

**GRAVENSTEIN UNION SCHOOL DISTRICT
COUNTY OF SONOMA
SEBASTOPOL, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2011

GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2011

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GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2011

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Gravenstein Union School District
Sebastopol, California

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Gravenstein Union School District, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gravenstein Union School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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.

The financial statements referred to above include only the primary government of the Gravenstein Union School District, which consists of all funds that comprise the District's legal entity. The financial statements do not include financial data of the Magnet Program Foundation, or any other exempt organizations that qualify as legal separate component units of the Gravenstein Union School District, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the District's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Gravenstein Union School District, as of June 30, 2011, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 on our consideration of the Gravenstein Union School 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 assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13, the budgetary comparison information on page 43, and the Schedule of Funding Progress on page 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gravenstein Union School District's basic financial statements. The combining fund financial statements, supplementary schedules listed in the table of contents, and the Schedule of Expenditures of Federal Awards, which is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are 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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 9, 2011

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

This section of Gravenstein Union School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 and 2, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities, presented on pages 14 and 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as a trustee for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's financial status improved during the course of the year, as total net assets increased 5.6%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$337,778.
- Capital assets, net of depreciation, decreased \$85,716 due to accumulated depreciation growing at a higher rate than acquisitions and improvements.
- Total long-term liabilities decreased \$88,732 during fiscal year 2010-11.
- The District's P-2 average daily attendance (ADA) increased from 590 ADA in fiscal year 2009-10, up to 613 ADA in fiscal year 2010-11, an increase of 23 ADA or 3.9%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year revenues exceeded total current year expenditures by \$333,532.
- During fiscal year 2010-11, the District's General Fund produced an operating surplus of \$90,604, and recognized a \$711,472 increase in its available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 4% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2010-11, General Fund expenditures and other financing uses totaled \$4,642,935. At June 30, 2011, the District had available reserves of \$2,991,046 which represents a reserve of 64.4%.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the governmental funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Short and long-term financial information about the activities of the District that operate like businesses are provided in the proprietary fund statements.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary funds statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A comparison of the District's budget for the year is included.

Reporting the District as a Whole

The District as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Assets. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net assets) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net assets of the District over time are indicators of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(PREPARED BY DISTRICT MANAGEMENT)**

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District as a Whole (Concluded)

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

Governmental Activities:

The basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by property taxes and state formula aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of local revenues and state and federal programs.

Business-type Activities:

The District does not provide any services that should be included in this category.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law and bond covenants. However, the District establishes many other funds as needed to control and manage money for specific purposes.

Governmental Funds:

The major governmental fund of Gravenstein Union School District is the General Fund. Governmental fund reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting 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 operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Proprietary Funds:

Services for which the District charges a fee are generally reported in proprietary funds on a full accrual basis. These include both Enterprise funds and Internal Service funds. Enterprise funds are considered business-type activities and are also reported under a full accrual method. This is the same basis as business-type activities; therefore no reconciling entries are required. Internal service funds are reported with the governmental funds. The District has no funds of this type.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate fiduciary statement. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets increased from \$5,995,745 at June 30, 2010, up to \$6,333,523 at June 30, 2011, an increase of 5.6%.

<u>Comparative Statement of Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2011</u>
<u>Assets</u>		
Deposits and Investments	\$ 3,135,754	\$ 3,403,616
Receivables	588,521	759,294
Prepaid Expenses	8,077	8,813
Capital Assets, net	4,141,005	4,055,289
Total Assets	<u>7,873,357</u>	<u>8,227,012</u>
<u>Liabilities</u>		
Current	486,038	631,299
Long-term	1,391,574	1,262,190
Total Liabilities	<u>1,877,612</u>	<u>1,893,489</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Related Debt	2,850,206	2,830,720
Restricted	594,845	320,882
Unrestricted	2,550,694	3,181,921
Total Net Assets	<u>\$ 5,995,745</u>	<u>\$ 6,333,523</u>

Table includes financial data of the combined governmental funds

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

The District's total current year revenues exceeded total current year expenses by \$337,778.

<u>Comparative Statement of Changes in Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2011</u>
<u>Program Revenues</u>		
Charges for Services	\$ 49,153	\$ 47,191
Operating Grants & Contributions	427,283	529,431
<u>General Revenues</u>		
Taxes Levied	2,329,981	2,303,447
Federal & State Aid	1,244,467	1,552,042
Interest & Investment Earnings	26,875	20,512
Transfers From Other Agencies	33,360	33,477
Miscellaneous	532,411	484,527
Total Revenues	<u>4,643,530</u>	<u>4,970,627</u>
<u>Expenses</u>		
Instruction	3,133,191	3,382,634
Instruction-Related Services	199,313	200,434
Pupil Services	233,501	245,060
General Administration	276,981	260,518
Plant Services	298,845	371,843
Community Services	88,388	85,144
Interest on Long-Term Debt	90,195	60,267
Other Outgo	36,016	26,949
Total Expenses	<u>4,356,430</u>	<u>4,632,849</u>
Changes in Net Assets	<u>\$ 287,100</u>	<u>\$ 337,778</u>

Table includes financial data of the combined governmental funds

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

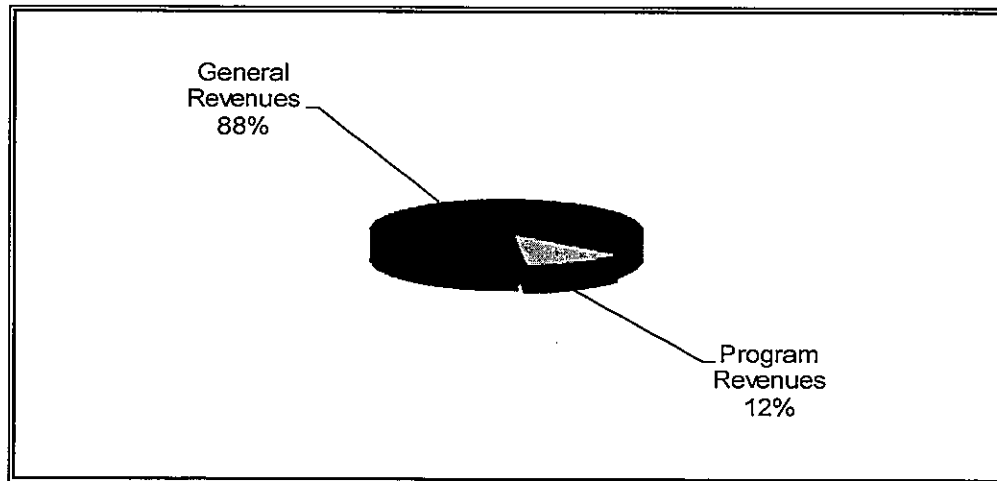
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	<u>Comparative Schedule of Costs of Services</u>			
	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2010	2011	2010	2011
Instruction	\$ 3,133,191	\$ 3,382,634	\$ 2,861,685	\$ 2,992,158
Instruction-Related Services	199,313	200,434	199,313	200,434
Pupil Services	233,501	245,060	31,936	59,472
General Administration	276,981	260,518	273,616	260,518
Plant Services	298,845	371,843	298,845	371,285
Community Services	88,388	85,144	88,388	85,144
Interest on Long-Term Debt	90,195	60,267	90,195	60,267
Other Outgo	36,016	26,949	36,016	26,949
Totals	\$ 4,356,430	\$ 4,632,849	\$ 3,879,994	\$ 4,056,227

