

**COVINA-VALLEY UNIFIED
SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**



COVINA-VALLEY UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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Board of Trustees
Covina-Valley Unified School District
Covina, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Covina-Valley Unified School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Covina-Valley Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

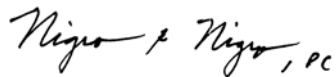
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Covina-Valley Unified School District as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, 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 November 9, 2010 on our consideration of Covina-Valley Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 23 and the required supplementary information on pages 63 and 64 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script, reading "Nigro & Nigro, PC".

November 9, 2010

Management's Discussion and Analysis

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the District for the year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The Covina-Valley Unified School District is a large urban school District offering instruction to students from kindergarten through twelfth grade, including programs for vocational and adult education. During the 2009-10 school year, the District operated ten elementary schools, one Children's Center, three middle schools, three high schools, one continuation high school, and five adult education centers, on the traditional September through June schedule, for the instruction of approximately 14,000 K-12 students and 17,667 Adult Education participants served by the Tri-Community Adult Education.

Covina-Valley U.S.D. Vision Statement

We, the Covina-Valley Unified School District, will be a leader in the educational community, providing a well-rounded and diverse education that promotes life-long learning. We will ensure that a safe, nurturing and challenging environment exists for everyone. Students will gain academic excellence, self-esteem, and pride through achievement and accomplishment. We will serve as the catalyst to strengthen community partnerships, maximizing opportunities for all students to reach their greatest potential.

Covina-Valley U.S.D. Statement of Beliefs

We believe:

- all students can learn and need to be challenged by the entire community to reach high expectations;*
- all students are valuable and gain ability, self-esteem, and pride through achievement and accomplishment;*
- a diverse and well-rounded education connects learning to real-world experiences and is essential to the development of skills for life-long learning;*
- learning takes place in a safe, nurturing and positive environment;*
- continuous learning and collaboration among students, staff, parents and community is critical to meeting the individual needs of students.*

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS

Districtwide Financial Statements

- The District's total net equity (assets in excess of liabilities) decreased from the prior year as net assets decreased \$5.4 million, to \$39.5 million. The major component of this change was a decrease in cash invested in the County treasury. At fiscal year end 2008-09, the District held approximately \$6 million in American Recovery and Reinvestment Act (ARRA) funds. These funds were spent in the 2009-10 fiscal year.
- Overall revenues were \$127.9 million. The largest category of revenue to the District is Unrestricted State Aid (Revenue Limit), totaling \$68.9 million.
- Overall expenditures totaled \$ 133.3 million. The majority of expenditures (\$89.6 million) were for instruction and instruction-related services. Total expenditures in the District governmental funds include \$8.1 million in Measure C new construction and facility modernization expenditures. These costs were financed by Measure C bonds and State School Construction funding.
- The total cost of basic programs was \$133.3 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$100.1 million.
- The District's net outstanding long-term debt totaled \$124.3 million. The majority of this debt (\$113.2 million) represents voter-approved general obligations bonds issued by the District to finance Measure K and Measure C capital facilities improvements. Principal and interest on these bonds are paid for from separate property taxes assessed to District property owners.

General Fund Financial Statements

- The District's General Fund experienced a planned net decrease to the ending Fund Balance for the year. Actual results were better than the revised operating budget for the year.
- Revenues of \$101.6 million (\$69.6 million Unrestricted, \$32.0 million Restricted) were received.
- Expenditures of \$106.6 million (\$69.1 million Unrestricted, \$37.5 million Restricted) were made.
- The net result of operations was a decrease to the ending fund balance of \$5.0 million. This was made up of a net increase of \$0.5 million in the Unrestricted Fund, and a net decrease (spending down of prior year categorical carryovers) of \$5.5 million in the Restricted Fund.

This provided the District with a General Fund ending balance of \$15.4 million. This was comprised of:

Reserved Amounts	\$ 91,737
Legally Restricted Balances	1,865,980
Designated for Economic Uncertainties	3,219,871
Undesignated	10,173,355
TOTAL	\$ 15,350,943

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS (continued)

General Fund Financial Statements (continued)

- The District-designated "Reserve for Economic Uncertainties" represents the amount that the State mandates that the District have in its Unrestricted Fund balance at each year-end (in addition to any reserved amounts). The amount represents 3% of total general fund expenditures. The District expects to spend down its undesignated fund balance in future years, due to the negative financial effect on the District caused by continued State cuts and declining enrollment.

Revenue Limit and Average Daily Attendance (A.D.A.)

Virtually all of the District's funding is based upon the number of students in attendance at District schools. The largest revenue line item for the District is the Revenue Limit, also known as State apportionment. Revenue Limit is calculated based upon Average Daily Attendance (A.D.A.). A.D.A. is calculated based upon the actual number of days a student attends school, divided by the total possible instructional days (180 days for a full school year). Thus, a student who attends class every day of the school year, with no absences, earns one A.D.A.

The District earns a set amount of Revenue Limit per A.D.A. which is determined by the State budget. Total Revenue Limit is calculated by multiplying the District's Second Period ("P-2") A.D.A. by the base revenue limit. If a district is in a declining enrollment situation (as Covina-Valley is), Revenue Limit is calculated on the prior year P-2 ADA. The District receives its share of local property taxes, and the State provides Apportionment Revenue to make up the total Revenue Limit.

The District's per student base revenue limit (net of any State applied deficit) for the past four years, and the estimated revenue limit for the current year, is as follows:

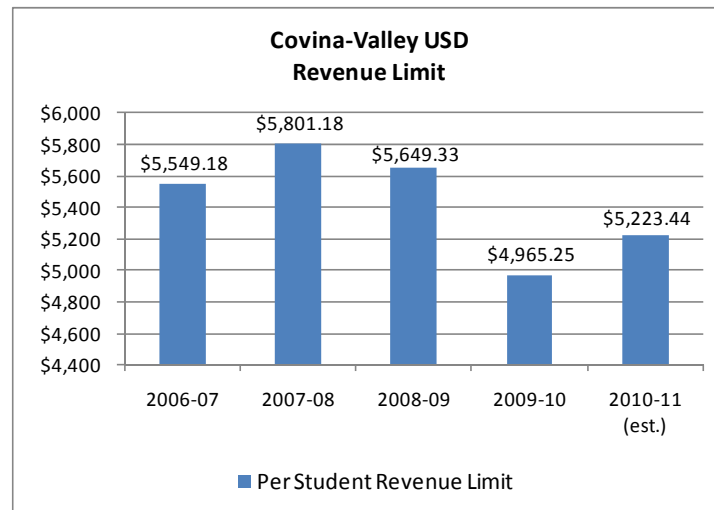
2005-06	\$5,119.03
2006-07	\$5,549.18
2007-08	\$5,801.18
2008-09	\$5,649.33
2009-10	\$4,965.25
2010-11*	\$5,223.44

* Current budgeted amount based upon the State budget passed on October 8, 2010. The State in the past has adjusted the base revenue limit amount with a mid-year cut.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS (continued)

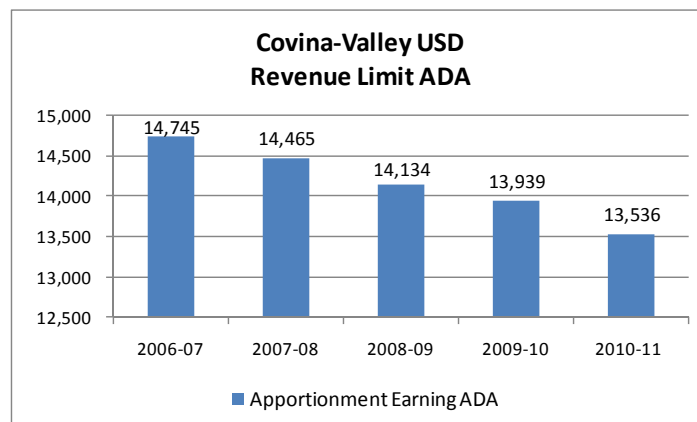
Revenue Limit and Average Daily Attendance (A.D.A.) (continued)



P-2 apportionment-earning ADA used in the calculation of the Revenue Limit for the past four years, and the estimated Revenue Limit ADA for the current year, is as follows:

2006-07	14,745
2007-08	14,465
2008-09	14,134
2009-10	13,939
2010-11	13,536

The District's enrollment most recently peaked in 2005-06. In 2006-07, the District experienced the first year of declining enrollment. Therefore, Revenue Limit for both 2005-06 and 2006-07 were based on the same number (in a year of declining enrollment the District uses the prior year ADA). From 2006-07 onward the District has calculated its revenue limit using the prior year P-2 ADA.



COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS (continued)

Major Construction

Covina-Valley USD appreciates the strong support of our community. The District was successful in passing two facilities bonds, Measure K in 2001, and Measure C in 2006. Combined with federal, State, and other local funding, the two bond measures have supported a \$166 million building program for the District.

