

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

AUDIT REPORT

JUNE 30, 2012

GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2012

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GRAVENSTEIN UNION SCHOOL DISTRICT

JUNE 30, 2012

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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, 2012, 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 do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. The assets, liabilities, net assets, fund balance, revenues, expenses (expenditures) of the discretely presented component unit were not available.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the District, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting the discretely presented component unit as discussed above, 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, 2012, 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 7, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on page 43, and the schedule of funding progress on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gravenstein Union School District's financial statements as a whole. The accompanying combining fund financial statements and supplementary schedules listed in the table of contents, including 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012. 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 3.3%.
- On the Statement of Activities, total current year revenues exceeded total current year expenses by \$209,547.
- Capital assets, net of depreciation and loss on disposal of capital assets, increased \$258,310 due to the current year acquisition and/or construction of \$401,407 of new capital assets, and the current year recognition of \$143,097 of depreciation expense.
- Total long-term liabilities decreased \$57,027 during fiscal year 2011-12.
- The District's P-2 average daily attendance (ADA) increased from 613 ADA in fiscal year 2010-11, up to 656 ADA in fiscal year 2011-12, an increase of 43 ADA or 7%.
- On the Statement of Revenues, Expenditures, and Changes in Fund Balances, total current year expenditures exceeded total current year revenues by \$102,640.
- During fiscal year 2011-12, the District's General Fund incurred a deficit of \$166,290, and recognized a \$178,618 decrease 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 total General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2011-12, General Fund expenditures and other financing uses totaled \$4,993,286. At June 30, 2012, the District had available reserves of \$2,812,428 which represents a reserve of 56.3%.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(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, 2012**

(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, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

GOVERNMENTAL ACTIVITIES

The District's net assets increased from \$6,333,523 at June 30, 2011, up to \$6,543,070 at June 30, 2012, an increase of 3.3%.

<u>Comparative Statement of Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2012</u>
<u>Assets</u>		
Deposits and Investments	\$ 3,403,616	\$ 2,820,510
Receivables	759,294	1,183,361
Prepaid Expenses	8,813	15,014
Capital Assets, net	4,055,289	4,309,151
Total Assets	<u>8,227,012</u>	<u>8,328,036</u>
<u>Liabilities</u>		
Current	631,299	590,971
Long-term	1,262,190	1,193,995
Total Liabilities	<u>1,893,489</u>	<u>1,784,966</u>
<u>Net Assets</u>		
Invested in Capital Assets		
- Net of Related Debt	2,830,720	3,179,151
Restricted	320,882	307,237
Unrestricted	3,181,921	3,056,682
Total Net Assets	<u>\$ 6,333,523</u>	<u>\$ 6,543,070</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, 2012**

(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 \$209,547.

<u>Comparative Statement of Changes in Net Assets</u>		
	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2012</u>
<u>Program Revenues</u>		
Charges for Services	\$ 47,191	\$ 46,731
Operating Grants & Contributions	529,431	817,994
<u>General Revenues</u>		
Taxes Levied	2,303,447	2,342,050
Federal & State Aid	1,552,042	1,731,975
Interest & Investment Earnings	20,512	33,191
Transfers From Other Agencies	33,477	37,868
Miscellaneous	484,527	192,782
Total Revenues	<u>4,970,627</u>	<u>5,202,591</u>
<u>Expenses</u>		
Instruction	3,382,634	3,474,178
Instruction-Related Services	200,434	327,096
Pupil Services	245,060	323,985
General Administration	260,518	306,598
Plant Services	371,843	344,286
Community Services	85,144	140,226
Interest on Long-Term Debt	60,267	57,094
Other Outgo	26,949	19,581
Total Expenses	<u>4,632,849</u>	<u>4,993,044</u>
Changes in Net Assets	<u>\$ 337,778</u>	<u>\$ 209,547</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, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

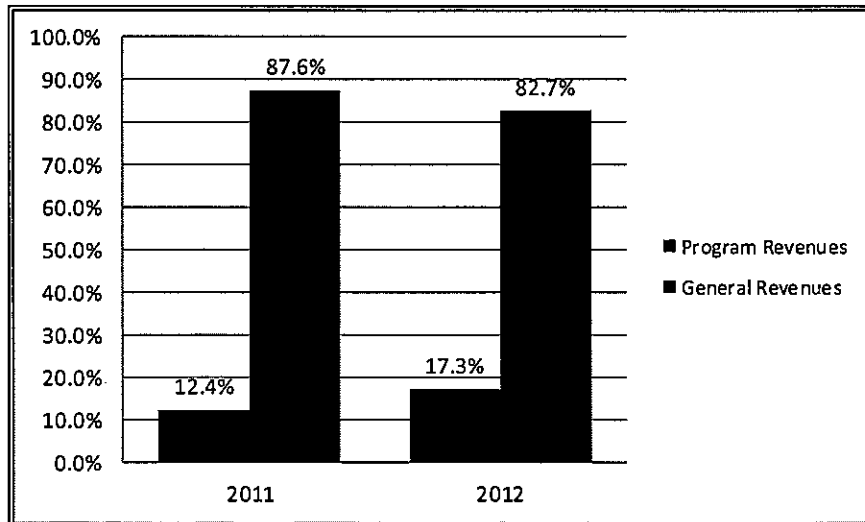
FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