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$4,056,227 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



Program revenues financed 12% of the total cost of providing the services listed above, while the remaining 88% was financed by the general revenues of the District.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

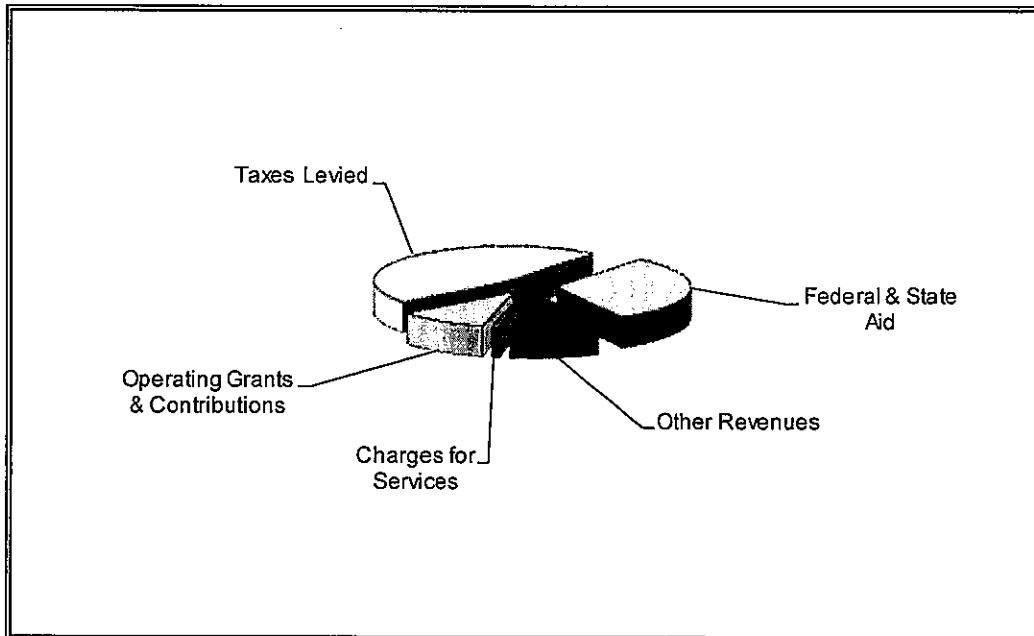
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	FYE 2010 Amount	Percent of Total	FYE 2011 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 49,153	1.06%	\$ 47,191	0.95%
Operating Grants & Contributions	427,283	9.20%	529,431	10.65%
<u>General Revenues</u>				
Taxes Levied	2,329,981	50.18%	2,303,447	46.34%
Federal & State Aid	1,244,467	26.80%	1,552,042	31.22%
Other Revenues	592,646	12.76%	538,516	10.83%
Total Revenues	\$ 4,643,530	100.00%	\$ 4,970,627	100.00%

Table includes financial data of the combined governmental funds



**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

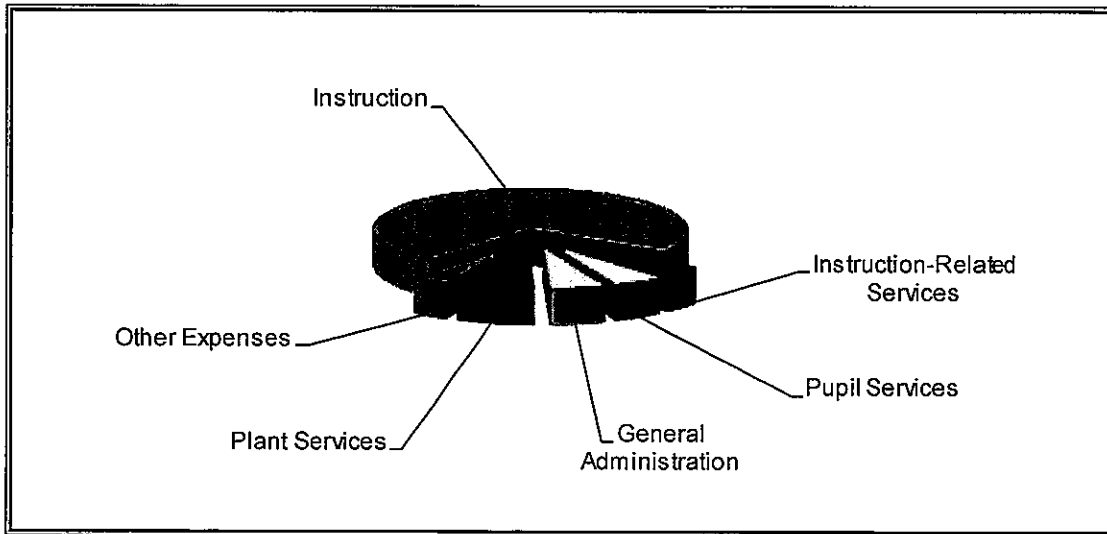
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Expenses For Governmental Functions</u>				
	<u>FYE 2010 Amount</u>	<u>Percent of Total</u>	<u>FYE 2011 Amount</u>	<u>Percent of Total</u>
<u>Expenses</u>				
Instruction	\$ 3,133,191	71.92%	\$ 3,382,634	73.01%
Instruction-Related Services	199,313	4.58%	200,434	4.33%
Pupil Services	233,501	5.36%	245,060	5.29%
General Administration	276,981	6.36%	260,518	5.62%
Plant Services	298,845	6.86%	371,843	8.03%
Other Expenses	214,599	4.93%	172,360	3.72%
Total Expenses	<u>\$ 4,356,430</u>	<u>100.00%</u>	<u>\$ 4,632,849</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds



**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2010	2011
Land	\$ 149,717	\$ 149,717
Sites and Improvements	1,176,968	1,176,968
Buildings and Improvements	7,112,530	7,112,530
Furniture and Equipment	81,179	81,179
Work-in-Progress	0	48,504
Subtotals	8,520,394	8,568,898
Less: Accumulated Depreciation	(4,379,389)	(4,513,609)
Capital Assets, net	<u>\$ 4,141,005</u>	<u>\$ 4,055,289</u>

Capital assets, net of depreciation, decreased \$85,716 due to accumulated depreciation growing at a higher rate than acquisitions and improvements.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2010	2011
General Obligation Bonds	\$ 1,265,000	\$ 1,200,000
Early Retirement Incentives	250,958	191,574
Other Post Employment Benefits	29,063	64,715
Totals	<u>\$ 1,545,021</u>	<u>\$ 1,456,289</u>

Total long-term liabilities decreased \$88,732 during fiscal year 2010-11.

The general obligation bonds are financed by the local taxpayers and represent 82.4% of the District's total long-term liabilities. The District has satisfied all debt service requirements on its bonded debt and continues to maintain an excellent credit rating on its debt issue.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

GOVERNMENTAL ACTIVITIES (CONCLUDED)

The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

The fund balance of the General Fund increased \$90,604 during fiscal year 2010-11, while the combined fund balances of other District governmental funds increased \$242,928, due primarily to the transfer of \$300,000 from the General Fund to the Capital Projects - Special Reserve Fund for the acquisition of two (2) portable classrooms.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim. The original budget presented on page 43 includes only new revenues for 2010-11.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The State's economic situation is a major factor affecting the District's future. The financial well being of the District is tied in large measure to the state funding formula. Furthermore, the State's current year budget does not fully address its budget problem, so it is anticipated that further reductions in funding may be forthcoming. Due to the adequate reserves of the District, we should be able to weather the State's budget uncertainty during fiscal years 2011-12 and 2012-13.
- Due to the unprecedented nature of the current State and Federal fiscal crisis, the amount of funding that will be available to the District remains uncertain. As a result, management will need to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

(PREPARED BY DISTRICT MANAGEMENT)

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 regarding this report or need additional financial information, contact the Business Manager, Gravenstein Union School District, 3840 Twig Avenue, Sebastopol, CA 95472.