Covina-Valley USD Bonds			
	<u>Election</u>	<u>Pass Rate</u>	<u>Amount</u>
Measure K	6/5/01	73%	\$50 million
Measure C	6/6/06	69%	<u>\$66</u> million
TOTAL			\$116 million

Major Measure K projects included:

- Library media centers (LMCs) and hard court improvements - Barranca, Cypress, Manzanita, Merwin, Mesa, and Valencia Elementary Schools
- Comprehensive school modernizations - Manzanita and Merwin Elementary Schools, Sierra Vista Middle School
- Energy retrofit - District wide
- Modernization of 12 classrooms and Performing Arts Theatre — South Hills High School
- Playground apparatus at all K-5 schools
- Exterior painting of all elementary, middle, and high schools
- Addition of eight relocatable classrooms at Kids' Korner locations
- Classroom upgrades for the addition of Teen Scene - Sierra Vista and Traweek Middle Schools
- Gymnasium expansion — South Hills High School
- Quad improvements at Traweek and Las Palmas Middle Schools
- Shaded lunch areas at elementary schools

Major Measure C projects already completed include:

- School library media centers (LMCs) and hard court improvements at Covina, Ben Lomond, Grovecenter, Lark Ellen, Rowland, and Workman Elementary Schools
- New LMCs at Traweek and Las Palmas Middle Schools; LMC expansion at Sierra Vista Middle School
- Northview High School gym modernization and weight room improvements
- New relocatables at Manzanita Elementary School
- Campus wide communication system and eight relocatable classrooms - South Hills High School
- Modernization at South Hills High School for its Information Technology Academy
- Modernization of the Covina High School gym
- Sierra Vista Middle School parking lot improvements

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS (continued)

Major Construction (continued)

Measure C projects in progress include:

- New two story, six classroom building – South Hills High School
- Athletic field improvements at South Hills High School
- Electronic marquees for all of the middle and high schools
- Finance and Business Academy at Covina High School; Arts, Media and Entertainment Academy at Northview High School. These projects are partially financed by Federal Qualified Zone Academy Bonds (QZABs).

Projects are being completed on schedule and as budgeted. The tax rate currently assessed to property owners in the District is well within the limits promised in the bond elections.

The District Bond Oversight Committee meets regularly to assure and affirm that the projects funded by the facilities bonds have been completed in accordance with the ballot measure and the District's Master Facility Plan. The Committee annually publishes a report to the Community regarding progress on the District's facilities projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

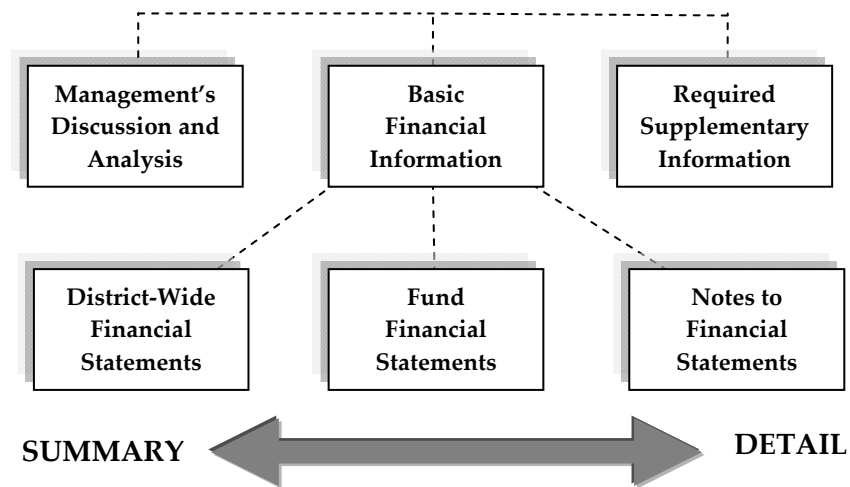
- The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - The *proprietary funds* statements provide short and long-term financial information about the activity of the District that operate like businesses (like self-insurance and enterprise funds).
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Covina-Valley Unified School District's Annual Financial Report



COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the district that operate like a business, such as self-insurance funds	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses, and Changes in Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2010

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, consideration must also be given to additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the District-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state revenue limit finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's individual funds, rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues.
- Each fund is a self-balancing accounting (assets equal liabilities and fund balance) that the District reports separately for its own internal accounting as well as reporting to the State.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that enables the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the District-wide statements the audit report provides a separate reconciliation page that explains the relationship (or differences) between them.
- *Proprietary funds* – When the District charges other District funds for the services it provides, these services are reported in proprietary funds. Proprietary funds utilize a full accrual basis of accounting which corresponds more to for profit entities than governmental funds do. Proprietary funds are included in the District-wide Statement of Net Assets and Statement of Activities. Additionally, they are repeated in their own Statement of Net Assets and Statement of Revenues, Expenses, and changes in Net Assets. Since the Proprietary funds are akin to for-profit accounting statements, a Statement of Cash Flows is also included.

The District utilizes two types of proprietary funds, an internal service fund and an enterprise fund. The District uses the internal service fund to report activities that relate to the District's self-insured programs for health and welfare claims, workers compensation, and property and liability claims. The enterprise fund reports activities of the District's before and after school daycare program. Since full accrual accounting is used, no reconciling entries are required.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities and scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and for those they are intended to benefit. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

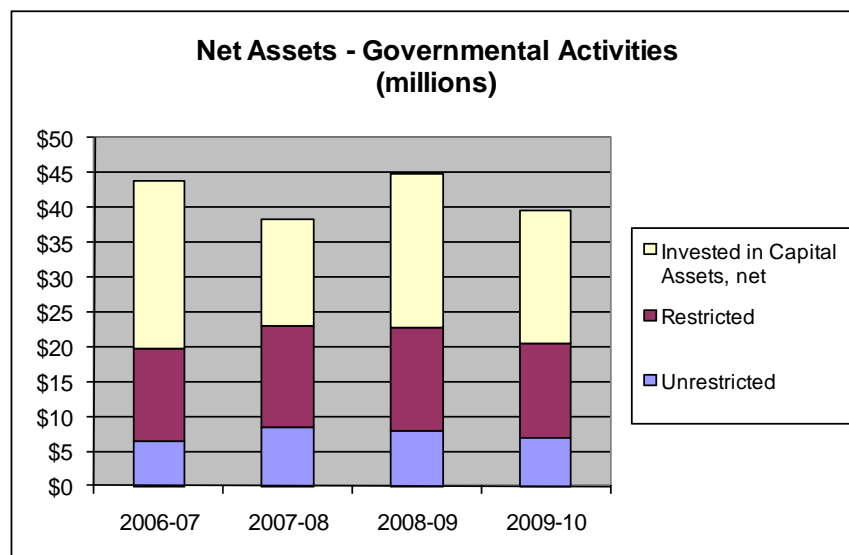
Net Assets

The District's combined net assets were smaller on June 30, 2010, than they were the year before – decreasing \$5.4 million to \$39.5 million (See Table A-1). The majority of this decrease was due to a decrease in the cash in the County treasury account. At fiscal year end 2008-09 the District held \$6 million in the County Treasury of American Recovery and Reinvestment Act (ARRA) funding. These funds were spent in 2009-10.

Table A-1

	Governmental Activities		Variance	Business-Type Activities		Variance
	(In millions)		Increase	(In thousands)		Increase
	2010	2009	(Decrease)	2010	2009	(Decrease)
Current assets	\$ 68.6	\$ 75.9	\$ (7.3)	\$ 20.2	\$ 37.6	\$ (17.4)
Capital assets	111.8	109.8	2.0	-	-	-
Total assets	180.4	185.7	(5.3)	20.2	37.6	(17.4)
Current liabilities	16.6	16.2	0.4	0.9	2.2	(1.3)
Long-term liabilities	124.3	124.6	(0.3)	-	-	-
Total liabilities	140.9	140.8	0.1	0.9	2.2	(1.3)
Net assets						
Invested in capital assets, net of related debt	19.0	22.1	(3.1)	-	-	-
Restricted	13.5	15.0	(1.5)	-	-	-
Unrestricted	7.0	7.8	(0.8)	19.3	35.4	(16.1)
Total net assets	\$ 39.5	\$ 44.9	\$ (5.4)	\$ 19.3	\$ 35.4	\$ (16.1)

Net assets by category for the last three years are as follows:



COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Changes in Net Assets, Governmental Activities

For the 2009-10 fiscal year, the District's total revenues from governmental activities were \$127.9 million. This was a decrease of \$11.6 million over the 2008-09 school year. Major changes in revenue categories from fiscal 2009 to 2010 include:

- Decrease in Federal and State categorical grants due to cuts from the State and less carryover from 2009 to 2010 than in prior year.
- Decrease in Revenue Limit funding of \$10.5 million due to declining enrollment and cuts from the State.
- Increase in School Construction funding due to receipt of final State Allocation Board funding.

The total cost of all programs and services was \$133.3 million. The District's expenses are predominantly related to educating and caring for students, amounting to \$102.0 million or 76.5%. The purely administrative activities of the District accounted for just 6.6% of total costs. Total costs have remained essentially unchanged from the prior year.

Table A-2

Revenues	2010	2009	Increase (Decrease)
Program revenues			
Charges for services	\$ 3.0	\$ 3.8	\$ (0.8)
Federal and state categorical grants	25.8	39.9	(14.1)
State school construction funding	4.3	2.1	2.2
General revenues			
Property taxes	17.3	16.8	0.5
Federal and State aid not restricted to a specific purpose	74.1	75.1	(1.0)
Interest income	0.6	1.1	(0.5)
Other	2.8	0.7	2.1
Total revenues	<u>127.9</u>	<u>139.5</u>	<u>(11.6)</u>
Expenses			
Instruction and instruction related	89.6	92.1	(2.5)
Student support services	12.4	12.1	0.3
Administration	8.8	6.7	2.1
Plant services	13.5	13.9	(0.4)
Interest on bonds	3.3	3.0	0.3
Other	5.7	5.0	0.7
Total expenses	<u>133.3</u>	<u>132.8</u>	<u>0.5</u>
Increase (decrease) in net assets	<u>\$ (5.4)</u>	<u>\$ 6.7</u>	<u>\$ (12.1)</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

THE DISTRICT'S BUDGET

General Budget Information

The District's budget is prepared in accordance with California law and is based on the cash basis of accounting, utilizing cash receipts, disbursements and encumbrances. The General Fund encompasses the majority of the budgeted financial transactions of the District.