	Total Cost of Services		Net Cost of Services	
	2011	2012	2011	2012
Instruction	\$ 3,382,634	\$ 3,474,178	\$ 2,992,158	\$ 2,883,820
Instruction-Related Services	200,434	327,096	200,434	325,799
Pupil Services	245,060	323,985	59,472	62,160
General Administration	260,518	306,598	260,518	295,379
Plant Services	371,843	344,286	371,285	344,286
Community Services	85,144	140,226	85,144	140,200
Interest on Long-Term Debt	60,267	57,094	60,267	57,094
Other Outgo	26,949	19,581	26,949	19,581
Totals	\$ 4,632,849	\$ 4,993,044	\$ 4,056,227	\$ 4,128,319

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 \$4,128,319 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



For fiscal year 2011-12, program revenues financed 17.3% of the total cost of providing the services listed above, while the remaining 82.7% 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, 2012**

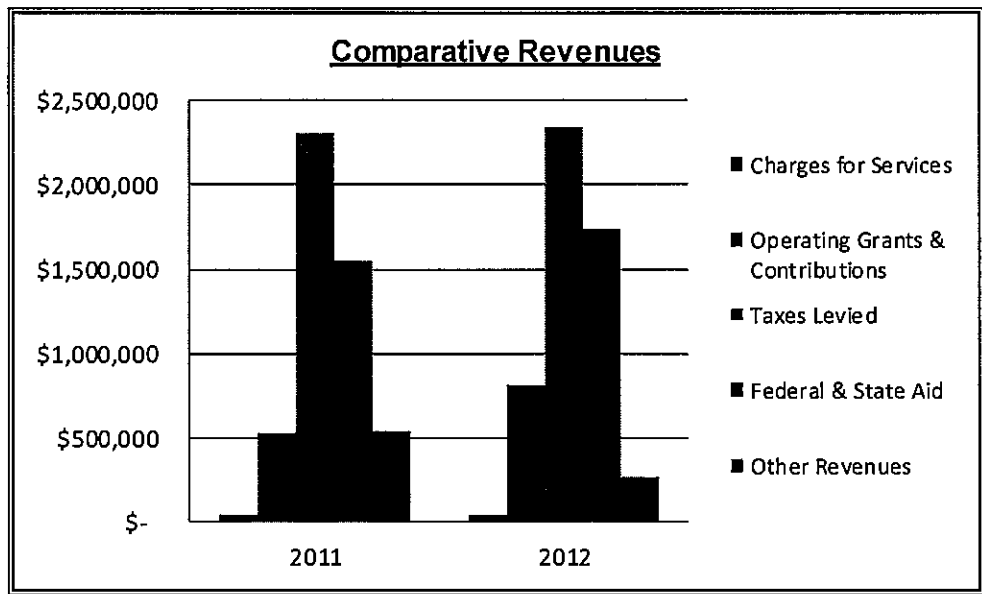
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	<u>FYE 2011</u>	<u>Percent of</u>	<u>FYE 2012</u>	<u>Percent of</u>
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Total</u>
<u>Program Revenues</u>				
Charges for Services	\$ 47,191	0.95%	\$ 46,731	0.90%
Operating Grants & Contributions	529,431	10.65%	817,994	15.72%
<u>General Revenues</u>				
Taxes Levied	2,303,447	46.34%	2,342,050	45.02%
Federal & State Aid	1,552,042	31.22%	1,731,975	33.29%
Other Revenues	538,516	10.83%	263,841	5.07%
Total Revenues	<u>\$ 4,970,627</u>	<u>100.00%</u>	<u>\$ 5,202,591</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, 2012**

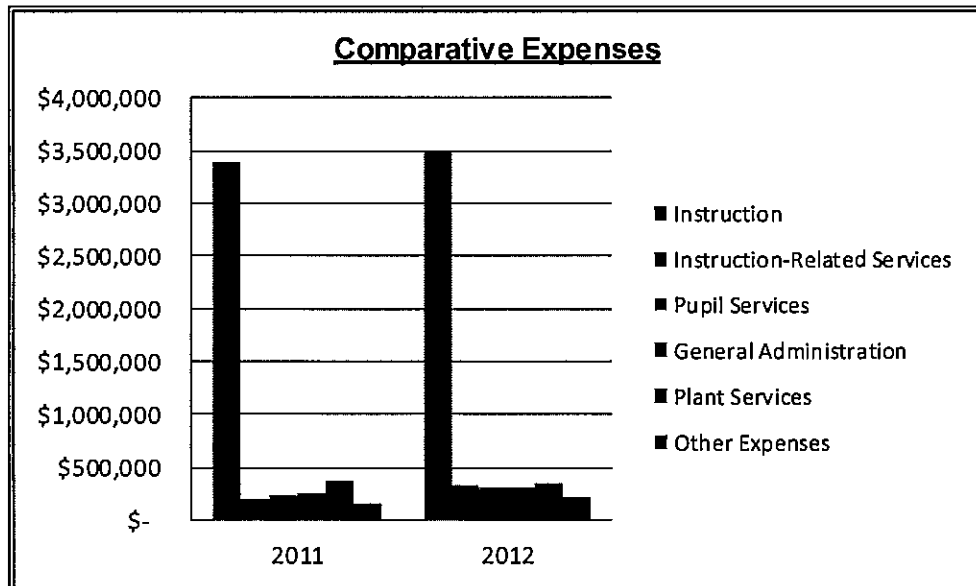
(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONTINUED)