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 3,403,616
Receivables (Note 4)	759,294
Prepaid Expenses (Note 1J)	8,813
Capital Assets: (Note 6)	
Land	149,717
Sites and Improvements	1,176,968
Buildings and Improvements	7,112,530
Furniture and Equipment	81,179
Work-in-Progress	48,504
Less: Accumulated Depreciation	(4,513,609)
Total Assets	8,227,012
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	433,029
Deferred Revenue (Note 1J)	4,171
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
General Obligation Bonds (Note 7)	70,000
Early Retirement Incentives (Note 8)	59,384
Other Post Employment Benefits (Note 9)	64,715
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	1,130,000
Early Retirement Incentives (Note 8)	132,190
Total Liabilities	1,893,489
<u>Net Assets</u>	
Investment in Capital Assets, Net of Related Debt	2,830,720
Restricted:	
For Capital Projects	42,575
For Debt Service	249,730
For Educational Programs	18,764
For Other Purposes	9,813
Unrestricted	3,181,921
Total Net Assets	\$ 6,333,523

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					
Instruction	\$ 3,382,634	\$ 59	\$ 390,417		\$ (2,992,158)
Instruction-Related Services:					
Instructional Library and Technology	16,144				(16,144)
School Site Administration	184,290				(184,290)
Pupil Services:					
Food Services	80,241	47,070	33,056		(115)
Other Pupil Services	164,819	62	105,400		(59,357)
General Administration:					
Data Processing Services	3,159				(3,159)
Other General Administration	257,359				(257,359)
Plant Services	371,843		558		(371,285)
Community Services	85,144				(85,144)
Interest on Long-Term Debt	60,267				(60,267)
Other Outgo	26,949				(26,949)
Total Governmental Activities	\$ 4,632,849	\$ 47,191	\$ 529,431	\$ 0	(4,056,227)
<u>General Revenues</u>					
Taxes Levied for General Purposes					2,183,848
Taxes Levied for Debt Service					118,866
Taxes Levied for Specific Purposes					733
Federal and State Aid - Unrestricted					1,552,042
Interest and Investment Earnings					20,512
Transfers from Other Agencies					33,477
Miscellaneous					484,527
Total General Revenues					4,394,005
Change in Net Assets					337,778
Net Assets - July 1, 2010					5,995,745
Net Assets - June 30, 2011					\$ 6,333,523

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 2,639,312	\$ 764,304	\$ 3,403,616
Receivables (Note 4)	753,307	5,987	759,294
Due from Other Funds (Note 5)	27,399	5,169	32,568
Prepaid Expenditures (Note 1J)	8,813		8,813
Total Assets	\$ 3,428,831	\$ 775,460	\$ 4,204,291
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 405,037	\$ 3,423	\$ 408,460
Due to Other Funds (Note 5)		32,568	32,568
Deferred Revenue (Note 1J)	4,171		4,171
Total Liabilities	409,208	35,991	445,199
Fund Balances: (Note 12)			
Nonspendable	9,813		9,813
Restricted	18,764	292,305	311,069
Assigned		447,164	447,164
Unassigned	2,991,046		2,991,046
Total Fund Balances	3,019,623	739,469	3,759,092
Total Liabilities and Fund Balances	\$ 3,428,831	\$ 775,460	\$ 4,204,291

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

Total Fund Balances - Governmental Funds **\$ 3,759,092**

Amounts reported for governmental activities in the statement of net assets are different from amounts reported in governmental funds due to the following:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation. Capital assets and accumulated depreciation are:

Capital Assets	\$ 8,568,898	
Accumulated Depreciation	(4,513,609)	
Net		4,055,289

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

General Obligation Bonds	1,200,000	
Early Retirement Incentives	191,574	
Other Post Employment Benefits	64,715	
Net		(1,456,289)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owed at the end of the period was:

(24,569)

Total Net Assets - Governmental Activities **\$ 6,333,523**

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

	<u>General Fund</u>		<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>District</u>	<u>Component Units</u>		
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 931,557			\$ 931,557
Local Taxes	2,183,848			2,183,848
Total Revenue Limit Sources	3,115,405			3,115,405
Federal Revenue	291,990		\$ 30,520	322,510
State Revenue	652,926		23,551	676,477
Local Revenue	461,873	\$ 211,345	183,017	856,235
Total Revenues	4,522,194	211,345	237,088	4,970,627
<u>Expenditures</u>				
Instruction	3,304,580			3,304,580
Instructional Library and Technology	15,658			15,658
School Site Administration	178,745			178,745
Food Services	39		77,787	77,826
Other Pupil Services	159,859			159,859
Data Processing Services	3,064			3,064
Other General Administration	249,615			249,615
Plant Services	306,540		39,594	346,134
Facilities Acquisition and Construction	14,400		48,624	63,024
Community Services	85,144			85,144
Debt Service:				
Principal Retirement			65,000	65,000
Interest and Issuance Costs			61,497	61,497
Other Outgo	25,291		1,658	26,949
Total Expenditures	4,342,935	0	294,160	4,637,095
Excess of Revenues Over (Under) Expenditures	179,259	211,345	(57,072)	333,532
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	211,345		300,000	511,345
Operating Transfers Out	(300,000)	(211,345)		(511,345)
Total Other Financing Sources (Uses)	(88,655)	(211,345)	300,000	0
Net Change in Fund Balances	90,604	0	242,928	333,532
Fund Balances - (As restated - Note 19)				
July 1, 2010	2,929,019	0	496,541	3,425,560
Fund Balances - June 30, 2011	\$ 3,019,623	\$ 0	\$ 739,469	\$ 3,759,092

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

Net Change in Fund Balances - Governmental Funds **\$ 333,532**

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlays	\$	48,504	
Depreciation Expense		(134,220)	
Net			(85,716)

Other post employment benefits (OPEB) and early retirement incentives: In governmental funds, OPEB and early retirement incentives costs are recognized when employer contributions are made. In the statement of activities, OPEB and early retirement incentives costs are recognized on the accrual basis. This year, the difference between OPEB and early retirement incentives costs accrued and actual employer contributions was: 23,732

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

General Obligation Bonds 65,000

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, interest expense is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 1,230

Change in Net Assets of Governmental Activities **\$ 337,778**

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 11,026	\$ 11,026
<u>Liabilities</u>		
Due to Student Groups	11,026	11,026
<u>Net Assets</u>		
Total Net Assets	\$ 0	\$ 0

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The Gravenstein Union School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five member Board of Trustees elected by registered voters of the District, which comprises an area in Sonoma County. The District was established in 1956 and serves students in kindergarten through grade eight.

The District prepares its financial statements in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) and complies with the policies and procedures of the Department of Education's *California School Accounting Manual*.

The District is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements.