In addition to the General fund budget in 2009-10, the District fiscal services staff prepares and monitors budgets for 11 other funds that are operated through the Los Angeles County Treasury, as well as six Associated Student Body funds.

The District's budget process is an ongoing, year round process. A formal budget is adopted for the subsequent fiscal year by June 30 of current fiscal year; however, a budget for a particular fiscal year is first generated at least two years before that fiscal year begins, when it enters into the District's three year projections that are required for the interim and budget reports to the State. For example, the budget for the 2009-10 school year, which was formally adopted June 22, 2009, was first cast in June 2007.

Budget projections start as broad projections taking into account the District's projected enrollment, forecasts of State and Federal funding levels, analysis of local sources of income, projections of salaries and benefits based upon estimated steps and columns and negotiated agreements, and other projected changes in expenditures and revenues. These projections are refined and updated as more information is received and actual financial data is recorded. In the six months before the formal budget adoption, the District utilizes the Governor's January budget projection, and later the May Revise, to determine the specific factors that the majority of District revenues are based upon. For expenditures, the District uses the current year budget, adjusted for known changes and expenditure trends. Once the State passes its budget, and the District closes its books in August, a detailed budget is completed which takes into account unrestricted and restricted carryovers, actual State budget amounts, position control, and detailed budgets prepared by the sites, program directors and department heads. During the year, monthly financial statements are continuously monitored by fiscal staff, as well as the manager responsible for the site/program/department budget.

General Fund Budget

During the fiscal year, the Board of Education authorized revisions to the original budget to reflect updated projections of actual revenues and expenditures. A budgetary comparison schedule for the General Fund is presented in the Audited Financial Statements.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

THE DISTRICT'S BUDGET (continued)

Variations between the original and final budget amounts were created by:

- Increases in budgeted income and expenses in restricted resources due to prior year carryovers. Carryover amounts were not known at the time of original budget adoption.
- Changes to budgeted income and expenses in restricted resources due to changes in Federal and State allocations. As revised/updated grant and entitlement letters are received from the granting agencies, the District adjusts the revenue, indirect cost, and expenditure budgets for the program to reflect the updated amounts.
- Changes to budgeted unrestricted revenues due to variances between projected and actual amounts collected.
- Changes to budgeted unrestricted expenditures due to variances between projected and actual amounts spent.
- Salaries and benefit accounts adjusted after negotiated agreements are settled, to reflect raises and increases in benefits.
- Ongoing analysis and adjustment to Special Education revenues, expenditures, and encroachment on the General Fund.

While the District's adjusted final budget for the General Fund anticipated expenditures and other uses would exceed revenues and other sources by \$8.4 million (deficit spending) the actual results for the year show that revenues and other sources fell short of expenditures and other uses by only \$5.0 million. This is a positive variance of \$3.4 million.

Actual revenues were \$2.1 million less than anticipated. The majority of this negative variance was due to the fact that State & Federal categorical funding is budgeted to be received and spent at 100% of the grant. If amounts are unspent at year-end (a common occurrence), both revenues received and expenditures will be less than budget.

Actual expenditures were \$5.5 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2010 that will be carried over into the 2010-11 budget. The amount also reflects underspending in all site and departmental unrestricted account budgets brought about by the District's "freeze" on hiring and other expenditures. See page 63 for additional details regarding the final budget to actual results for the General Fund.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District invested \$7.8 million in new capital assets during the 2009-10 fiscal year, primarily through the Measure C Bond program. Depreciation expense for the year was \$5.8 million. More detailed information about capital assets can be found in Note 6 to the financial statements.

Table A-3: Capital Assets at Year-End, net of depreciation

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2010	2009	
Land	\$ 2.9	\$ 2.9	\$ -
Improvement of sites	51.2	47.3	3.9
Buildings and improvements	37.1	38.5	(1.4)
Machinery and equipment	2.9	3.1	(0.2)
Construction in progress	17.7	18.0	(0.3)
Total	<u>\$ 111.8</u>	<u>\$ 109.8</u>	<u>\$ 2.0</u>

Long-Term Debt

At year-end the District had \$124.3 million in long-term debt, primarily construction bonds (both general obligation bonds and Qualified Zone Academy Bonds [QZABs]). This represents a decrease of \$0.4 million from the prior year, which is a net of the additional obligation taken on by the District for early retirement incentives, less payments on current debt. More detailed information about long-term debt can be found in Note 7 to the financial statements.

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2010	2009	
General obligation bonds	\$ 113.2	\$ 113.9	\$ (0.7)
QZAB	4.7	5.0	(0.3)
Capital leases	0.1	0.1	-
Compensated absences	0.8	1.2	(0.4)
Early retirement incentive	5.3	4.3	1.0
Other postemployment benefits	0.2	0.2	-
Total	<u>\$ 124.3</u>	<u>\$ 124.7</u>	<u>\$ (0.4)</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

The *2010-11 Budget Bill* was passed by the Legislature and signed by the Governor on October 8, 2010. The plan attempts to address one of the most vexing state budget shortfalls in California's history - the product of continuing structural imbalance between state revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009.

If all of the assumptions are met in the package, the state would be left with a \$1.3 billion General Fund reserve at the end of 2010-11. The budget package includes legislation proposed by the Governor to decrease pension benefits for state employees hired in the future. The package also places a measure on a future state ballot that is intended to stabilize state finances in the future by increasing amounts deposited to the state's rainy-day fund in certain years. While these changes would help the state's longer-term fiscal situation, they would have little effect in the shorter term. We estimate that well over two-thirds of the 2010-11 budget solutions are one-time or temporary in nature. This means that California will continue to face sizable annual budget problems in 2011-12 and beyond.

Proposition 98 Funds

Ongoing Proposition 98 funding is slightly higher in 2010-11 (\$49.7 billion) than the revised 2009-10 level (\$49.5 billion). To fund at this level, the Legislature suspended the Proposition 98 minimum funding requirement (commonly known as the minimum guarantee) for 2010-11. Absent suspension, the Legislative Analyst's Office (LAO) estimates the minimum guarantee would require \$53.8 billion, which is \$4.1 billion higher than the amount appropriated for 2010-11. The state also is ending 2009-10 with a "settle-up obligation," meaning the state appropriated less in 2009-10 than the revised estimate of the minimum guarantee for that year. The LAO estimates the 2009-10 settle-up obligation is \$1.8 billion. The budget also spends \$242 million in 2010-11 using one-time Proposition 98 funds available from prior years.

Settle-Up Funds

In addition to Proposition 98 funds, the budget plan for 2010-11 provides \$300 million as a payment to begin to meet the state's outstanding 2009-10 Proposition 98 settle-up obligation. Of these settle-up monies, \$90 million is provided for annual education mandate costs and \$210 million will be distributed on an equal per-student basis and applied to school districts' and community colleges' unpaid prior-year mandate claims.

Federal Funds

In addition to these state funds, related budget bills provide K-12 education with \$1.5 billion in special one-time federal funding. Of this amount, \$1.2 billion is from recent federal grants provided specifically to help retain K-12 jobs, and \$272 million is from the last round of stabilization funding from the 2009 stimulus package.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE (continued)

Deferrals Significant Component of Budget Package

Though the state is providing slightly more ongoing funding in 2010-11 than 2009-10, the large reliance on one-time solutions last year resulted in the need for 2010-11 reductions. Under the budget plan, however, the reductions largely are treated as deferrals of payments rather than cuts. Specifically, the package defers \$1.9 billion in additional K-14 payments (\$1.7 billion for K-12 education and \$189 million for community colleges). Rather than being paid in the spring of 2011, these payments will be made in July 2011 (that is, the next fiscal year). Virtually all other K-12 reductions are technical adjustments designed to align appropriations with anticipated program costs, such as for the K-3 Class Size Reduction program. The package also makes some reductions in child care funding. Most notably, the package achieves child care savings by drawing down some provider reserves, reducing the reimbursement rate for license-exempt providers (from 90 percent to 80 percent of the license-provider rate), and reducing the administrative allowance for certain providers (from 19 percent to 17.5 percent of total contract amounts). The Governor also vetoed \$256 million in funding for child care.

Other Factors

Enrollment

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the District to make adjustments in fixed operating costs.

All of these factors were considered in preparing the Covina-Valley Unified School District budget for the 2009-10 fiscal year. The District contracts with an independent demographics expert, Davis Demographics, to project enrollment for a seven year period. The District utilizes Davis' long-term projections, as well as a detailed site-by-site analysis of enrollment trends, to project enrollment for its multi-year projections.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Covina-Valley Unified School District's Budget Projections

Per student revenue limit funding from the State, and the District's P-2 ADA are the main factors in the District's apportionment calculation. Since apportionment makes up 70% of General Fund revenues, the District's estimates of projected State funding levels, as well as the trend in District enrollment, are the key factors in determining the District's fiscal viability and financial course in the coming years. The District has considered the following factors in preparing its long-range projections:

2010-11 REVENUE LIMIT – The District is currently projecting a revenue limit of \$5,223.44 per ADA for 2010-11. This is based on a statutory COLA of (0.39)%, adjusted by a decrease in the deficit to 17.963%, which results in a net effective increase of 5.19%. For 2011-12, although a statutory COLA of 1.7% is projected, based upon current Los Angeles County Office of Education recommendations, the District is using a -0- COLA in its projections. For 2012-13, a COLA of 1.9% is projected by the State and used in the District's projections.