<u>Summary of Expenses For Governmental Functions</u>				
<u>Expenses</u>	<u>FYE 2011 Amount</u>	<u>Percent of Total</u>	<u>FYE 2012 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 3,382,634	73.01%	\$ 3,474,178	69.58%
Instruction-Related Services	200,434	4.33%	327,096	6.55%
Pupil Services	245,060	5.29%	323,985	6.49%
General Administration	260,518	5.62%	306,598	6.14%
Plant Services	371,843	8.03%	344,286	6.90%
Other Expenses	172,360	3.72%	216,901	4.34%
Total Expenses	\$ 4,632,849	100.00%	\$ 4,993,044	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, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

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

GOVERNMENTAL ACTIVITIES (CONCLUDED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2011	2012
Land	\$ 149,717	\$ 149,717
Sites and Improvements	1,176,968	1,204,499
Buildings and Improvements	7,112,530	7,441,418
Furniture and Equipment	81,179	81,179
Work-in-Progress	48,504	48,927
Subtotals	8,568,898	8,925,740
Less: Accumulated Depreciation	(4,513,609)	(4,616,589)
Capital Assets, net	<u>\$ 4,055,289</u>	<u>\$ 4,309,151</u>

Capital assets, net of depreciation and loss on disposal of capital assets, increased \$258,310 due to the current year acquisition and/or construction of \$401,407 of new capital assets, and the current year recognition of \$143,097 of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2011	2012
General Obligation Bonds	\$ 1,200,000	\$ 1,130,000
Early Retirement Incentives	191,574	167,190
Other Post Employment Benefits	64,715	102,072
Totals	<u>\$ 1,456,289</u>	<u>\$ 1,399,262</u>

Total long-term liabilities decreased \$57,027 during fiscal year 2011-12.

The general obligation bonds are financed by the local taxpayers and represent 80.8% 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. 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.

**GRAVENSTEIN UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

The fund balance of the General Fund decreased \$166,290 during fiscal year 2011-12, due primarily to the transfer of \$350,000 to the Capital Projects - Special Reserve Fund for construction related expenditures, while the combined fund balances of other District governmental funds increased \$63,650.

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.

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 2012-13 and 2013-14.
- 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.

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.

BASIC FINANCIAL STATEMENTS

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 2,820,510
Receivables (Note 4)	1,183,361
Prepaid Expenses (Note 1H)	15,014
Capital Assets: (Note 6)	
Land	149,717
Sites and Improvements	1,204,499
Buildings and Improvements	7,441,418
Furniture and Equipment	81,179
Work-in-Progress	48,927
Less: Accumulated Depreciation	(4,616,589)
Total Assets	8,328,036
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	372,360
Deferred Revenue (Note 1H)	13,344
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
General Obligation Bonds (Note 7)	70,000
Early Retirement Incentives (Note 8)	71,051
Other Post Employment Benefits (Note 9)	64,216
<i>Portion Due or Payable After One Year:</i>	
General Obligation Bonds (Note 7)	1,060,000
Early Retirement Incentives (Note 8)	96,139
Other Post Employment Benefits (Note 9)	37,856
Total Liabilities	1,784,966
<u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	3,179,151
Restricted:	
For Capital Projects	44,586
For Debt Service	212,456
For Educational Programs	24,891
For Other Purposes	25,304
Unrestricted	3,056,682
Total Net Assets	\$ 6,543,070

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants</u> <u>and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants</u> <u>and</u> <u>Contributions</u>
				<u>Governmental</u> <u>Activities</u>
<u>Governmental Activities</u>				
Instruction	\$ 3,474,178		\$ 590,358	\$ (2,883,820)
Instruction-Related Services:				
Supervision of Instruction	22,251		1,297	(20,954)
Instructional Library and Technology	6,196			(6,196)
School Site Administration	298,649			(298,649)
Pupil Services:				
Food Services	76,872	\$ 46,731	34,194	4,053
Other Pupil Services	247,113		180,900	(66,213)
General Administration:				
Data Processing Services	3,159			(3,159)
Other General Administration	303,439		11,219	(292,220)
Plant Services	344,286			(344,286)
Community Services	140,226		26	(140,200)
Interest on Long-Term Debt	57,094			(57,094)
Other Outgo	19,581			(19,581)
Total Governmental Activities	\$ 4,993,044	\$ 46,731	\$ 817,994	\$ 0
<u>General Revenues</u>				
Taxes Levied for General Purposes				2,229,101
Taxes Levied for Debt Service				112,709
Taxes Levied for Specific Purposes				240
Federal and State Aid - Unrestricted				1,731,975
Interest and Investment Earnings				33,191
Transfers from Other Agencies				37,868
Miscellaneous				192,782
Total General Revenues				4,337,866
Change in Net Assets				209,547
Net Assets - July 1, 2011				6,333,523
Net Assets - June 30, 2012				\$ 6,543,070

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**GRAVENSTEIN UNION SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Deposits and Investments (Note 2)	\$ 2,386,682	\$ 433,828	\$ 2,820,510
Receivables (Note 4)	1,175,111	8,250	1,183,361
Due from Other Funds (Note 5)	5,025	380,000	385,025
Prepaid Expenditures (Note 1H)	15,014		15,014
Total Assets	\$ 3,581,832	\$ 822,078	\$ 4,403,910
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable	\$ 335,155	\$ 13,934	\$ 349,089
Due to Other Funds (Note 5)	380,000	5,025	385,025
Deferred Revenue (Note 1H)	13,344		13,344
Total Liabilities	728,499	18,959	747,458
Fund Balances: (Note 12)			
Nonspendable	16,014		16,014
Restricted	24,891	289,603	314,494
Assigned		513,516	513,516
Unassigned	2,812,428		2,812,428
Total Fund Balances	2,853,333	803,119	3,656,452
Total Liabilities and Fund Balances	\$ 3,581,832	\$ 822,078	\$ 4,403,910