B. Reporting Entity

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under GASB Statement No. 14 (GASB 14), *The Financial Reporting Entity*. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that there are no entities, with financial activities that benefited the District, during fiscal year 2010-11, which should be included within its financial reporting entity under GASB 14.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance to determine whether certain organizations for which the District is not financially accountable should be reported as component units based on the nature and significance of the component units' relationship with the District. The District has determined that the Magnet Program Foundation and various other organized community support groups meet the criteria set forth in GASB 39. However, audited financial statements were not available from any of the component units for inclusion in the District's financial statements. Accordingly, only the combined financial activities of the component units that flow through the District are presented on page 18 under the caption "Component Units."

The District is not aware of any entity that would exercise such oversight responsibility that would result in the District being considered a component unit of that entity.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Implementation of New Accounting Pronouncements

In March of 2009, the GASB issued GASB Statement No. 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definition*, with required implementation for the District during the year ended June 30, 2011. The objective of GASB 54 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. GASB 54 provides for fund balance classifications such as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The effect of implementing GASB 54 resulted in a reclassification of the beginning fund balances as of July 1, 2010, due to the Special Revenue - Special Reserve Fund and the Special Reserve for Post Employment Benefits Fund no longer meeting the fund definition of a special revenue fund. Further detail on the reclassification is described in Note 19.

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District and its component units. The effect of interfund activity, within the governmental and business type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Concluded)

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means 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. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California Districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Concluded)

Deferred Revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/Expenditures:

On an accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

F. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District maintains the following governmental fund types:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Debt Service Funds - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Accounting (Concluded)

The District's accounts are organized into major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for and report all financial resources not accounted for and reported in another fund. The financial activities of the General Fund have been divided into two separate columns on the Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances. The first column reflects the revenues received from *District* sources along with all of the expenditures of the General Fund. The second column reflects the revenues received for General Fund purposes that are provided by *Component Units*. This presentation has been included to illustrate the District's heavy reliance on community support for providing its educational programs.

Non-major Governmental Funds:

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

The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's cafeteria program.

The *Bond Interest and Redemption Fund* is used to account for District taxes received and expended to pay bond interest and redeem bond principal and related costs.

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provision of the California Environmental Quality Act (CEQA).

The *County School Facilities Fund* is used to account for state apportionments (Education Code Sections 17009.5 and 17070.10-17076.10).

The *Capital Projects - Special Reserve Fund* is used to account for the financial resources used for the acquisition or construction of major capital projects.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains two student body funds to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting (Concluded)

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund on page 43.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account (See Note 3).

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

J. Assets, Liabilities and Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). 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 County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Concluded)

Investments 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.

2. Prepaid Expenses / Expenditures

Payments made to vendors for goods or services that will benefit periods beyond the fiscal year ended, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

Prepaid expenses are equally offset by a net assets reserve, which indicates that this amount is not "available for appropriation and expenditure" even though it is a component of net current assets.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	20
Buildings and Improvements	7-50
Furniture and Equipment	8-15

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Assets. In fund financial statements, the face amount of the obligation is reported as other financing sources in the year the debt is issued.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Assets, Liabilities and Equity (Continued)

6. Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance includes amounts not in spendable form, such as inventory, or amounts required to be maintained intact legally or contractually (principal endowment) (e.g. pre-paid items, permanent scholarships).

Restricted Fund Balance includes funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation (e.g. debt service, capital projects, state and federal grant funds).

Committed Fund Balance consists of funds that are set aside for a specific purpose by the District's highest level of decision making authority (Governing Board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the District's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance. The Governing Board delegated authority to the Superintendent to identify intended uses of assigned funds.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The District established fund balance policy requires an economic uncertainty reserve of at least 4% of total General Fund operating expenditures (including other financing).

The District considers restricted fund balances to have been spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

7. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

J. Assets, Liabilities and Equity (Concluded)

7. Revenue Limit/Property Tax (Concluded)

The County of Sonoma is responsible for assessing, collecting and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4706 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the state apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the applicable attendance period ADA to derive the District's total entitlement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 11,026
Cash in Revolving Fund	\$ 1,000	
County Pool Investments	<u>3,402,616</u>	
Total Deposits and Investments	<u>\$ 3,403,616</u>	<u>\$ 11,026</u>

Cash on Hand and in Banks

Cash on hand and in banks consists of all cash held by the District and all cash maintained in commercial bank accounts owned by the District, exclusive of amounts held in revolving funds.

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are 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).

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule 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 Notes	5 years	30%	None
Mutual Funds / Money Market 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 rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, 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 Treasury that purchases 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 value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution (Concluded)

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 3,402,616	\$ 3,406,019	\$ 2,024,852	\$ 1,377,764

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.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 3,402,616	\$ 3,406,019			\$ 3,402,616

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer, at year-end, that represents five percent or more of the total investments held by the District.

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. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2011, the District does not have any investments that are held by counterparties.

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 agencies. 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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the Sonoma County Treasury was not available.

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in the General Fund was as follows:

	<u>Excess Expenditures</u>
Employee Benefits	\$ 6,997
Book and Supplies	1,258
Services and Other	
Operating Expenditures	56,242

The District incurred unanticipated expenditures in the expenditure classifications above for which the budget was not revised.

NOTE 4 - RECEIVABLES

Accounts receivable at June 30, 2011, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 64,116	\$ 5,555	\$ 69,671
State Government	540,638	411	541,049
Local Governments	40,495		40,495
Miscellaneous	108,058	21	108,079
Totals	<u>\$ 753,307</u>	<u>\$ 5,987</u>	<u>\$ 759,294</u>

NOTE 5 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2011 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 27,399	
Cafeteria		\$ 27,371
Capital Facilities		28
County School Facilities	5,169	
Capital Projects - Special Reserve	<u> </u>	<u>5,169</u>
Totals	<u>\$ 32,568</u>	<u>\$ 32,568</u>

All interfund receivables and payables are scheduled to be paid within one year.

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for fiscal year 2010-11 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General - District	\$ 211,345	\$ 300,000
General - Component Units		211,345
Capital Projects - Special Reserve	<u>300,000</u>	<u> </u>
Totals	<u>\$ 511,345</u>	<u>\$ 511,345</u>

Transfer of \$211,345 of contributions and donations from local foundations and parent organizations to support District programs.

Transfer of \$300,000 from the General Fund to the Capital Projects - Special Reserve Fund to purchase two portable classrooms.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2011, is shown below:

	Balances <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2011</u>
Land	\$ 149,717			\$ 149,717
Sites and Improvements	1,176,968			1,176,968
Buildings and Improvements	7,112,530			7,112,530
Furniture and Equipment	81,179			81,179
Work-in-Progress	0	\$ 48,504		48,504
Totals at Historical Cost	<u>8,520,394</u>	<u>48,504</u>	<u>\$ 0</u>	<u>8,568,898</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,112,976	3,593		1,116,569
Buildings and Improvements	3,223,710	122,820		3,346,530
Furniture and Equipment	42,703	7,807		50,510
Total Accumulated Depreciation	<u>4,379,389</u>	<u>134,220</u>	<u>0</u>	<u>4,513,609</u>
Governmental Activities				
Capital Assets, net	<u>\$ 4,141,005</u>	<u>\$ (85,716)</u>	<u>\$ 0</u>	<u>\$ 4,055,289</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 101,786
Instructional Library and Technology	486
School Site Administration	5,545
Food Services	2,415
Other Pupil Services	4,960
Data Processing Services	95
Other General Administration	7,744
Plant services	<u>11,189</u>
Total Depreciation Expense	<u>\$ 134,220</u>