PROJECTED P-2 STUDENT AVERAGE DAILY ATTENDANCE – District ADA is projected to decrease by 307 students in 2010-11, and 296 students in 2011-12. In the most recent year, 2009-10, District P-2 ADA decreased 409 students over 2008-09.

Historical and projected P-2 ADA is as follows:

<u>Year</u>	<u>P-2 ADA</u>
2001-02 (actual)	14,042
2002-03 (actual)	14,218
2003-04 (actual)	14,342
2004-05 (actual)	14,440
2005-06 (actual)	14,608
2006-07 (actual)	14,331
2007-08 (actual)	13,990
2008-09 (actual)	13,815
2009-10 (actual)	13,406
2010-11 (est.)	13,099
2011-12 (est.)	12,803
2012-13 (est.)	12,597

Note: Average Daily Attendance is as of second period and excludes Adult Education and ROP.

Projected P-2 Student Average Daily Attendance – Apportionment-earning ADA is based upon P-2 ADA, with some minor adjustments for County-operated and other classes. Once apportionment-earning ADA is calculated for a fiscal year, the District may claim appointment income based upon the higher of the current or prior year ADA. Since ADA has declined each of the last three fiscal years, for those years the District has received apportionment income based upon the prior year ADA. The District expects that this trend will continue for at least the next three years.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Covina-Valley Unified School District's Budget Projections (continued)

The chart below shows the actual and funded ADA trend for the last three fiscal years, and the next three projected years:

<u>Fiscal Year</u>	<u>Actual ADA</u>	<u>Apportionment-earning ADA (Greater of current or prior year)</u>
2006-07	14,465	14,745
2007-08	14,134	14,465
2008-09	13,942	14,134
2009-10	13,536	13,942
2010-11 (est.)	13,236	13,536
2011-12 (est.)	12,940	13,236
2012-13 (est.)	12,734	12,940

In addition to revenue limit funding and ADA, other factors important to the District's long- range projections are discussed below:

OTHER STATE FUNDING – The District has projected a net COLA of -0-, -0-, and 1.9% for fiscal 2010, 2011, and 2012, respectively, on all State programs. Revenues for individual programs which are based upon attendance are adjusted accordingly.

LOTTERY – Lottery income is projected on estimates from the State Department of Education. 2010-11 Revenue is estimated at \$2.2 million (\$130 per ADA). The rate is not materially changed from 2009-10. Lottery income makes up approximately 2% of the District's total budget.

STATE CLASS SIZE REDUCTION – The 2010-11 budget includes \$3 million for K-3 Class Size Reduction (CSR) revenue from the State. Projected income is based upon an estimated decrease in the number of students and the per student rate currently budgeted by the CDE (\$1,071, the same as 2009-10). Projected income is also adjusted for an estimated penalty due to the District increasing average class size from 20 to 22:1. Revenues from CSR make up approximately 3% of the District's General Fund Budget.

MANDATED COSTS – In prior fiscal years the District typically received mandated cost payments from the State. The District did not receive any mandated cost reimbursements during fiscal years 2007-2010. The October State budget allocated a small amount to K-12 education for some back payments on mandated costs. Therefore the District has budgeted \$390,000 in revenues (\$28 per ADA) in the 2010-11 budget.

SPECIAL EDUCATION – The District participates in the East San Gabriel Valley SELPA for Special Education funding and services. The purpose of the SELPA is to pool Special Education funding allocated to the member districts by the Federal and State governments to achieve operating efficiencies and provide enhanced services for Special Education students.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Covina-Valley Unified School District's Budget Projections (continued)

The member districts in the SELPA are individually and collectively declining in their respective total district enrollments. Since State funding is based upon total District enrollment (not number of Special Education students), the SELPA as a whole is receiving less funding. This reduction is being allocated to all districts, based upon their total enrollment. Since Covina-Valley Unified School District is experiencing declining enrollment, even though the number of Special Education students is increasing, Special Education funding is decreasing.

The District calculates encroachment based upon an estimate of the Special Education funding that will be received (based upon projections received from the SELPA), less estimated total expenditures (salaries, benefits, non-public schools, excess costs, transportation, and other Special Education costs). Encroachment for the 2010-11 school year is estimated at \$5.8 million (5.3% of the District General Fund budget).

State Flexibility: As part of the State's "flexibility" package granted to school districts, revenues from those categorical programs identified as Tier Three may be swept for use to the District's Unrestricted General Fund. The District has identified \$2.9 million in ongoing dollars that will be reallocated from specific program budgets to the unrestricted fund to make up for State cuts. Additionally, the District projects to sweep \$1.5 million from the Adult Education fund in 2010-11.

An additional flexibility option granted to K-12 school districts is the ability to reduce the school year from 180 to 175 days. The District has implemented this flexibility with the cooperation of its employee associations, which have agreed to reductions in their work years (furlough days). The State has also reduced the penalties normally associated with increasing class size from the twenty to one mandate required by the K-3 Class Size Reduction Program. The District has taken advantage of this flexibility provision by maintaining a target class size for kindergarten through third grade classes of twenty-two to one.

These State flexibility provisions are set to end (by statute) in either the 2012-13 (K-3 CSR) or 2013-14 school year. The District has incorporated the effect of returning to the twenty to one ratio in grades Kindergarten through 3rd in 2012-13 in its projection. The District is in the early planning stages in determining how to manage the end of the remaining flexibility provisions in 2013-14 (the fourth year out).

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

Covina-Valley Unified School District's Budget Projections (continued)

ENDING FUND BALANCE PROJECTION – The District is required by the State to maintain an unrestricted ending fund balance in excess of 3% of total General Fund expenditures (Unrestricted and Restricted resources). As of December 2010, the District projected the following ending fund balances for the next three fiscal years on its First Interim Report:

2010-11	14.7%
2011-12	8.9%
2012-13	3.0%

Certification: Since the District is showing that it is making its 3% Unrestricted General Fund Balance reserve requirement for the third year out (June 30, 2013), the District is certifying with a Positive Certification. Per State guidelines, a Positive Certification indicates that, based upon current budget assumptions and projections, the school district **will** meet its financial obligations for the current fiscal year and subsequent two fiscal years. However, ever-evolving State budget forecasts continue to be negative, and there is substantial doubt as to whether the State will be able to fund even the current year's K-12 budget, let alone future year COLAs. Due to the grave uncertainty facing the State, all projections should be viewed with caution and considered highly changeable.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, staff, donors, and vendors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Susan Cross Hume, CPA, CIA, Chief Business Officer, at 519 E. Badillo Street, Covina, California 91723 or 626-974-7000.

Financial Section

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash	\$ 43,284,995	\$ 18,934	\$ 43,303,929
Accounts receivable	23,743,441	1,310	23,744,751
Stores inventories	196,890	-	196,890
Prepaid expenditures	1,355,116	-	1,355,116
Other current assets	6,726	-	6,726
Total current assets	68,587,168	20,244	68,607,412
Capital assets:			
Land	2,886,240	-	2,886,240
Improvement of sites	63,758,470	-	63,758,470
Buildings and improvements	74,963,105	-	74,963,105
Machinery and equipment	11,559,963	-	11,559,963
Work in progress	17,710,638	-	17,710,638
Less accumulated depreciation	(59,051,162)	-	(59,051,162)
Total capital assets	111,827,254	-	111,827,254
Total assets	180,414,422	20,244	180,434,666
LIABILITIES			
Current Liabilities:			
Accounts payable	16,249,117	882	16,249,999
Deferred revenues	362,779	-	362,779
Total current liabilities	16,611,896	882	16,612,778
Long-term Liabilities:			
Due within one year	5,094,699	-	5,094,699
Due after one year	119,198,957	-	119,198,957
Total long-term liabilities	124,293,656	-	124,293,656
Total liabilities	140,905,552	882	140,906,434
NET ASSETS			
Invested in capital assets, net of related debt	19,005,950	-	19,005,950
Restricted for:			
Capital projects	8,395,979	-	8,395,979
Debt service	3,206,917	-	3,206,917
Categorical programs	1,865,980	-	1,865,980
Unrestricted	7,034,044	19,362	7,053,406
Total net assets	\$ 39,508,870	\$ 19,362	\$ 39,528,232

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction	\$ 76,338,922	\$ 1,266,136	\$ 14,682,936	\$ 4,253,013	\$ (56,136,837)	\$ -	\$ (56,136,837)
Instruction-related services							
Supervision of instruction	2,512,120	124,511	1,107,181	-	(1,280,428)	-	(1,280,428)
Instructional library, media and technology	1,308,779	-	985,065	-	(323,714)	-	(323,714)
School site administration	9,397,231	3,673	89,812	-	(9,303,746)	-	(9,303,746)
Pupil Services:							
Home-to-school transportation	2,049,654	302	457,300	-	(1,592,052)	-	(1,592,052)
Food services	4,848,732	929,086	4,365,435	-	445,789	-	445,789
All other pupil services	5,538,853	139,319	1,494,525	-	(3,905,009)	-	(3,905,009)
General Administration:							
Data processing	1,932,223	-	-	-	(1,932,223)	-	(1,932,223)
All other general administration	6,886,132	144,266	1,237,287	-	(5,504,579)	-	(5,504,579)
Plant services	13,500,166	12,754	209,472	-	(13,277,940)	-	(13,277,940)
Community services	18,304	-	-	-	(18,304)	-	(18,304)
Interest on long-term debt	3,326,347	-	-	-	(3,326,347)	-	(3,326,347)
Other outgo	5,612,641	384,191	1,250,965	-	(3,977,485)	-	(3,977,485)
Total governmental activities	133,270,104	3,004,238	25,879,978	4,253,013	(100,132,875)	-	(100,132,875)
Business-type Activities							
Enterprise activities	648,177	-	50	-	-	(648,127)	(648,127)
Total Business-type Activities	\$ 133,918,281	\$ 3,004,238	\$ 25,880,028	\$ 4,253,013	(100,132,875)	(648,127)	(100,781,002)
	Property taxes				17,267,376	-	17,267,376
	Federal and state aid not restricted to specific purposes				74,146,816	-	74,146,816
	Interest and investment earnings				585,922	145	586,067
	Interagency				981,882	-	981,882
	Miscellaneous				1,776,308	631,930	2,408,238
	Total general revenues				94,758,304	632,075	95,390,379
	Change in net assets				(5,374,571)	(16,052)	(5,390,623)
	Net assets - June 30, 2009				44,883,441	35,414	44,918,855
	Net assets - June 30, 2010				\$ 39,508,870	\$ 19,362	\$ 39,528,232