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

Total Fund Balances - Governmental Funds **\$ 3,656,452**

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	\$ 8,925,740	
Accumulated Depreciation	(4,616,589)	
Net		4,309,151

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	1,130,000	
Early Retirement Incentives	167,190	
Other Post Employment Benefits	102,072	
Total		(1,399,262)

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 unmaturing interest owed at the end of the period was:

(23,271)

Total Net Assets - Governmental Activities **\$ 6,543,070**

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

	<u>General</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Revenue Limit Sources:			
State Apportionment	\$ 1,075,355		\$ 1,075,355
Local Taxes	2,229,102		2,229,102
Total Revenue Limit Sources	3,304,457		3,304,457
Federal Revenue	234,604	\$ 32,024	266,628
State Revenue	773,647	23,067	796,714
Local Revenue	514,288	320,504	834,792
Total Revenues	4,826,996	375,595	5,202,591
<u>Expenditures</u>			
Instruction	3,357,117		3,357,117
Supervision of Instruction	21,584		21,584
Instructional Library and Technology	6,010		6,010
School Site Administration	289,701		289,701
Food Services		74,569	74,569
Other Pupil Services	239,709		239,709
Data Processing Services	3,064		3,064
Other General Administration	294,310	38	294,348
Plant Services	310,630	7,701	318,331
Facilities Acquisition and Construction	27,531	389,516	417,047
Community Services	129	140,097	140,226
Debt Service:			
Principal Retirement		70,000	70,000
Interest and Issuance Costs		58,392	58,392
Other Outgo	13,501	1,632	15,133
Total Expenditures	4,563,286	741,945	5,305,231
Excess of Revenues Over (Under) Expenditures	263,710	(366,350)	(102,640)
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In		430,000	430,000
Operating Transfers Out	(430,000)		(430,000)
Total Other Financing Sources (Uses)	(430,000)	430,000	0
Net Change in Fund Balances	(166,290)	63,650	(102,640)
Fund Balances - July 1, 2011	3,019,623	739,469	3,759,092
Fund Balances - June 30, 2012	\$ 2,853,333	\$ 803,119	\$ 3,656,452

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, 2012

Net Change in Fund Balances - Governmental Funds \$ (102,640)

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	\$	401,407	
Depreciation Expense		(143,097)	
Net		258,310	258,310

Gain or loss on disposal of capital assets: In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from the disposal of capital assets and the resulting loss is: (4,448)

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: (12,973)

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		70,000	
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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: 1,298

Change in Net Assets of Governmental Activities \$ 209,547

GRAVENSTEIN UNION SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 12,030	\$ 12,030
<u>Liabilities</u>		
Due to Student Groups	12,030	12,030
<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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The governmental financial reporting entity consists of the following:

- The primary government
- Organizations for which the primary government is financially accountable
- Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete

The nucleus of a financial reporting entity is usually a primary government. Governmental Accounting Standards Board (GASB) Statement No. 14 (GASB 14), *The Financial Reporting Entity*, defines a *primary government* as any state government, general-purpose local government, or special-purpose government that meets all of the following criteria:

- It has a separately elected governing body
- It is legally separate
- It is fiscally independent of other state and local governments

The primary government consists of all funds that make up the legal entity. The primary government also consists of funds for which it has a fiduciary responsibility, even though those funds may represent organizations that do not meet the definition for inclusion in the financial reporting entity.

Component units include legally separate organizations (whether governmental, not-for-profit, or for-profit organizations) for which elected officials of the primary government are financially accountable. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board.

The primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways and indicates that an organization has a financial benefit or burden relationship with a primary government if any one of the following conditions exist:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

In addition, GASB 14 also requires certain organizations to be included as component units if the nature and significance of their relationship with the primary governments are such that excluding them would render the financial reporting entity's financial statements misleading or incomplete.

Based on the GASB 14 criteria and definitions, the District is the primary government and there are no material potential component units which should be included in the Financial Reporting Entity in these financial statements.

GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides further guidance, stating that a legally separate organization should be reported as a component unit if all of the following criteria are met:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that the Magnet Program Foundation (the Foundation) meets the criteria set forth in GASB 39. However, since the Foundation does not issue audited financial statements, the financial statements of the District include only the financial data of the primary government, which consists of all funds that comprise the District's legal entity, and all funds for which it has a fiduciary responsibility. The financial statements do not include financial data of the Foundation, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, these financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Financial Reporting Entity, or the respective changes in its financial position.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Concluded)

The District has determined that the cost of including audited financial data, of its legally separate component unit, in the financial statements of the District, far exceeds the benefits to be received by including such data. In addition, since the District's various oversight agencies do not require such data to be included, the District has elected to omit such data from its financial statements.

B. 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.

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

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.

C. 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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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.

D. 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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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.

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 *Child Development Fund* is used to account for revenues received and expenditures made to operate the child development programs maintained by the District.