NOTE 7 - GENERAL OBLIGATION BONDS

The outstanding general obligation debt of the District as of June 30, 2011 is as follows:

<u>Date</u> <u>Of</u> <u>Issue</u>	<u>Interest</u> <u>Rate %</u>	<u>Maturity</u> <u>Date</u>	<u>Amount of</u> <u>Original</u> <u>Issue</u>	<u>Outstanding</u> <u>July 1, 2010</u>	<u>Issued</u> <u>Current</u> <u>Year</u>	<u>Redeemed</u> <u>Current</u> <u>Year</u>	<u>Outstanding</u> <u>June 30, 2011</u>
1998	4.25-7.00	2024	<u>\$ 1,800,000</u>	<u>\$ 1,265,000</u>	<u>\$ 0</u>	<u>\$ 65,000</u>	<u>\$ 1,200,000</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 7 - GENERAL OBLIGATION BONDS (CONCLUDED)

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2011, is as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 70,000	\$ 58,080	\$ 128,080
2013	70,000	54,860	124,860
2014	75,000	51,525	126,525
2015	80,000	47,800	127,800
2016	85,000	43,675	128,675
2017-2021	475,000	150,673	625,673
2022-2026	345,000	26,902	371,902
Totals	\$ 1,200,000	\$ 433,515	\$ 1,633,515

NOTE 8 - EARLY RETIREMENT INCENTIVES

During fiscal year 2006-07 the District offered an early retirement incentives program, whereby the service credit for eligible certificated employees is increased by two years. In addition, the District provides one-time financial incentive benefits to all certificated employees who have rendered a minimum of thirty-five (35) years of service to the District.

Future estimated payments under these agreements as of June 30, 2011 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>STRS Golden</u> <u>Handshakes</u>	<u>District</u> <u>Sponsored</u>	<u>Total</u> <u>Payments</u>
2012	\$ 41,330	\$ 26,000	\$ 67,330
2013	41,330	26,000	67,330
2014	41,330		41,330
2015	25,143		25,143
2016	25,143		25,143
Subtotal	174,276	52,000	226,276
Less amount representing interest	(34,702)		(34,702)
Totals	\$ 139,574	\$ 52,000	\$ 191,574

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

From an accrual accounting perspective, the cost of other post employment benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when the benefits are paid or provided. Governmental Accounting Standards Board Statement No. 45 requires an accrual basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan.

Plan Descriptions: The District provides medical coverage to employees who retire from active status with a specified minimum age and years of service, and who are also eligible for pension benefits from CalSTRS. The benefits provided to eligible retirees are as follows:

	<u>Certificated</u>	<u>Other</u>
Benefit Types Provided	Medical, Dental, and Vision	Medical, Dental, and Vision
Duration of Benefits	To age 65	Life
Required Service	10 years	10 years
Minimum age	55	55
Dependent Coverage	Yes*	Yes
District Contribution %	100%	100%
District Cap	Active Cap	None

* Only up to the District cap

All contracts with District employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change. Benefits and contribution requirements (both employee and employer) for the OPEB Plan are established by various labor agreements.

For the District, OPEB benefits are administered by District personnel. No separate financial statements are issued.

The number of participants as of July 1, 2010, the effective date of the triennial OPEB valuation is as follows.

Active employees	35
Retired employees	<u>9</u>
Total	<u><u>44</u></u>

Funding Policy: The District currently pays for post employment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District's annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$64,715 for the year ended June 30, 2011. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members.

Calculation of ARC under Projected Unit Credit Cost Method

Normal cost with interest to end of year	\$ 63,352
Amortization of UAAL with interest to end of year	<u>47,358</u>
Annual required contribution (ARC)	110,710
Interest on Net OPEB Obligation	1,453
Adjustment to ARC	<u>(1,891)</u>
Annual OPEB cost (expense)	110,272
Contributions for the fiscal year	<u>(74,620)</u>
Increase in Net OPEB Obligation	35,652
Net OPEB Obligation - June 30, 2010	<u>29,063</u>
Net OPEB Obligation - June 30, 2011	<u>\$ 64,715</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 110,272	67.7%	\$ 64,715
June 30, 2010	127,544	77.2%	29,063
June 30, 2009	N/A	N/A	N/A

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)

In the July 1, 2010, actuarial valuation, the liabilities were computed using the projected unit credit cost method and the District's unfunded actuarial accrued liability ((UAAL) is being amortized using the level dollar method over 30 years. The actuarial assumptions utilized a 5% discount rate, the expected long-term rate of return on District assets. The compensation increase rate of 5% was provided by the District and based on historical data. The valuation assumes an initial health care cost trend rate of 7% which grades down to an ultimate rate of 5% by 2019, and 4% for dental and vision.

NOTE 10 - OPERATING LEASES

The District has entered into various operating leases for copiers with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates.

NOTE 11 - LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2011, is shown below:

	<u>Balances</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2011</u>	<u>Due within</u> <u>One Year</u>
General Obligation Bonds:					
Current Interest	\$ 1,265,000		\$ 65,000	\$ 1,200,000	\$ 70,000
Early Retirement Incentives	250,958		59,384	191,574	59,384
Other Post Employment Benefits	29,063	\$ 110,272	74,620	64,715	64,715
Totals	<u>\$ 1,545,021</u>	<u>\$ 110,272</u>	<u>\$ 199,004</u>	<u>\$ 1,456,289</u>	<u>\$ 194,099</u>

NOTE 12 - FUND BALANCES

The District's fund balances at June 30, 2011 consisted of the following:

	<u>General</u> <u>Fund</u>	<u>Non-Major</u> <u>Governmental</u> <u>Fund</u>	<u>Totals</u>
Nonspendable	\$ 9,813		\$ 9,813
Restricted	18,764	\$ 292,305	311,069
Assigned		447,164	447,164
Unassigned:			
Economic Uncertainties	185,717		185,717
Other	2,805,329		2,805,329
Totals	<u>\$ 3,019,623</u>	<u>\$ 739,469</u>	<u>\$ 3,759,092</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

A. State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$169,602, \$163,594, and \$153,259, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (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 death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

Funding Policy (Concluded)

The required employer contribution rate for fiscal year 2010-11 was 10.707%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$46,187, \$40,183, and \$42,384, respectively, and equal 100% of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District contributes 6.2% of each employee's gross earnings. In addition, each employee was required to contribute 6.2% of his or her gross earnings for the period July 2010 to December 2010 and 4.2% for the period January 2011 to June 2011.

NOTE 14 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (STRS) for K-12 Education. These payments consist of state general fund contributions to STRS of \$87,720 (4.267% of salaries subject to STRS).

NOTE 15 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010-11, the District participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage in any of the past three years.

NOTE 16 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements (JPAs) with the Redwood Empire Schools' Insurance Group (RESIG) for property & liability, and workers' compensation insurance coverage, and the West County Transportation Agency for pupil transportation services. The relationship between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provides coverage for its members. Each JPA is governed by a board consisting of a representative from each member district. Each board controls the operations of their JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in each JPA. The JPAs are audited on an annual basis. Financial information can be obtained by contacting each JPA's management.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

NOTE 18 - ECONOMIC DEPENDENCY

During the year, the District received \$211,345 from the District's legally separate component units, that are subject to voluntary public contributions.

