	19,426	-	-	1,802,643
-	-	19,426	-	-	1,802,643
105,396	47	19,866	(70,495)	324,347	476,633
726,103	104	37,617	1,177,977	1,261,927	3,381,299
<u>\$ 831,499</u>	<u>\$ 151</u>	<u>\$ 57,483</u>	<u>\$ 1,107,482</u>	<u>\$ 1,586,274</u>	<u>\$ 3,857,932</u>

# PACIFIC GROVE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending within the General Fund.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 962,295
Reconciling items:		
ARRA: State Fiscal Stabilization	84.394	265,081
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,227,376</u>

#### Local Education Agency Organization Structure

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

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

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

#### Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201. Senate Bill 2 of the 2009-10 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instruction minutes for the fiscal years 2009-10 thru 2012-13.

# **PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010**

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

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

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

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance 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 Balance.

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***INDEPENDENT AUDITORS' REPORTS***

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

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Grove Unified School District as of and for the year ended June 30, 2010, which collectively comprise Pacific Grove Unified School District's basic financial statements and have issued our report thereon dated December 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pacific Grove Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Pacific Grove Unified School District in a separate letter dated December 11, 2010.

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

*Vaccinuk, Trine, Day + Co. LLP*

Fresno, California  
December 11, 2010



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

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

**Compliance**

We have audited the compliance of Pacific Grove Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. Pacific Grove Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Pacific Grove Unified School District's management. Our responsibility is to express an opinion on Pacific Grove Unified School District's compliance based on our audit.

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

In our opinion, Pacific Grove Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

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

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

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

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

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 11, 2010



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Pacific Grove Unified School District  
 Pacific Grove, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pacific Grove Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, 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.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Pacific Grove Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Pacific Grove Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Pacific Grove Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Pacific Grove Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Pacific Grove Unified School District's compliance with the State laws and regulations referred to 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, the California Department of Finance, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Varrinck, Trine, Day + Co. LLP*

Fresno, California  
December 11, 2010

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

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**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.173, 84.391 (ARRA)</u>	<u>Special Education Cluster (includes ARRA)</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization Fund</u>

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

**STATE AWARDS**

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

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None reported.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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None reported.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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None reported.

**PACIFIC GROVE UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

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



December 11, 2010

Governing Board  
Pacific Grove Unified School District  
Pacific Grove, California

In planning and performing our audit of the financial statements of Pacific Grove Unified School District for the year ended June 30, 2010, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 11, 2010, on the financial statements of Pacific Grove Unified School District.

***ROBERT H. DOWN ELEMENTARY SCHOOL***

***Cash Receipts***

**Finding**

We noted during our audit the Cash Receipts procedures did not include the consistent use of receipts or logs. Without this step in the Cash Receipts process, it is impossible to determine when cash was received, from whom cash was received or how intact and timely deposits were. This internal control weakness puts the District at greater risk for loss of cash, reduces accountability over cash, and reduces the District's ability to know how much cash should be on hand.

**Recommendation**

The site can strengthen internal controls over cash by receipting or logging all cash received by the site as to when and from whom it was received. The Cash Receipt Book, or Log, should also be used as a reference as to amount of cash that should be on hand in the event cash turns up missing or if a claim or challenge is made regarding payment received by the site.

***PACIFIC GROVE MIDDLE SCHOOL***

***ASB - Cash Receipts***

**Finding**

When auditing the site's Associated Student Body, the following deficiencies were noted:

- Money is collected at the gate for admission to events but there is no process, such as a ticketing system, to provide control over gate receipts. Also, there is no count sheet accompanying the gate receipts when they are turned in to the Office Manager.
- When advisors/teachers are conducting fundraisers, they are reimbursing themselves for expenditures incurred from the money collected prior to the money being deposited with the Office Manager. This prevents the Office Manager from knowing what the total revenue and expenditures for the fundraiser should have been and creates the potential for prohibited expenditures to occur.