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 student body funds to account for the raising and expending of money to promote the general welfare, and educational experience of the student body.

E. 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.

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Concluded)

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).

F. 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.

G. 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.

H. 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. 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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

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.

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:

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

6. Fund Balances (Concluded)

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. 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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Liabilities and Equity (Concluded)

7. Revenue Limit/Property Tax (Concluded)

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, 2012, consist of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 12,030
Cash in Revolving Fund	\$ 1,000	
County Pool Investments	<u>2,819,510</u>	
Total Deposits and Investments	<u>\$ 2,820,510</u>	<u>\$ 12,030</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.

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).

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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.

<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	\$ 2,819,510	\$ 2,823,767	\$ 803,644	\$ 2,015,866

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

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	\$ 2,819,510	\$ 2,823,767			\$ 2,819,510

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, 2012, 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.

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

Certificated Salaries	\$	1,900
Classified Salaries		20,958
Employee Benefits		9,447
Books and Supplies		6,130

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, 2012, consist of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Federal Government	\$ 95,927	\$ 7,477	\$ 103,404
State Government	894,836	536	895,372
Local Governments	34,220		34,220
Miscellaneous	150,128	237	150,365
Totals	\$ 1,175,111	\$ 8,250	\$ 1,183,361

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.

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2012 are as follows:

<u>Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 5,025	\$ 380,000
Cafeteria		5,025
Child Development	30,000	
Capital Projects - Special Reserve	350,000	
Totals	\$ 385,025	\$ 385,025

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

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND ACTIVITIES (CONCLUDED)

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 2011-12 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General		\$ 430,000
Child Development	\$ 80,000	
Capital Projects - Special Reserve	<u>350,000</u>	<u> </u>
Totals	<u>\$ 430,000</u>	<u>\$ 430,000</u>

Transfer of \$350,000 from the General Fund to the Capital Projects - Special Reserve Fund for construction related expenditures.

Transfer of \$50,000 from the General Fund to the Child Development Fund the ending fund balance as of June 30, 2011 for the child development programs, which were accounted for in the General Fund in 2010-11, and \$30,000 to supplement the program.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2012, is shown below:

	<u>Balances</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2012</u>
Land	\$ 149,717			\$ 149,717
Sites and Improvements	1,176,968	\$ 27,531		1,204,499
Buildings and Improvements	7,112,530	373,453	\$ 44,565	7,441,418
Furniture and Equipment	81,179			81,179
Work-in-Progress	<u>48,504</u>	<u>323,118</u>	<u>322,695</u>	<u>48,927</u>
Totals at Historical Cost	<u>8,568,898</u>	<u>724,102</u>	<u>367,260</u>	<u>8,925,740</u>
Less Accumulated Depreciation for:				
Sites and Improvements	1,116,569	4,969		1,121,538
Buildings and Improvements	3,346,530	130,321	40,117	3,436,734
Furniture and Equipment	<u>50,510</u>	<u>7,807</u>		<u>58,317</u>
Total Accumulated Depreciation	<u>4,513,609</u>	<u>143,097</u>	<u>40,117</u>	<u>4,616,589</u>
Governmental Activities				
Capital Assets, net	<u>\$ 4,055,289</u>	<u>\$ 581,005</u>	<u>\$ 327,143</u>	<u>\$ 4,309,151</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 104,088
Supervision of Instruction	667
Instructional Library and Technology	186
School Site Administration	8,948
Food Services	2,303
Other Pupil Services	7,404
Data Processing Services	95
Other General Administration	9,091
Plant Services	<u>10,315</u>
 Total Depreciation Expense	 <u>\$ 143,097</u>

NOTE 7 - GENERAL OBLIGATION BONDS

The outstanding general obligation debt of the District as of June 30, 2012 is as follows:

Date Of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2012
1998	4.25-7.00	2024	<u>\$ 1,800,000</u>	<u>\$ 1,200,000</u>	<u>\$ 0</u>	<u>\$ 70,000</u>	<u>\$ 1,130,000</u>

The annual requirements to amortize the current interest bonds payable, outstanding as of June 30, 2012, is as follows:

Year Ended June 30	Principal	Interest	Totals
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	85,000	39,425	124,425
2018-2022	500,000	126,038	626,038
2023-2027	<u>235,000</u>	<u>12,112</u>	<u>247,112</u>
 Totals	 <u>\$ 1,130,000</u>	 <u>\$ 375,435</u>	 <u>\$ 1,505,435</u>

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - EARLY RETIREMENT INCENTIVES (CONCLUDED)

Future estimated payments under these agreements as of June 30, 2012 are as follows:

<u>Year Ended June 30</u>	<u>STRS Golden Handshakes</u>	<u>District Sponsored</u>	<u>Total Payments</u>
2013	\$ 41,001	\$ 37,667	\$ 78,668
2014	41,001	11,667	52,668
2015	25,013	11,666	36,679
2016	<u>25,013</u>	<u> </u>	<u>25,013</u>
Subtotal	132,028	61,000	193,028
Less amount representing interest	<u>(25,838)</u>	<u>(0)</u>	<u>(25,838)</u>
Totals	<u>\$ 106,190</u>	<u>\$ 61,000</u>	<u>\$ 167,190</u>

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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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.