NOTE 19 - RECLASSIFICATION OF FUND BALANCES

The beginning fund balances of the General Fund, the Special Revenue - Special Reserve Fund, and the Special Reserve for Post Employment Benefits Fund have been combined for financial reporting purposes in accordance with GASB Statement 54:

	<u>General Fund</u>	<u>Special Revenue - Special Reserve Fund</u>	<u>Special Reserve For Post Employment Benefits Fund</u>
Fund Balances - July 1, 2010 (as originally stated)	\$ 1,895,412	\$ 482,466	\$ 551,141
Reclassification of Fund Balances	<u>1,033,607</u>	<u>(482,466)</u>	<u>(551,141)</u>
Fund Balances - July 1, 2010 (as restated)	<u>\$ 2,929,019</u>	<u>\$ 0</u>	<u>\$ 0</u>

SUPPLEMENTARY INFORMATION SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 749,953	\$ 992,019	\$ 931,557	\$ (60,462)
Local Sources	2,109,409	2,084,033	2,183,848	99,815
Total Revenue Limit Sources	2,859,362	3,076,052	3,115,405	39,353
Federal Revenue	130,363	255,689	291,990	36,301
Other State Revenue	617,278	620,030	652,926	32,896
Other Local Revenue	634,632	695,263	673,218	(22,045)
Total Revenues	4,241,635	4,647,034	4,733,539	86,505
<u>Expenditures</u>				
Certificated Salaries	2,078,931	2,283,513	2,186,980	96,533
Classified Salaries	487,548	534,114	528,454	5,660
Employee Benefits	849,134	814,090	821,087	(6,997)
Books and Supplies	134,488	177,721	178,979	(1,258)
Services and Other				
Operating Expenditures	509,066	531,503	587,745	(56,242)
Capital Outlay	12,240	22,773	14,400	8,373
Other Expenditures	46,669	27,320	25,290	2,030
Total Expenditures	4,118,076	4,391,034	4,342,935	48,099
Excess of Revenues Over Expenditures	123,559	256,000	390,604	134,604
<u>Other Financing (Uses)</u>				
Operating Transfers Out		(300,000)	(300,000)	
Net Change in Fund Balances	123,559	(44,000)	90,604	\$ 134,604
Fund Balances - (As restated - Note 19) July 1, 2010	2,929,019	2,929,019	2,929,019	
Fund Balances - June 30, 2011	\$ 3,052,578	\$ 2,885,019	\$ 3,019,623	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

GRAVENSTEIN UNION SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Bond Interest and Redemption</u>
<u>Assets</u>			
Deposits and Investments	\$ 114,250	\$ 24,753	\$ 249,730
Receivables		5,987	
Due from Other Funds			
Total Assets	<u>\$ 114,250</u>	<u>\$ 30,740</u>	<u>\$ 249,730</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable		\$ 435	
Due to Other Funds		27,371	
Total Liabilities		<u>27,806</u>	
Fund Balances:			
Restricted			\$ 249,730
Assigned	\$ 114,250	2,934	
Total Fund Balances	<u>114,250</u>	<u>2,934</u>	<u>249,730</u>
Total Liabilities and Fund Balances	<u>\$ 114,250</u>	<u>\$ 30,740</u>	<u>\$ 249,730</u>

<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
\$ 37,440		\$ 338,131	\$ 764,304
	\$ 5,169		5,987
<u>\$ 37,440</u>	<u>\$ 5,169</u>	<u>\$ 338,131</u>	<u>\$ 775,460</u>
\$ 6		\$ 2,982	\$ 3,423
28		5,169	32,568
<u>34</u>		<u>8,151</u>	<u>35,991</u>
37,406	\$ 5,169		292,305
		329,980	447,164
<u>37,406</u>	<u>5,169</u>	<u>329,980</u>	<u>739,469</u>
<u>\$ 37,440</u>	<u>\$ 5,169</u>	<u>\$ 338,131</u>	<u>\$ 775,460</u>

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

	<u>Deferred Maintenance</u>	<u>Cafeteria</u>	<u>Bond Interest and Redemption</u>
<u>Revenues</u>			
Federal Revenue		\$ 30,520	
State Revenue	\$ 19,575	2,425	\$ 1,551
Local Revenue	644	47,182	118,588
Total Revenues	<u>20,219</u>	<u>80,127</u>	<u>120,139</u>
<u>Expenditures</u>			
Food Services		77,787	
Plant Services	39,594		
Facilities Acquisition and Construction			
Debt Service:			
Principal Retirement			65,000
Interest and Issuance Costs			61,497
Other Outgo			
Total Expenditures	<u>39,594</u>	<u>77,787</u>	<u>126,497</u>
Excess of Revenues Over (Under) Expenditures	(19,375)	2,340	(6,358)
<u>Other Financing Sources</u>			
Operating Transfers In			
Net Change in Fund Balances	(19,375)	2,340	(6,358)
Fund Balances - July 1, 2010	<u>133,625</u>	<u>594</u>	<u>256,088</u>
Fund Balances - June 30, 2011	<u>\$ 114,250</u>	<u>\$ 2,934</u>	<u>\$ 249,730</u>

<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
			\$ 30,520
\$ 16,072		\$ 531	23,551
<u>16,072</u>		<u>531</u>	<u>183,017</u>
			77,787
4,794		43,830	39,594
			48,624
1,658			65,000
<u>6,452</u>		<u>43,830</u>	<u>61,497</u>
			1,658
9,620		(43,299)	(57,072)
		300,000	300,000
9,620		256,701	242,928
27,786	\$ 5,169	73,279	496,541
<u>\$ 37,406</u>	<u>\$ 5,169</u>	<u>\$ 329,980</u>	<u>\$ 739,469</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
7/1/10	\$ 0	\$ 728,001	\$ 728,001	0%	\$ 1,801,770	40.4%
7/1/06	\$ 0	\$ 1,271,010	\$ 1,271,010	0%	\$ 1,477,747	86.0%

SEE NOTES TO SUPPLEMENTARY INFORMATION

**GRAVENSTEIN UNION SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ORGANIZATION

The Gravenstein Union School District was established in 1956 and comprises an area located in Sonoma County. There were no changes in the boundaries of the District during the current year. The District operates one elementary school and one middle school.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jim Horn	President	December 2014
Sandra Wickland	Clerk	December 2014
Jeff Weaver	Member	December 2014
Kay Crocker	Member	December 2012
Jan Zlotnick	Member	December 2012

ADMINISTRATION

Linda LaMarre
Superintendent

Mardi Hinton
Business Manager

GRAVENSTEIN UNION SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Second Period <u>Report</u>	Annual <u>Report</u>
<u>Elementary</u>		
Kindergarten	63.37	63.72
First through Third	159.27	160.48
Fourth through Sixth	220.22	223.03
Seventh and Eighth	159.77	159.96
Special Education	7.22	7.10
Special Education - NPS	1.84	1.84
Community Day School	1.13	1.37
	<u>612.82</u>	<u>617.50</u>
Totals	<u>612.82</u>	<u>617.50</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Adjusted 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Required</u>	<u>Adjusted 1986-87 Minutes Required</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	32,400	31,500	36,000	35,000	50,920	180	N/A	In Compliance
Grade 1	41,500	40,347	50,400	49,000	54,820	180	N/A	In Compliance
Grade 2	41,500	40,347	50,400	49,000	54,820	180	N/A	In Compliance
Grade 3	41,500	40,347	50,400	49,000	54,820	180	N/A	In Compliance
Grade 4	41,500	40,347	54,000	52,500	54,820	180	N/A	In Compliance
Grade 5	41,500	40,347	54,000	52,500	54,820	180	N/A	In Compliance
Grade 6	49,680	48,300	54,000	52,500	57,640	180	N/A	In Compliance
Grade 7	49,680	48,300	54,000	52,500	57,640	180	N/A	In Compliance
Grade 8	49,680	48,300	54,000	52,500	57,640	180	N/A	In Compliance