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2010

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 5,036,737	\$ 15,928,420	\$ 7,093,714	\$ 10,540,538	\$ 38,599,409
Accounts receivable	20,479,519	72,917	20,445	3,142,078	23,714,959
Inventories	56,737	-	-	140,153	196,890
Other current assets	6,726	-	-	-	6,726
Total Assets	<u>\$ 25,579,719</u>	<u>\$ 16,001,337</u>	<u>\$ 7,114,159</u>	<u>\$ 13,822,769</u>	<u>\$ 62,517,984</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 9,865,997	\$ 1,286,724	\$ -	\$ 1,045,830	\$ 12,198,551
Deferred revenue	362,779	-	-	-	362,779
Total Liabilities	<u>10,228,776</u>	<u>1,286,724</u>	<u>-</u>	<u>1,045,830</u>	<u>12,561,330</u>
Fund Balances					
Reserved for:					
Inventories	56,737	-	-	140,153	196,890
Revolving cash	35,000	-	-	7,037	42,037
Debt service	-	-	-	3,206,917	3,206,917
Categorical programs	1,865,980	-	-	-	1,865,980
Unreserved; reported in:					
General fund	13,393,226	-	-	-	13,393,226
Capital project funds	-	14,714,613	7,114,159	1,281,820	23,110,592
Special revenue funds	-	-	-	8,141,012	8,141,012
Total Fund Balances	<u>15,350,943</u>	<u>14,714,613</u>	<u>7,114,159</u>	<u>12,776,939</u>	<u>49,956,654</u>
Total Liabilities and Fund Balances	<u>\$ 25,579,719</u>	<u>\$ 16,001,337</u>	<u>\$ 7,114,159</u>	<u>\$ 13,822,769</u>	<u>\$ 62,517,984</u>

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds \$ 49,956,654

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$170,878,416, and the accumulated depreciation is (\$59,051,162). 111,827,254

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 statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was: (1,217,396)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 1,355,116

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 relating to governmental activities consist of:

General obligation bonds	113,198,021	
Qualified zone academy bonds	4,744,880	
Early retirement incentive	5,318,484	
Capital leases	50,400	
Compensated absences	828,926	
		(124,140,711)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 1,727,953

Total net assets - governmental activities **\$ 39,508,870**

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Revenues:					
Property taxes	\$ 11,226,731	\$ -	\$ -	\$ 6,040,645	\$ 17,267,376
Federal and state aid not restricted to specific purpose	67,914,527	-	-	6,232,289	74,146,816
Earnings on investments	202,111	288,237	20,446	75,128	585,922
Interagency revenues	404,392	-	-	577,490	981,882
Miscellaneous	157,832	444,476	-	1,174,000	1,776,308
Program Revenues:					
Charges for services	1,982,589	-	-	1,021,649	3,004,238
Operating grants and contributions	19,726,245	-	-	6,153,733	25,879,978
Capital grants and contributions	-	-	4,253,013	-	4,253,013
Total Revenues	101,614,427	732,713	4,273,459	21,274,934	127,895,533
EXPENDITURES					
Instructional Services:					
Instruction	65,759,671	-	-	5,359,255	71,118,926
Instruction-Related Services:					
Supervision of instruction	2,315,618	-	-	196,502	2,512,120
Instructional library, media and technology	1,308,779	-	-	-	1,308,779
School site administration	7,408,362	-	-	1,988,868	9,397,230
Pupil Support Services:					
Home-to-school transportation	1,875,654	-	-	-	1,875,654
Food services	604	-	-	4,871,991	4,872,595
All other pupil services	5,118,543	-	-	188,310	5,306,853
Community services	18,304	-	-	-	18,304
General Administration Services:					
Data processing services	1,932,223	-	-	-	1,932,223
Other general administration	5,506,317	-	-	623,472	6,129,789
Plant services	11,839,166	25,852	-	685,386	12,550,404
Facility acquisition and construction	737	7,740,183	-	806,836	8,547,756
Other outgo:					
Transfers between agencies	3,564,095	-	-	-	3,564,095
Debt service - issuance costs	-	-	-	75,000	75,000
Debt service - principal	-	305,520	-	2,560,048	2,865,568
Debt service - interest	-	-	-	3,389,003	3,389,003
Total Expenditures	106,648,073	8,071,555	-	20,744,671	135,464,299
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,033,646)	(7,338,842)	4,273,459	530,263	(7,568,766)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	680,937	-	-	4,068,372	4,749,309
Interfund transfers out	(4,068,372)	(680,937)	-	-	(4,749,309)
Contributions	3,387,435	-	-	(3,387,435)	-
Total Other Financing Sources and Uses	-	(680,937)	-	680,937	-
Net Change in Fund Balances	(5,033,646)	(8,019,779)	4,273,459	1,211,200	(7,568,766)
Fund Balances, July 1, 2009	20,384,589	22,734,392	2,840,700	11,565,739	57,525,420
Fund Balances, June 30, 2010	\$ 15,350,943	\$ 14,714,613	\$ 7,114,159	\$ 12,776,939	\$ 49,956,654

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED 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, 2010

Total net change in fund balances - governmental funds \$ (7,568,766)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	7,795,857	
Depreciation expense	<u>(5,799,997)</u>	
		1,995,860

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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 2,865,568

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is: (66,727)

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period. (1,906,819)

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or as an Other Financing use in the period that it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of bond issue premium for the period is: 89,831

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it 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: (27,176)

In the statement of activities, certain operating expenses - compensated absences and early retirement incentives, for example, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid* .) This year, compensated absences and early retirement incentives earned exceeded the amounts paid by: (703,540)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. (52,802)

Change in net assets of governmental activities \$ (5,374,571)

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Proprietary Funds
June 30, 2010

	Governmental Activities	Business-type Activities
	Internal Service Funds	Enterprise Fund
ASSETS		
Cash	\$ 4,685,586	\$ 18,934
Accounts receivable	28,482	1,310
Total Assets	4,714,068	20,244
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	1,150,152	882
Estimated liability for open claims and IBNR	1,683,018	-
Total current liabilities	2,833,170	882
Long-term Liabilities:		
Other postemployment benefits	152,945	-
Total liabilities	2,986,115	882
NET ASSETS		
Unrestricted	1,727,953	19,362
Total net assets	\$ 1,727,953	\$ 19,362

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Governmental Activities Internal Service Funds	Business-type Activities Enterprise Fund
OPERATING REVENUES		
Self-insurance premiums	\$ 13,612,970	\$ -
Other local revenue	663,471	631,980
Total operating revenues	14,276,441	631,980
OPERATING EXPENSES		
Certificated salaries	-	103
Classified salaries	-	472,985
Employee benefits	-	148,847
Books and supplies	-	8,013
Payments for claims and other operating expenses	14,368,587	18,229
Total operating expenses	14,368,587	648,177
Operating Income (Loss)	(92,146)	(16,197)
NON-OPERATING REVENUES		
Interest income	39,344	145
Total non-operating revenues	39,344	145
Change in net assets	(52,802)	(16,052)
Net assets, June 30, 2009	1,780,755	35,414
Net assets, June 30, 2010	\$ 1,727,953	\$ 19,362

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Governmental Activities Internal Service Funds	Business-type Activities Enterprise Fund
Cash Flows from Operating Activities		
Cash received from operations	\$ 14,664,450	\$ 630,670
Cash paid for operating expenses	(14,079,136)	(649,476)
Net Cash Provided (Used) by Operating Activities	585,314	(18,806)
Cash Flows from Investing Activities		
Interest	40,407	399
Net Cash Provided by Investing Activities	40,407	399
Net Increase (Decrease) in Cash	625,721	(18,407)
Cash, July 1, 2009	4,059,865	37,341
Cash, June 30, 2010	\$ 4,685,586	\$ 18,934
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (92,146)	\$ (16,197)
Changes in Operating Assets and Liabilities		
Increase in accounts payable	289,451	(1,299)
Increase in accounts receivable	388,009	(1,310)
Net Cash Provided (Used) by Operating Activities	\$ 585,314	\$ (18,806)

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Statement of Net Assets – Fiduciary Funds
June 30, 2010

	Agency Funds		
	Payroll Clearance Fund	Student Body Funds	Total
Assets			
Cash	\$ -	\$ 901,599	\$ 901,599
Accounts receivable	-	4,261	4,261
Inventories	-	41,835	41,835
Prepaid expenses	700,189	-	700,189
Total Assets	\$ 700,189	\$ 947,695	\$ 1,647,884
Liabilities			
Cash overdraft	\$ 700,189	\$ -	\$ 700,189
Accounts payable	-	52,064	52,064
Due to student groups	-	895,631	895,631
Total Liabilities	\$ 700,189	\$ 947,695	\$ 1,647,884

The notes to financial statements are an integral part of this statement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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).