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, 2012, the amount actually contributed to the plan, and changes in the District's net OPEB obligation that resulted in a net OPEB obligation of \$102,072 for the year ended June 30, 2012. 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		3,236
Adjustment to ARC		<u>(4,210)</u>
Annual OPEB cost (expense)		109,736
Contributions for the fiscal year		<u>(72,379)</u>
Increase in Net OPEB Obligation		37,357
Net OPEB Obligation - June 30, 2011		<u>64,715</u>
Net OPEB Obligation - June 30, 2012	\$	<u><u>102,072</u></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, 2012	\$ 109,736	66.0%	\$ 102,072
June 30, 2011	110,272	67.7%	64,715
June 30, 2010	127,544	77.2%	29,063

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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.

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, 2012, is shown below:

	<u>Balances</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2012</u>	<u>Due within</u> <u>One Year</u>
General Obligation Bonds:					
Current Interest	\$ 1,200,000		\$ 70,000	\$ 1,130,000	\$ 70,000
Early Retirement Incentives	191,574	\$ 35,000	59,384	167,190	71,051
Other Post Employment Benefits	64,715	109,736	72,379	102,072	64,216
Totals	<u>\$ 1,456,289</u>	<u>\$ 144,736</u>	<u>\$ 201,763</u>	<u>\$ 1,399,262</u>	<u>\$ 205,267</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - FUND BALANCES

The District's fund balances at June 30, 2012 consisted of the following:

	General Fund	Non-Major Governmental Fund	Totals
Nonspendable	\$ 16,014		\$ 16,014
Restricted	24,891	\$ 289,603	314,494
Assigned		513,516	513,516
Unassigned:			
Economic Uncertainties	200,000		200,000
Other	<u>2,612,428</u>		<u>2,612,428</u>
Totals	<u>\$ 2,853,333</u>	<u>\$ 803,119</u>	<u>\$ 3,656,452</u>

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 (CalSTRS) and classified employees are members of the Public Employees' Retirement System (CalPERS).

A. State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$193,367, \$169,602, and \$163,594, respectively, and equal 100% of the required contributions for each year.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

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 Q Street, Sacramento, CA 95811.

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. The required employer contribution rate for fiscal year 2011-12 was 10.923%. 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, 2012, 2011, and 2010, were \$44,773, \$46,187, and \$40,183, 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 (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. 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 4.2% of his or her gross earnings.

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 (CalSTRS) for K-12 Education. These payments consist of state general fund contributions to CalSTRS of \$96,273 (4.855% of salaries subject to CalSTRS).

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 2011-12, 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.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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.

NOTE 17 - ECONOMIC DEPENDENCY

During fiscal year 2011-12, the District received \$198,508 from the Magnet Program Foundation, that is subject to voluntary public contributions.

NOTE 18 - 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 19 - SUBSEQUENT EVENTS

- A.** On October 22, 2012, the District issued \$1,105,000 of general obligation refunding bonds for purposes of advance refunding the District's outstanding Election of 1998, General Obligation Bonds and to pay costs of issuance related to the refunding bonds. The refunding bonds were issued to lower the District's debt service requirements and reduce the tax burden on those who own property within the District.
- B.** On the November 6, 2012, general election, the registered voters of the District approved Measure M, which authorizes the District to issue up to \$6,000,000 in general obligation bonds to modernize, construct and renovate classrooms, restrooms and school facilities; improve student access to technology; install solar energy systems; make health, safety and handicapped accessibility improvements; improve classroom energy efficiency; and upgrade outdated electrical systems.

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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionment	\$ 870,195	\$ 1,216,928	\$ 1,075,355	\$ (141,573)
Local Sources	2,084,033	2,063,958	2,229,102	165,144
Total Revenue Limit Sources	2,954,228	3,280,886	3,304,457	23,571
Federal Revenue	129,092	246,210	234,604	(11,606)
Other State Revenue	576,065	764,349	773,647	9,298
Other Local Revenue	615,197	473,370	514,288	40,918
Total Revenues	4,274,582	4,764,815	4,826,996	62,181
<u>Expenditures</u>				
Certificated Salaries	2,377,533	2,396,799	2,398,699	(1,900)
Classified Salaries	497,111	362,321	383,279	(20,958)
Employee Benefits	928,274	866,299	875,746	(9,447)
Books and Supplies	230,000	170,445	176,575	(6,130)
Services and Other				
Operating Expenditures	500,000	704,755	687,955	16,800
Capital Outlay	5,000	30,000	27,531	2,469
Other Expenditures		24,099	13,501	10,598
Total Expenditures	4,537,918	4,554,718	4,563,286	(8,568)
Excess of Revenues Over (Under) Expenditures	(263,336)	210,097	263,710	53,613
<u>Other Financing (Uses)</u>				
Operating Transfers Out		(434,000)	(430,000)	4,000
Net Change in Fund Balances	(263,336)	(223,903)	(166,290)	\$ 57,613
Fund Balances - July 1, 2011	3,019,623	3,019,623	3,019,623	
Fund Balances - June 30, 2012	\$ 2,756,287	\$ 2,795,720	\$ 2,853,333	

**GRAVENSTEIN UNION SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012**

	Deferred Maintenance	Cafeteria	Child Development
<u>Assets</u>			
Deposits and Investments	\$ 87,030	\$ 6,302	\$ 53,981
Receivables		8,013	237
Due from Other Funds			30,000
Total Assets	\$ 87,030	\$ 14,315	\$ 84,218
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts Payable			
Due to Other Funds		\$ 5,025	
Total Liabilities		5,025	
Fund Balances:			
Restricted		9,290	
Assigned	\$ 87,030		\$ 84,218
Total Fund Balances	87,030	9,290	84,218
Total Liabilities and Fund Balances	\$ 87,030	\$ 14,315	\$ 84,218