**Recommendation**

- The best practice would be to use a Ticketing System to provide control over Gate Receipts, but if it is determined that Gate Receipts are not sufficient warrant such a system, the site should use a Tally Sheet (a Tally Sheet should be used for each admission price) to track gate admissions. Each Tally Sheet total should be multiplied by its respective admission price then the total amount of all Tally Sheets should be reconciled to the money collected. Any variances should be documented on the individual Tally Sheet(s). All Gate Receipts turned in to the Office Manager should include a Cash Count Sheet.
- All expenditures need to be processed through the site's established disbursement process. To expedite the process, if need be, an open Purchase Order should be set up (with a "not to exceed amount" indicated). All fundraising monies collected must be deposited to the Office Manager in their entirety with all appropriate supporting documentation.

***PACIFIC GROVE HIGH SCHOOL***

***Cash Receipts***

**Finding**

While testing the Cash Receipts system, we discovered that teachers/advisors are not using sub-receipt books or Cash Logs to document when money is turned in to them, the amount of money, and by which students. Without this supporting documentation we cannot determine that the deposits are intact or if the teachers/advisors are forwarding money to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the money back to any documentation to determine the accuracy of the Cash Count Sheet and the actual money turned in. Also, the timeliness of the deposits to the bookkeeper cannot be determined without the Sub-receipt information.

**Recommendation**

Prenumbered receipts or a Cash Log should be maintained for all cash collections by teachers and advisors. Documented on the Receipt/Log should be a specific description of the source of the funds, the date the funds were received, the source (individual/group) of the funds, and the account that the funds should be deposited into. A carbon of the Receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. Or, a copy of the Cash Log should be turned in to document all monies collected.

***Bank Statement Reconciliation***

**Finding**

The monthly Bank Statements were not reconciled in a timely manner. We noted that the November and December 2009 statements had been reconciled in June of 2010.

**Recommendation**

Monthly bank reconciliation's must be done in a timely fashion in order to ensure that the cash balance reported on the books is accurate and that the financial institution has not made a mistake.

***Stale-Dated Checks***

**Finding**

In reviewing the outstanding check listing for the month of November, we noted ten stale-dated checks. Apparently the checks have cleared and should not be showing up on the Bank Reconciliation Report at all. The amount of, \$7,569.77, has been affecting the total amount shown on the Bank Reconciliation which creates an inaccurate picture of their financial position.

**Recommendation**

All outstanding checks which have not cleared the account within six months should be investigated. In this case, the bookkeeper should contact the software developer and make an attempt to clear this information from the reconciliation report.

***Ticket Log and Sales Recap***

**Finding**

A review of revenue from events which take in door or gate money revealed that a Master Ticket Log is being used to reconcile the funds received. However, the Master Ticket Log did not contain the ending ticket number which is used to calculate the total number of tickets sold. Without this information, the total amount of cash received cannot be reconciled.

**Recommendation**

The Master Ticket Log should contain the ending ticket numbers for all the ticket rolls distributed and the number should be used to calculate the amount of cash which should have been collected at the events. These two totals should match.

***ADULT SCHOOL***

***Cash Receipts***

**Finding**

During our testing of the Cash Receipts System at the Adult School, we noted the following conditions:

- There is no policy regarding the frequency of bank deposits. The only known requirement is for undeposited receipts to be deposited at the end of each business week. This could result in large amounts of cash and checks to be maintained at the site where there risk of loss is greater.
- Receipts were not deposited intact. This was apparently done to circumvent the established process in which refunds are processed through the business office as opposed to giving the checks back to the individuals when classes are cancelled.

**Recommendation**

The District should establish and communicate policies/procedures for timely deposit of funds collected. Also, the Adult School should not hold checks pending the status of courses. All checks should be deposited timely. If classes are cancelled, refunds should be processed through the District Office.

***DISTRICT OFFICE***

***Bank Reconciliations***

**Finding**

During our audit of the District's general, cafeteria, and revolving account bank reconciliations, we noted that no independent review of the reconciliations is performed.

**Recommendation**

Bank reconciliations, including the bank statements, should be reviewed on a regular basis by the Director of Fiscal Services to ensure that bank reconciliation is done in a timely manner and prepared correctly.

***Stale Dated Checks***

**Finding**

In reviewing the outstanding check listing for the Revolving account, we noted that there were several stale dated checks. Specifically we noted some checks that dated back three years.

Governing Board  
Pacific Grove Unified School District  
December 11, 2010

**Recommendation**

Outstanding checks over 6 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation's. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

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

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 11, 2010