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

Covina-Valley Unified School District Financing Corporation

The District has a financial and operational relationship with the Covina-Valley Unified School District Facilities Finance Corporation (Corporation), as represented by the 2004 Certificates of Participation, which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statement of the District.

Financial Presentation:

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Corporation. Certificates of Participation issued by the corporation were paid off in full and the corporation is now inactive.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

The following are those aspects of the relationship between the District and the component unit which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Manifestations of Oversight

- The component unit and the District have common boards.
- The component unit has no employees. The District's Superintendent functions as an agent of the component unit.
- The District exercises significant influence over operations of the component unit as all projects of the component unit involve the Covina-Valley Unified School District.

Accountability of Fiscal Matters

- The District is responsible for preparation of the annual budgets for the component unit.

Scope of Public Service

- The component unit was created specifically to finance capital improvements for the Covina-Valley Unified School District.

C. 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 nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statement 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.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Government-wide Financial Statements: (continued)

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

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 meet 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.

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.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flows needs of its proprietary activities.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fund Financial Statements (continued):

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for the internal service fund include the costs of claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

D. 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. On a 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 and 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 60 days after year-end.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Revenues – exchange and non-exchange transactions (continued):

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 the 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.

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 would be recorded as deferred revenue.

Expenses/expenditures:

On the 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.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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, revenues, and expenditures. 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's accounts are organized into major, non-major, proprietary funds, and fiduciary funds, as follows:

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *Building Fund* is used to account for the modernization of major governmental capital facilities and buildings. Funding is provided by the proceeds from general obligation bonds approved by Measure "K" (2001) and Measure "C" (2006).
- The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.

Non-major Governmental Funds:

- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:
 1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
 2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
 4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds (continued):

- **Capital Projects Funds** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains two non-major capital projects funds:
 1. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 2. The *Special Reserves Fund for Capital Outlay Projects* is used to accumulate resources for the purpose of capital outlay projects for the District.
- **Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund:
 1. The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Proprietary Funds:

- The District maintains two proprietary funds:
 1. The *Internal Service Fund* is used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance fund that is accounted for as an internal service fund.
 2. The *Enterprise Fund* is used to account for any activity for which a fee is charged to external users for goods or services. The child care enterprise fund of the District accounts for the financial transactions related to the Kids' Korner before and after school day care operations of the District.

Fiduciary Funds:

- **Agency Funds** are used to account for assets of others for which the District acts as an agent. The "prepaid expenditures" account within the payroll clearing fund is used to record dedicated funds for payroll and related expenses paid in advance. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District that maintain a student body fund.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a 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 during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the required supplementary information section.

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.

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 as of June 30.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$15,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Site Improvements	20 years
Furniture and Equipment	5-15 years
Vehicles	8 years

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 cash received on specific projects and programs exceed qualified expenditures.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. As of June 30, 2010 the District has designated \$3,219,871 for economic uncertainties in the General Fund.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. 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 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 March 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 (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 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 second period ADA to derive the District's total entitlement.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. New GASB Pronouncements

During the 2009-10 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets* was issued in June, 2007. The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature. This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets - and therefore the financial position of governments - and of the periodic cost associated with the usage of such service capacity in governmental financial statements. This Statement is not expected to have any financial impact on the District.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* was issued in June, 2008. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Because the District carries no derivative instruments, this Statement is not applicable in the current fiscal year.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements (continued)

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* was issued in December, 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurement by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates.

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies* was issued in December, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. This Statement has no impact on the District.

NOTE 2 – CASH

Summary of Cash

Cash as of June 30, 2010 is classified in the accompanying financial statements as follows:

	Governmental Activities	Fiduciary Funds	Business-type Activities
Cash in county treasury	\$ 43,177,458	\$ (700,189)	\$ 18,934
Cash on hand and in banks	10,000	901,599	-
Cash with fiscal agent	55,500	-	-
Cash in revolving fund	42,037	-	-
Total cash	<u>\$ 43,284,995</u>	<u>\$ 201,410</u>	<u>\$ 18,934</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH (continued)

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with no restriction on the percentage held in each authorized investment in relation to the District's entire investment portfolio.

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

General Authorizations

The authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its web site. The table below identifies some of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Agency Securities	5 years	None	None
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$42,743,361 and an amortized book value of \$42,496,203. The average weighted maturity for this pool is 536 days.

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. The investment with the Los Angeles County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2010.

Custodial Credit Risk – Deposits

Custodial credit risk 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. As of June 30, 2010, \$1,047,704 of the District's bank balance of \$2,209,516 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

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. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no excesses of expenditures over appropriations by major object in major funds in 2009-10.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Funds	Enterprise Fund
Federal Government:							
Categorical aid programs	\$ 3,083,265	\$ -	\$ -	\$ 246,979	\$ 3,330,244	\$ 12,562	\$ -
State Government:							
Revenue limit	11,511,882	-	-	-	11,511,882	-	-
Lottery	1,040,378	-	-	-	1,040,378	-	-
Special education	1,340,968	-	-	-	1,340,968	-	-
Class size reduction	483,683	-	-	-	483,683	-	-
Categorical aid programs	313,269	-	-	1,820,355	2,133,624	3,740	-
Local:							
Interest	30,034	57,939	20,445	23,215	131,633	11,054	-
Other local	2,676,040	14,978	-	1,051,529	3,742,547	1,126	1,310
Total	<u>\$ 20,479,519</u>	<u>\$ 72,917</u>	<u>\$ 20,445</u>	<u>\$ 3,142,078</u>	<u>\$ 23,714,959</u>	<u>\$ 28,482</u>	<u>\$ 1,310</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 5 - INTERFUND TRANSACTIONS

Interfund activity is reported as 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/expenses. Reimbursements are 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. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Transfers

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

Interfund transfers for the 2009-10 fiscal year are as follows:

	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 4,068,372	\$ 4,068,372
Building Fund	680,937	-	680,937
Total	\$ 680,937	\$ 4,068,372	\$ 4,749,309

General Fund transfer to Deferred Maintenance Fund for State match	\$ 680,937
Building Fund transfer to General Fund for deferred maintenance match reimbursement	680,937
General Fund transfer to Adult Education Fund to transfer funds to State required resource. This interfund transfer is offset by a corresponding contribution in the same amount from the Adult Education Fund to the General Fund. The net effect on both funds is zero	3,077,353
General Fund transfer to Deferred Maintenance Fund to transfer funds to State required resource. This interfund transfer is offset by a corresponding contribution in the same amount from the Deferred Maintenance Fund to the General Fund. The net effect on both funds is zero	310,082
Total	\$ 4,749,309

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 is shown below:

	Balance, July 1, 2009	Additions	Retirements	Balance, June 30, 2010
Capital assets not being depreciated:				
Land	\$ 2,886,240	\$ -	\$ -	\$ 2,886,240
Construction in progress	18,031,097	7,795,857	8,116,316	17,710,638
Total capital assets not being depreciated	<u>20,917,337</u>	<u>7,795,857</u>	<u>8,116,316</u>	<u>20,596,878</u>
Capital assets being depreciated:				
Improvement of sites	56,806,475	6,951,995	-	63,758,470
Buildings and improvements	74,143,759	819,346	-	74,963,105
Machinery and equipment	11,214,988	344,975	-	11,559,963
Total capital assets being depreciated	<u>142,165,222</u>	<u>8,116,316</u>	<u>-</u>	<u>150,281,538</u>
Accumulated depreciation for:				
Improvement of sites	(9,526,566)	(3,053,666)	-	(12,580,232)
Buildings and improvements	(35,645,289)	(2,204,493)	-	(37,849,782)
Machinery and equipment	(8,079,310)	(541,838)	-	(8,621,148)
Total accumulated depreciation	<u>(53,251,165)</u>	<u>(5,799,997)</u>	<u>-</u>	<u>(59,051,162)</u>
Total capital assets being depreciated, net	<u>88,914,057</u>	<u>2,316,319</u>	<u>-</u>	<u>91,230,376</u>
Governmental activity capital assets, net	<u>\$ 109,831,394</u>	<u>\$ 10,112,176</u>	<u>\$ 8,116,316</u>	<u>\$ 111,827,254</u>

Depreciation expense is allocated to the following functions in the statement of activities:

Instruction	\$ 5,219,997
Home-to-school transportation	174,000
All other pupil services	232,000
Plant services	<u>174,000</u>
Total	<u>\$ 5,799,997</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below.

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010	Amount Due within One Year
General Obligation Bonds:					
Principal payments	\$ 103,493,278	\$ -	\$ 2,560,048	\$ 100,933,230	\$ 2,651,601
Accreted interest	8,550,565	2,421,771	514,952	10,457,384	636,599
Unamortized issuance premiums	1,897,238	-	89,831	1,807,407	89,831
Sub-total bonds	113,941,081	2,421,771	3,164,831	113,198,021	3,378,031
Qualified zone academy bonds	5,000,000	-	255,120	4,744,880	267,876
Capital leases	100,800	-	50,400	50,400	50,400
Compensated absences	1,141,368	-	312,442	828,926	-
Early retirement incentive	4,302,502	2,091,608	1,075,626	5,318,484	1,398,392
Other postemployment benefits	171,055	-	18,110	152,945	-
Total	\$ 124,656,806	\$ 4,513,379	\$ 4,876,529	\$ 124,293,656	\$ 5,094,699

A. General Obligation Bonds

2001 Election

On June 5, 2001, a special election was held at which more than two-thirds of the voters in the District approved Measure “K”, which authorized the issuance and sale of \$50 million of general obligation bonds. The bonds are general obligations of the District, and the County is obligated to annually levy ad valorem taxes for the payment of the interest on, and the principal of the bonds. The bonds were issued for the purpose of financing the acquisition and construction of certain real property and improvements.