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Identification Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 30,520
U.S. Department of Education:			
Passed through CDE:			
<i>Title I, Part A Cluster:</i>			
NCLB: Title I - Basic Grant Low-Income & Neglected	84.010	14329	19,087
NCLB: ARRA Title I Basic Grant Low-Income & Neglected	84.389	15005	70
NCLB: Title II - Improving Teacher Quality	84.367	14341	3,797
NCLB: Title III - Limited English Proficient	84.365	10084	6,827
NCLB: Title III - Immigrant Education Program	84.365	14346	394
NCLB: Title IV - Drug Free Schools	84.186	14347	1,115
ARRA State Fiscal Stabilization Fund	84.394	25008	89,320
Education Jobs Fund	84.410	25152	113,600
Passed through Sonoma County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	86,411
IDEA Part B Preschool Grant	84.173	13430	3,805
IDEA Part B Preschool Local Entitlement	84.027A	13682	5,134
IDEA Part B Preschool Staff Development	84.173A	13431	19
ARRA IDEA Part B Local Assistance	84.391	15003	18,001
ARRA IDEA Part B Preschool Grants	84.392	15000	1,610
ARRA IDEA Part B Preschool Local Entitlement	84.391	15002	2,386
 Total			 <u>\$ 382,096</u>

**GRAVENSTEIN UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund	Special Revenue - Special Reserve Fund	Special Reserve For Post Employment Benefits Fund
June 30, 2011 Annual Financial and Budget Report Fund Balances	\$ 1,979,402	\$ 485,553	\$ 554,668
Reclassifications Increasing (Decreasing) Fund Balances:			
Overstatement of Fund Balances		(485,553)	(554,668)
Understatement of Fund Balance	1,040,221		
Total Reclassifications Increasing (Decreasing) Fund Balances	1,040,221	(485,553)	(554,668)
June 30, 2011 Audited Financial Statements Fund Balances	\$ 3,019,623	\$ 0	\$ 0

The reclassification of fund balance above was required as a result of the definition of special revenue funds prescribed by GASB 54.

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2011.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	GENERAL FUND			
	(Budget) * 2011-12 **	2010-11	2009-10	2008-09
Revenues and Other Financial Sources	\$ 4,274,582	\$ 4,733,539	\$ 4,529,694	\$ 4,597,860
Expenditures	4,537,918	4,342,935	4,005,575	3,997,767
Other Uses and Transfers Out	0	300,000	140,633	48,274
Total Outgo	4,537,918	4,642,935	4,146,208	4,046,041
Change in Fund Balance	(263,336)	90,604	383,486	551,819
Ending Fund Balance	\$ 2,756,287	\$ 3,019,623	\$ 2,929,019 ⁽¹⁾	\$ 1,511,926
Available Reserves	\$ 2,628,460	\$ 2,991,046	\$ 2,279,574	\$ 1,510,926
Reserve for Economic Uncertainties ***	\$ 181,517	\$ 185,717	\$ 250,000	\$ 250,000
Available Reserves as a Percentage of Total Outgo	57.9%	64.4%	55.0%	37.3%
Average Daily Attendance at P-2	630	613	590	541
Total Long-Term Liabilities	\$ 1,262,190	\$ 1,456,289	\$ 1,545,021	\$ 1,571,272

* Amounts reported for the 2011-12 budget are presented for analytical purposes only and have not been audited.

** Amounts have been adjusted to ensure comparability with the current year GASB 54 financial statement presentation.

*** Reported balances are a component of available reserves.

(1) The amount presented for fiscal year 2009-10 has been adjusted to reflect the reclassification discussed in Note 19 of these financial statements.

The fund balance of the General Fund increased \$1,507,697 over the past two years due primarily to the reclassification of the special revenue funds at the beginning of fiscal year 2010-11 (Note 19). The fiscal year 2011-12 budget projects a decrease in fund balance of \$263,336 (8.7%). For a district this size, the state recommends available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District produced operating surpluses in each of the past three fiscal years.

Total long-term liabilities decreased \$114,983 over the past two years.

Average daily attendance (ADA) increased 72 ADA over the past two years. The District projects an increase of 17 ADA during fiscal year 2011-12.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

B. Combining Statements

Combining statements are presented for purposes of additional analysis, and are not a required part of the District's basic financial statements. These statements present more detailed information about the financial position and financial activities of the District's individual funds.

C. Schedule of Funding Progress

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the District is required to present a Schedule of Funding Progress which shows the funding progress of the District's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

D. Schedule of Average Daily Attendance

Average daily attendance 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.

E. Schedule of Instructional Time

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

F. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activities 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

G. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported in the Annual Financial and Budget Report to the audited financial statements.

H. 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.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Gravenstein Union School District
Sebastopol, California

We have audited Gravenstein Union School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* to the state laws and regulations listed below for the year ended June 30, 2011. Compliance with the requirements of state laws and regulations is the responsibility of the District's management. Our responsibility is to express an opinion on Gravenstein Union 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, prescribed in the California Code of Regulations, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Gravenstein Union 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 Gravenstein Union School District's compliance with those requirements.

<u>Description</u>	<u>Procedures in Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Material:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	1	Not Applicable
Mode of Instruction for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/ Independent Study for Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction for Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based For Charter Schools	3	Not Applicable

We did not perform tests for the independent study program because the ADA claimed by the District does not exceed the threshold that requires testing.

In our opinion, Gravenstein Union School District complied with the state laws and regulations referred to above for the year ended June 30, 2011. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Gravenstein Union School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
 Certified Public Accountants

December 9, 2011

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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**

Board of Trustees
Gravenstein Union School District
Sebastopol, California

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Gravenstein Union School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness, and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness, as noted in **Finding 11-1**.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency, as noted in **Finding 11-2**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District's Board, management, California State Controller's Office, California Department of Finance, California Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 9, 2011

FINDINGS AND QUESTIONED COSTS SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weaknesses identified?	<u> X </u> Yes	<u> </u> No	
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

State Awards

Internal control over state programs:			
Material weaknesses identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported	
Type of auditor's report issued on compliance for state programs:	Unqualified		

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

11 - 1 / 30000

MATERIAL WEAKNESS

PAYROLL

Criteria: Payroll charges should be supported by contracts, worksheets, and or notice of employment forms that are prepared on an annual basis. These forms should be prepared and signed by the Business Manager and reviewed and signed by the Superintendent.

Condition: The notice of employment forms prepared for several classified employees for fiscal year 2010-11 were not signed by the Business Manager and we could not verify that it was reviewed by the Superintendent.

Questioned Cost: None.

Context: The condition was noted for fiscal year 2010-11.

Effect: Errors or improprieties may occur and not be detected in a timely manner.

Cause: The District partially implemented the prior year recommendation but was unable to locate the signed notice of employment forms for all classified employees.

Recommendation: The District should establish procedures to ensure that all payroll charges are properly supported by contracts, worksheets, and or notice of employment forms that are prepared on an annual basis. These forms should be prepared and signed by the Business Manager and reviewed and signed by the Superintendent.