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
\$ 235,727	\$ 39,409	\$ 5,177	\$ 6,202	\$ 433,828
			350,000	8,250
<u>\$ 235,727</u>	<u>\$ 39,409</u>	<u>\$ 5,177</u>	<u>\$ 356,202</u>	<u>\$ 380,000</u>
			\$ 13,934	\$ 13,934
			13,934	5,025
\$ 235,727	\$ 39,409	\$ 5,177		289,603
<u>235,727</u>	<u>39,409</u>	<u>5,177</u>	<u>342,268</u>	<u>513,516</u>
<u>\$ 235,727</u>	<u>\$ 39,409</u>	<u>\$ 5,177</u>	<u>\$ 356,202</u>	<u>\$ 803,119</u>
				<u>\$ 822,078</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, 2012**

	Deferred Maintenance	Cafeteria	Child Development
<u>Revenues</u>			
Federal Revenue		\$ 32,024	
State Revenue	\$ 19,507	2,016	
Local Revenue	668	46,885	\$ 146,532
Total Revenues	20,175	80,925	146,532
<u>Expenditures</u>			
Food Services		74,569	
Other General Administration			
Plant Services	5,484		2,217
Facilities Acquisition and Construction	41,911		
Community Services			140,097
Debt Service:			
Principal Retirement			
Interest and Issuance Costs			
Other Outgo			
Total Expenditures	47,395	74,569	142,314
Excess of Revenues Over (Under) Expenditures	(27,220)	6,356	4,218
<u>Other Financing Sources</u>			
Operating Transfers In			80,000
Net Change in Fund Balances	(27,220)	6,356	84,218
Fund Balances - July 1, 2011	114,250	2,934	0
Fund Balances - June 30, 2012	\$ 87,030	\$ 9,290	\$ 84,218

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

<u>Bond Interest and Redemption</u>	<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
				\$ 32,024
\$ 1,544				23,067
112,845	\$ 3,673	\$ 8	\$ 9,893	320,504
<u>114,389</u>	<u>3,673</u>	<u>8</u>	<u>9,893</u>	<u>375,595</u>
				74,569
	38			38
				7,701
			347,605	389,516
				140,097
70,000				70,000
58,392	1,632			58,392
<u>128,392</u>	<u>1,670</u>	<u>0</u>	<u>347,605</u>	<u>741,945</u>
(14,003)	2,003	8	(337,712)	(366,350)
			350,000	430,000
(14,003)	2,003	8	12,288	63,650
249,730	37,406	5,169	329,980	739,469
<u>\$ 235,727</u>	<u>\$ 39,409</u>	<u>\$ 5,177</u>	<u>\$ 342,268</u>	<u>\$ 803,119</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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, 2012**

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

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Elementary</u>	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten	75.13	75.69
First through Third	187.25	187.66
Fourth through Sixth	222.68	223.52
Seventh and Eighth	165.10	166.46
Special Education	4.08	3.77
Special Education - NPS	1.78	1.71
Community Day School	0.21	0.76
Extended Year - NPS	0.14	0.14
	<hr/>	<hr/>
Totals	<u>656.37</u>	<u>659.71</u>

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	32,400	30,240	36,000	33,600	50,920	180	N/A	In Compliance
Grade 1	41,500	38,733	50,400	47,040	54,820	180	N/A	In Compliance
Grade 2	41,500	38,733	50,400	47,040	54,820	180	N/A	In Compliance
Grade 3	41,500	38,733	50,400	47,040	54,820	180	N/A	In Compliance
Grade 4	41,500	38,733	54,000	50,400	54,820	180	N/A	In Compliance
Grade 5	41,500	38,733	54,000	50,400	54,820	180	N/A	In Compliance
Grade 6	49,680	46,368	54,000	50,400	57,720	180	N/A	In Compliance
Grade 7	49,680	46,368	54,000	50,400	57,720	180	N/A	In Compliance
Grade 8	49,680	46,368	54,000	50,400	57,720	180	N/A	In Compliance

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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	\$ 32,024
U.S. Department of Education:			
Passed through CDE:			
NCLB: Title I - Basic Grant Low-Income & Neglected	84.010	14329	60,382
NCLB: Title II - Improving Teacher Quality	84.367	14341	21,624
NCLB: Title III - Limited English Proficient	84.365	14346	4,227
NCLB: Title III - Immigrant Education Program	84.365	15146	731
Education Jobs Fund	84.410	25152	1,684
Passed through Sonoma County SELPA:			
<i>Special Education Cluster:</i>			
IDEA Part B Basic Local Assistance	84.027	13379	95,733
IDEA Part B Preschool Grant	84.173	13430	3,811
IDEA Part B Preschool Local Entitlement	84.027A	13682	5,081
IDEA Part B Preschool Staff Development	84.173A	13431	38
Mental Health Services	84.027A	14468	41,293
 Total			 <u>\$ 266,628</u>