2006 Election

On June 6, 2006, the District held a special election at which more than 55 percent of voters passed Measure “C”, authorizing the sale and issuance of \$66 million in general obligation bonds for the purpose of financing improvements to certain school facilities as approved by voters.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

A summary of general obligation bonds issued by the District is shown below.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010
2001A	2/2/2002	8/1/2026	4.0%-5.0%	\$ 20,000,000	\$ 15,295,000	\$ -	\$ 240,000	\$ 15,055,000
2001B	6/19/2003	6/1/2028	2.2%-4.38%	30,000,000	23,908,329	-	1,403,927	22,504,402
2006A	8/16/2006	8/1/2031	4.0%-5.0%	47,000,000	45,290,000	-	-	45,290,000
2006B	9/18/2007	8/1/2032	3.5%-5.25%	18,999,949	18,999,949	-	916,121	18,083,828
				<u>\$ 115,999,949</u>	<u>\$ 103,493,278</u>	<u>\$ -</u>	<u>\$ 2,560,048</u>	<u>\$ 100,933,230</u>
<u>Accreted Interest</u>								
				2001B	\$ 7,182,335	\$ 1,373,379	\$ 336,073	\$ 8,219,641
				2006B	1,368,230	1,048,392	178,879	2,237,743
					<u>\$ 8,550,565</u>	<u>\$ 2,421,771</u>	<u>\$ 514,952</u>	<u>\$ 10,457,384</u>

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

Fiscal Year	Principal	Interest	Total
2010-2011	\$ 2,651,601	\$ 2,860,350	\$ 5,511,951
2011-2012	2,794,322	2,831,450	5,625,772
2012-2013	3,089,308	2,793,050	5,882,358
2013-2014	3,287,701	2,744,513	6,032,214
2014-2015	3,497,358	2,677,663	6,175,021
2015-2020	19,661,081	12,331,901	31,992,982
2020-2025	25,482,405	9,488,078	34,970,483
2025-2030	27,967,298	4,795,902	32,763,200
2030-2033	12,502,156	481,123	12,983,281
Total	<u>\$ 100,933,230</u>	<u>\$ 41,004,030</u>	<u>\$ 141,937,260</u>

B. Capital Leases

The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are \$50,400 for 2010-11. The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

C. Early Retirement Incentive

During the 2007-08 school year, the District adopted a supplemental retirement plan whereby certain eligible certificated and classified employees are provided an annuity to supplement the retirement benefits they are entitled to through their respective retirement systems. The criteria for participation were as follows: employees must be employed by the District as of February 12, 2008, eligible to retire under CalSTRS or CalPERS as of June 30, 2008, have resigned from the District after the completion of the 2007-08 school year on or before June 30, 2008, have retired from CalSTRS or CalPERS no later than July 1, 2008, and have applied for benefits under this plan. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 102 employees, were purchased from Pacific life Insurance Company.

During the 2009-10 school year the District adopted three additional early retirement incentives, STRS Golden Handshake, PERS Golden Handshake and one other supplemental retirement program. As of June 30, 2010, the balance of the combined obligation associated with the supplemental retirement plans was \$5,318,484.

A summary of early retirement incentives issued by the District is shown below:

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010	Amount Due Within One Year
2007-08 Supplemental Retirement	\$ 4,302,502	\$ -	\$ 1,075,626	\$ 3,226,876	\$ 1,075,626
2009-10 Supplemental Retirement	-	817,536	-	817,536	163,507
STRS Golden Handshake	-	1,005,139	-	1,005,139	125,642
PERS Golden Handshake	-	268,933	-	268,933	33,616
Total	<u>\$ 4,302,502</u>	<u>\$ 2,091,608</u>	<u>\$ 1,075,626</u>	<u>\$ 5,318,484</u>	<u>\$ 1,398,391</u>

The annual repayment requirements for early retirement incentives payable outstanding as of June 30, 2010 are as follows:

Fiscal Year	Annual Payment
2010-2011	\$ 1,398,392
2011-2012	1,398,391
2012-2013	1,398,391
2013-2014	322,766
2014-2015	322,767
2016-2018	477,777
Total	<u>\$ 5,318,484</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 – GENERAL LONG-TERM DEBT (continued)

D. Qualified Zone Academy Bonds (QZAB)

On December 19, 2008, the District entered into a lease-lease back agreement whereby the District is leasing Fairvalley High School from the Covina-Valley Unified School District Facilities Finance Corporation in exchange for repaying the QZABs. The purpose of this agreement was to provide \$5,000,000 for financing the cost of purchasing equipment and certain improvements to property. The financing for the improvements is provided by the issuance of Qualified Zone Academy Bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code. The District is required to make annual repayments, which will be invested in a special fund. The repayments, along with the interest earned is expected to be sufficient to pay the remaining principal on the bonds. At June 30, 2010, the outstanding balance on the QZABs is \$4,744,880

Fiscal Year	Principal	Interest	Total
2010-2011	\$ 267,876	\$ 47,449	\$ 315,325
2011-2012	281,270	44,770	326,040
2012-2013	295,334	41,957	337,291
2013-2014	310,101	39,004	349,105
2014-2015	325,606	35,903	361,509
2015-2020	1,889,134	127,293	2,016,427
2020-2023	1,375,559	27,959	1,403,518
Total	<u>\$ 4,744,880</u>	<u>\$ 364,335</u>	<u>\$ 5,109,215</u>

NOTE 8 – JOINT VENTURES

The Covina-Valley Unified School District participates in two joint ventures under joint powers agreements (JPAs), the Alliance of Schools for Cooperative Insurance Program (ASCIP) and the Schools Excess Liability Fund (SELF).

The JPAs are governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Covina-Valley Unified School District beyond the District's representation on the governing boards. Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. The relationships between the Covina-Valley Unified School District and the JPAs are such that none of the JPAs is a component unit of the District for financial reporting purposes.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – JOINT VENTURES (continued)

Condensed current financial information of ASCIP and SELF is as follows:

	ASCIP (Unaudited) June 30, 2010	SELF (Audited) June 30, 2010
Total Assets	\$ 244,838,044	\$ 196,974,000
Total Liabilities	138,884,803	160,464,000
Fund Balance	105,953,241	36,510,000
Total Revenues	177,532,660	19,384,000
Total Expenditures	162,916,341	30,536,000
Net Changes in Fund Balance	\$ 14,616,319	\$ (11,152,000)

NOTE 9 - 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. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$2.8 million to be paid from a combination of state and local funds.

C. Litigation

The District is a defendant in litigation cases brought about in the normal course of operations. In the opinion of management, there are no cases that would have a material effect on the financial statements.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District was self-insured for property and liability insurance coverage, with a commercial insurance policy purchased to cover claims in excess of \$25,000. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District was self-funded for workers' compensation, with excess coverage for claims over \$250,000 provided by the Schools Excess Liability Fund (SELF) public entity risk pool, through ASCIP.

Claims Liability

The District records an estimated liability for workers' compensation claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2010:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2009	\$ 1,360,555
Claims and changes in estimates	14,691,050
Claims payments	(14,368,587)
Liability Balance, June 30, 2010	<u>\$ 1,683,018</u>
Assets available to pay claims at June 30, 2010	<u>\$ 1,727,953</u>

NOTE 11 - EMPLOYEE RETIREMENT PLANS

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2009-10 was 9.709%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2009-10	\$ 1,685,359	100%
2008-09	\$ 1,587,528	100%
2007-08	\$ 1,666,238	100%

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2009-10	\$ 4,527,044	100%
2008-09	\$ 4,689,031	100%
2007-08	\$ 4,977,350	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$2.3 million to STRS (4.267% of salaries subject to STRS in 2009-10).

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

Covina-Valley Unified School District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2008-09.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	89
Active plan members*	1,158
Total	<u>1,247</u>

* As of July 1, 2009 actuarial valuation

Number of participating employers	One
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COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Descriptions and Contribution Information (continued)

The District provides medical and dental insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. The minimum age is 55 for management. Additional age and service criteria may be required. Such benefits are provided until the eligible retiree reaches the age of 65. The District also has minimum continuous service requirement for retirement that ranges from five years to fifteen years.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. The District maintains a self-insurance fund to set aside funds for this obligation. For fiscal year 2009-10, the District contributed \$789,681, which includes an adjustment of \$298,230 for the implicit subsidy.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$	774,255
Interest on net OPEB obligation		8,553
Adjustment to annual required contribution		(11,127)
Annual OPEB cost		771,681
Contributions made		(789,791)
Increase in net OPEB obligation		(18,110)
Net OPEB obligation – July 1, 2009		171,055
Net OPEB obligation – June 30, 2010	\$	152,945

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 and 2009-10 are as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 706,818	75.8%	\$ 171,055
2010	\$ 774,225	102.0%	\$ 152,945

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2009, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$7.0 million and the unfunded actuarial accrued liability (UAAL) was \$7.0 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2009
Actuarial cost method	Projected Unit Credit Cost
Amortization method	30-year level dollar, open
Remaining amortization period	29
Asset valuation	N/A
Actuarial assumptions:	
Investment rate of return	5.0%
Healthcare cost trend rate	4-7%