District Response: The District will establish procedures to ensure the payroll charges are supported by a contract, a worksheet or a notice of employment. This will be reviewed and signed by the Business Manager and the Superintendent.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

11 - 2 / 30000

SIGNIFICANT DEFICIENCY

REVOLVING CASH / CLEARING ACCOUNT

<u>Criteria:</u>	The revolving cash account should be used to pay for small purchases of goods or services that are required to be paid in a timely manner, and later reimbursed through the District's normal accounts payable procedures. No other types of transactions should be processed through the revolving cash account.
<u>Condition:</u>	The District is using the revolving cash account as a clearing account for District deposit transactions.
<u>Questioned Costs:</u>	None.
<u>Context:</u>	The condition was noted throughout fiscal year 2010-11.
<u>Effect:</u>	It is very difficult to reconcile the revolving cash account balance to the bank balance and the imprest cash balance. In addition, errors and improprieties may occur and not be detected in a timely manner.
<u>Cause:</u>	The District did not implement the prior year recommendation.
<u>Recommendation:</u>	The District should establish a separate bank account that can be used as a clearing account for District deposits.
<u>District Response:</u>	The District will establish a separate bank account that can be used as a clearing for District deposits.

**GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2011

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
10 - 1 / 30000		
MATERIAL WEAKNESS		
<u>FINANCIAL REPORTING - UNAUDITED ACTUALS</u>		
The District should develop a comprehensive financial reporting checklist, which can be used by staff during the year-end closing process, to prevent material misstatements from occurring in the future.	Implemented	
10 - 2 / 30000		
MATERIAL WEAKNESS		
<u>SEGREGATION OF DUTIES</u>		
Due to the nature of school finance and the specific types of financial transactions and financial reporting activities performed by the District, management and the Governing Board should weigh the cost of eliminating this control weakness against the benefits to be received. If it is determined that the District cannot fully remediate the control weakness, management should develop alternative procedures, which may help to mitigate the financial reporting risk of the District.	Implemented	

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
10 - 3 / 30000		
MATERIAL WEAKNESS		
<u>REVOLVING BANK ACCOUNT</u>		
The District should develop policies and procedures that require revolving bank account deposits to be transferred to the County Treasury account on a more frequent basis.	Implemented	
The District should develop policies and procedures that require the revolving bank account to be reconciled on a monthly basis and the check register to be maintained on a current basis. The Superintendent should review and sign the monthly reconciliations.	Implemented	
The District should establish formal procedures for providing a proper audit trail between items deposited into and checks written out of the revolving bank account.	Implemented	

GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
10 - 4 / 30000		
MATERIAL WEAKNESS		
<u>PAYROLL</u>		
The District should establish procedures to ensure that all payroll charges are properly supported by contracts, worksheets, and or notice of employment forms that are prepared on an annual basis. These forms should be prepared and signed by the Business Manager and reviewed and signed by the Superintendent.	Not Implemented	Comment Repeated (See 11-1)
An annual payroll computation worksheet should be prepared and maintained to provide a proper audit trail of salary adjustments made to the Superintendent's most recent contract and the Business Manager's most recent salary calculation worksheet.	Implemented	
10 - 5 / 30000		
SIGNIFICANT DEFICIENCY		
<u>CASH RECEIPTS - COUNTY TREASURY</u>		
The District should make every effort to ensure that deposits are made at least every two weeks, and more frequently, if large amounts of cash or checks are received by the District Office.	Implemented	

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONTINUED)</u>		
10 - 6 / 30000		
SIGNIFICANT DEFICIENCY		
<u>CASH RECEIPTS LOG</u>		
The District should require that all cash and checks, received at the business office, be recorded in a cash receipts log by someone other than the person who prepares the deposit. Items listed on the cash receipts log should be traced to the general ledger on a periodic basis to ensure completeness.	Implemented	
10 - 7 / 30000		
SIGNIFICANT DEFICIENCY		
<u>REVOLVING ACCOUNT</u>		
The District should establish formal policies and procedures for the revolving cash account which specify which expenditures can and cannot be paid from the account. Routine expenditures should not be processed through the revolving cash account.	Implemented	
The revolving bank account register balance should be reconciled to the imprest balance of \$1,000 on a monthly basis.	Implemented	

GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS (CONCLUDED)</u>		
10 - 8 / 30000		
SIGNIFICANT DEFICIENCY		
<u>REVOLVING CASH / CLEARING ACCOUNT</u>		
The District should establish a separate bank account that can be used as a clearing account for District deposits.	Not Implemented	Comment Repeated (See 11-2)
10 - 9 / 30000		
SIGNIFICANT DEFICIENCY		
<u>DISTRICT RECORDS</u>		
The District should stress to the Business Manager that under no circumstances, should any District records be taken off District property.	Implemented	
10 - 10 / 30000		
SIGNIFICANT DEFICIENCY		
<u>STUDENT BODY BANK RECONCILIATIONS</u>		
Student body bank statements should be reconciled to register balances on a monthly basis. The reconciliations should be reviewed and approved by the Superintendent.	Implemented	
10 - 11 / 30000		
SIGNIFICANT DEFICIENCY		
<u>DAYCARE CASH RECEIPTS</u>		
Internal control procedures over daycare revenue should be in place to ensure that billing calculations, including drop-in fee calculations, are prepared and mailed to parents on a monthly basis.	Implemented	

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS</u>		
10 - 12 / 10000		
SIGNIFICANT DEFICIENCY		
<u>ATTENDANCE</u>		
The District should enforce procedures that require weekly attendance roster reports to be signed at the end of each week by the teachers who recorded the attendance.	Implemented	
10 - 13 / 10000		
SIGNIFICANT DEFICIENCY		
<u>NON-PUBLIC SCHOOL ATTENDANCE</u>		
A worksheet should be used by the District to accumulate the days of attendance for each student at the various nonpublic, nonsectarian schools. The District should request and use the various nonpublic, nonsectarian schools school calendars to calculate the ADA that should be claimed on the P-2 and the Annual attendance reports. In addition, the District's P-2 and Annual attendance reports should be revised to reflect the ADA presented on the Schedule of Average Daily Attendance on page 51 of the 2009-10 audit report.	Implemented	

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>STATE AWARDS (CONCLUDED)</u>		
10 - 14 / 10000		
SIGNIFICANT DEFICIENCY		
<u>ATTENDANCE REPORTING</u>		
Someone other than the preparer of the attendance reports should review supporting documentation and manual calculations used in the preparation of attendance reports, to ensure that reported information is accurate and complete. In addition, all computer generated attendance summary reports used in the preparation of the P-2 and Annual attendance reports should be filed in a binder and maintained as support for the ADA claimed on the attendance reports. The District's P-2 and Annual attendance reports should be revised to reflect the ADA presented on the Schedule of Average Daily Attendance on page 51 of the 2009-10 audit report.	Implemented	
10 - 15 / 40000		
SIGNIFICANT DEFICIENCY		
<u>INSTRUCTIONAL MINUTES</u>		
The Business Manager should review the instructional minutes calculations prepared by the Superintendent / Principal, to ensure that they agree to the bell schedules and school calendar used during the fiscal year. In addition, instructional minutes should be recalculated during the school year if any changes are made to the school calendar or bell schedules that were used in the original instructional minutes calculations.	Implemented	