**GRAVENSTEIN UNION SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Special Revenue - Special Reserve Fund	Special Reserve For Post Employment Benefits Fund
June 30, 2012 Annual Financial and Budget Report Fund Balances	\$ 1,803,834	\$ 489,884	\$ 559,615
Reclassifications Increasing (Decreasing) Fund Balances:			
Overstatement of Fund Balances		(489,884)	(559,615)
Understatement of Fund Balance	1,049,499		
Total Reclassifications Increasing (Decreasing) Fund Balances	1,049,499	(489,884)	(559,615)
June 30, 2012 Audited Financial Statements Fund Balances	\$ 2,853,333	\$ 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, 2012.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	GENERAL FUND			
	(Budget) * 2012-13	2011-12	2010-11	2009-10
Revenues and Other Financial Sources	\$ 4,157,228	\$ 4,826,996	\$ 4,733,539	\$ 4,529,694
Expenditures	4,322,264	4,563,286	4,342,935	4,005,575
Other Uses and Transfers Out	102,795	430,000	300,000	140,633
Total Outgo	4,425,059	4,993,286	4,642,935	4,146,208
Change in Fund Balance	(267,831)	(166,290)	90,604	383,486
Ending Fund Balance	\$ 2,585,502	\$ 2,853,333	\$ 3,019,623	\$ 2,929,019
Available Reserves	\$ 2,537,327	\$ 2,812,428	\$ 2,991,046	\$ 2,279,574
Reserve for Economic Uncertainties **	\$ 200,000	\$ 200,000	\$ 185,717	\$ 250,000
Available Reserves as a Percentage of Total Outgo	57.3%	56.3%	64.4%	55.0%
Average Daily Attendance at P-2	664	656	613	590
Total Long-Term Liabilities	\$ 1,193,995	\$ 1,399,262	\$ 1,456,289	\$ 1,545,021

* Amounts reported for the 2012-13 budget are presented for analytical purposes only and have not been audited.

** Reported balances are a component of available reserves.

The fund balance of the General Fund decreased \$75,686 (2.6%) over the past two years. The fiscal year 2012-13 budget projects a decrease in fund balance of \$267,831 (9.4%). 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 of \$383,486 and \$90,604 in fiscal years 2009-10 and 2010-11, respectively, and incurred an operating deficit of \$166,290 in fiscal year 2011-12.

Total long-term liabilities decreased \$145,759 over the past two years.

Average daily attendance (ADA) increased 66 ADA over the past two years. The District projects an increase of 8 ADA during fiscal year 2012-13.

GRAVENSTEIN UNION SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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, 2012

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 2011-12* to the state laws and regulations listed below for the year ended June 30, 2012. 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 2011-12*, 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	6	Yes
Teacher Certification and Misassignments	3	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 Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

<u>Description</u>	<u>Procedures In Education Audit Appeals Panel's Audit Guide</u>	<u>Procedures Performed</u>
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction:		
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	5	Not Applicable
Before School	6	Not Applicable
Contemporaneous Records of Attendance For Charter Schools	3	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	4	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, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012.

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 7, 2012

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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2012. The report on the financial statements was qualified because the financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. 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

Management of Gravenstein Union School District is responsible for establishing and maintaining effective 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control over financial reporting, as noted in **Findings 11-1 and 11-2**. 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.

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 them.

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 7, 2012

FINDINGS AND QUESTIONED COSTS SECTION

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Qualified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ Yes	___X___ No	
Significant deficiencies identified not considered to be material weaknesses?	___X___ Yes	_____ None reported	
Noncompliance material to financial statements noted?	_____ Yes	___X___ No	

State Awards

Internal control over state programs:			
Material weaknesses identified?	_____ Yes	___X___ No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	___X___ 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, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

12 - 1 / 30000

SIGNIFICANT DEFICIENCY

REVOLVING CASH / CLEARING ACCOUNT

- Criteria:** 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.
- Condition:** The District is using the revolving cash account as a clearing account for District deposit transactions.
- Questioned Costs:** None.
- Context:** The condition was noted throughout fiscal year 2011-12.
- Effect:** 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.
- Cause:** The District did not implement the prior year recommendation.
- Recommendation:** The District should establish a separate bank account that can be used as a clearing account for District deposits.
- District Response:** A separate bank account for only clearing transactions was established in April 2012, and is maintained as the clearing account. The Board established the clearing account at the March 14, 2012 board meeting, replacing the former trustee bank account.

GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCLUDED)

12 - 2 / 30000

SIGNIFICANT DEFICIENCY

BANK ACCOUNTS AND RECONCILIATIONS

Criteria: All bank accounts should be reconciled on a monthly basis. In addition, check registers should be maintained on a current basis to account for all deposits and payments processed.

Condition: Bank reconciliations for the various bank accounts were not performed on a monthly basis and the related check registers were not maintained on a current basis.

Questioned Costs: None.

Context: The condition occurred throughout fiscal year 2011-12.

Effect: Bank account check registers did not always reflect the actual balance available in the accounts. As a result, errors and improprieties may occur and not be detected in a timely manner if bank reconciliations are not performed on a routine basis.

Cause: The District has not established procedures, which require all bank accounts check registers to be maintained on a current basis, and to be reconciled to the bank statements on a monthly basis.

Recommendation: The District should develop policies and procedures that require the bank accounts 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.

District Response: Daily balances are being kept on the check book registers for the various accounts.

**GRAVENSTEIN UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There are no matters to report for the fiscal year ended June 30, 2012

**GRAVENSTEIN UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
<u>FINANCIAL STATEMENTS</u>		
11 - 1 / 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.	Implemented	
11 - 2 / 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 12 - 1)