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 13 – STRS GOLDEN HANDSHAKE

In 2009-10, the District offered teachers an early retirement incentive from the State Teachers' Retirement System (STRS) in anticipation of salary and benefits savings of approximately \$3,897,088 less the cost to STRS of \$1,392,611, for a net savings to the District of \$2,504,477. Nineteen employees opted into the program. The District has completed its certification required by Education Code Sections 22714, 22714.5 and 44929 as summarized below:

Type of Position	Age	Service Credit	Admin Fee Plus Any Interest	Two Years Postemployment Benefits	Retiree Salary and Benefits	Replacement Employee Salary and Benefits	Salary and Benefits Savings
Teacher	61	34	\$ 62,985	\$ 12,000	\$ 377,149	\$ -	\$ 377,149
Teacher	60	36	62,747	12,000	377,149	-	377,149
Teacher	66	22	54,949	-	369,711	-	369,711
Teacher	62	28	60,022	12,000	377,149	264,614	112,535
Teacher	64	30	60,737	6,000	377,149	264,614	112,535
Teacher	60	36	61,861	12,000	377,149	-	377,149
Teacher	63	26	62,066	12,000	377,149	-	377,149
Teacher	59	15	41,256	12,000	295,105	-	295,105
Teacher	59	25	53,484	12,000	377,149	-	377,149
Teacher	73	29	46,327	-	369,711	-	369,711
Teacher	61	15	61,572	12,000	396,820	-	396,820
Teacher	65	24	49,064	-	313,073	264,614	48,459
Teacher	65	10	16,876	-	197,393	-	197,393
Administrative	60	35	86,216	12,000	531,781	471,789	59,992
Administrative	57	33	75,545	12,000	520,759	471,789	48,970
Administrative	62	39	66,727	12,000	402,286	367,489	34,797
Administrative	59	36	143,281	12,000	903,437	1,007,738	(104,301)
Administrative	60	35	63,844	12,000	393,235	367,489	25,746
Administrative	60	35	89,052	12,000	554,956	511,086	43,870

NOTE 14 - SUBSEQUENT EVENT

The District issued \$5,000,000 of Tax Anticipation Notes dated July 1, 2010 through the California Cash Reserve Program Authority. The notes mature on June 1, 2011 and have a stated 2.0% interest rate. The notes were sold by the District to supplement its cash flow. Repayment requirements are that a portion of the principal be set aside in a special fund during 2011 and remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

Required Supplementary Information

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 72,685,346	\$ 68,839,466	\$ 68,887,236	\$ 47,770
Federal	16,317,349	11,196,612	10,603,384	(593,228)
Other State	19,459,867	19,102,705	18,169,241	(933,464)
Other Local	1,872,353	4,571,196	3,954,566	(616,630)
Total Revenues	110,334,915	103,709,979	101,614,427	(2,095,552)
Expenditures				
Certificated Salaries	51,697,761	53,075,305	53,056,127	19,178
Classified Salaries	16,697,106	17,356,684	17,159,346	197,338
Employee Benefits	19,546,146	20,382,570	20,210,053	172,517
Books and Supplies	8,750,994	6,746,089	3,732,946	3,013,143
Services and Other Operating Expenditures	11,546,407	10,731,235	9,548,979	1,182,256
Other Outgo	421,916	3,808,205	2,940,622	867,583
Total Expenditures	108,660,330	112,100,088	106,648,073	5,452,015
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,674,585	(8,390,109)	(5,033,646)	3,356,463
Other Financing Sources and Uses				
Interfund Transfers In	680,937	680,937	680,937	-
Interfund Transfers Out	(680,937)	(680,937)	(4,068,372)	(3,387,435)
Contributions	-	-	3,387,435	3,387,435
Total Other Financing Sources and Uses	-	-	-	-
Net Change in Fund Balances	1,674,585	(8,390,109)	(5,033,646)	3,356,463
Fund Balances, July 1, 2009	20,384,589	20,384,589	20,384,589	-
Fund Balances, June 30, 2010	\$ 22,059,174	\$ 11,994,480	\$ 15,350,943	\$ 3,356,463

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ -	\$ 5,861,274	\$ 5,861,274	0.0%	\$ 64,180,287	9.1%
July 1, 2009	\$ -	\$ 6,976,855	\$ 6,976,855	0.0%	\$ 68,551,431	10.2%

Supplementary Information

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2010

The Covina-Valley Unified School District was established on December 15, 1959. The District boundaries are approximately nine square miles and encompass the cities of Covina, Irwindale, Azusa, San Dimas and Glendora and certain unincorporated areas of the County. There were no changes in the boundaries of the District during the current year. The District is currently operating one continuation high school, three comprehensive high schools, three middle schools, ten elementary schools, a children's center and adult education programs at three locations.

GOVERNING BOARD		
Member	Office	Term Expires
Dr. Mary L. Hanes	President	2011
Mr. Darrell A. Myrick	Vice President	2011
Mr. Charles M. Kemp	Clerk	2013
Mr. William L. Knoll	Member	2011
Mr. Richard M. White	Member	2013

DISTRICT ADMINISTRATORS

Dr. Louis A. Pappas ¹
Superintendent

Mrs. Susan Cross Hume, CPA, CIA
Chief Business Officer

Mr. David Samuelson ²
Assistant Superintendent, Personnel Services

¹ Retired effective June 30, 2010. The new Superintendent is Dr. Catherine Nichols.

² Resigned effective June 30, 2010. The new Assistant Superintendent, Personnel Services is Mr. William Brown.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2010

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	770	776
Grades 1 through 3, regular classes	2,343	2,347
Grades 4 through 6, regular classes	2,781	2,782
Grades 7 and 8, regular classes	2,013	2,013
Home and hospital	1	2
Special education	296	298
Extended year - nonpublic, nonsectarian	<u>1</u>	<u>1</u>
Total Elementary	<u>8,205</u>	<u>8,219</u>
Secondary:		
Grades 9 through 12, regular classes	4,758	4,729
Continuation education	235	231
Opportunity school	4	5
Home and hospital	13	15
Special education	185	184
Community day school	4	4
Extended year - nonpublic, nonsectarian	<u>2</u>	<u>2</u>
Total Secondary	<u>5,201</u>	<u>5,170</u>
Total Average Daily Attendance	<u><u>13,406</u></u>	<u><u>13,389</u></u>

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2010

Grade Level	1982-83 Minutes		1986-87 Minutes		2009-2010 Actual Minutes	Number of Days Traditional Calendar	Status
	Actual	Reduced*	Previously Required	Reduced*			
Kindergarten	32,365	31,466	36,000	35,000	42,960	180	Complied
Grade 1	45,440	44,178	50,400	49,000	50,512	180	Complied
Grade 2	45,440	44,178	50,400	49,000	50,512	180	Complied
Grade 3	45,440	44,178	50,400	49,000	50,512	180	Complied
Grade 4	53,245	51,766	54,000	52,500	54,072	180	Complied
Grade 5	53,245	51,766	54,000	52,500	54,072	180	Complied
Grade 6	53,245	51,766	54,000	52,500	61,350	180	Complied
Grade 7	52,492	51,034	54,000	52,500	61,350	180	Complied
Grade 8	52,492	51,034	54,000	52,500	61,350	180	Complied
Grade 9	60,013	58,346	64,800	63,000	65,549	180	Complied
Grade 10	60,013	58,346	64,800	63,000	65,549	180	Complied
Grade 11	60,013	58,346	64,800	63,000	65,549	180	Complied
Grade 12	60,013	58,346	64,800	63,000	65,549	180	Complied

* Amounts reduced as permitted by Education Code Section 46201.2 (a).

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2010

General Fund	(Budget) 2011 ³	2010	2009	2008
Revenues and other financing sources	\$ 101,229,411	\$ 105,682,799	\$ 119,075,774	\$ 119,655,615
Expenditures	102,512,991	106,648,073	109,513,348	118,472,371
Other uses and transfers out	753,613	4,068,372	741,851	1,446,208
Total outgo	103,266,604	110,716,445	110,255,199	119,918,579
Change in fund balance (deficit)	(2,037,193)	(5,033,646)	8,820,575	(262,964)
Ending fund balance	\$ 13,313,750	\$ 15,350,943	\$ 20,384,589	\$ 11,564,014
Available reserves ¹	\$ 13,233,470	\$ 13,393,226	\$ 3,307,656	\$ 6,512,108
Available reserves as a percentage of total outgo	12.8%	12.1%	3.0%	5.4%
Total long-term debt	\$ 119,198,957	\$ 124,293,656	\$ 124,656,806	\$ 120,943,139
Average daily attendance at P-2 ²	13,146	13,406	13,815	13,974

The General Fund balance has increased by \$3,786,929 over the past two years. The fiscal year 2010-11 adopted budget projects a decrease of \$2,037,193. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years, and anticipates incurring an operating deficit during the 2010-11 fiscal year. Long-term debt has increased \$3,350,517 over the past two years.

Average daily attendance (ADA) has decreased by 568 over the past two years. An additional decline of 260 ADA is anticipated during the 2010-11 fiscal year.

¹ Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainties in the General Fund.

² Excludes Adult Education and ROP ADA.

³ Revised Budget September 2010.

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Especially Needy Breakfast	10.553	13390	\$ 929,965
National School Lunch Program	10.555	13523	2,849,357
USDA - Donated Food	10.555	N/A	257,050
Total U.S. Department of Agriculture			<u>4,036,372</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
ARRA-State Fiscal Stabilization Fund	84.394	25008	6,875,517
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	14329	1,439,535
ARRA-Title I, Part A, Basic Grants	84.389	15005	1,222,897
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	596,315
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14341	22,328
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	178,138
Title IV, Part A, Drug-Free Schools	84.186	14347	37,478
Title V, Part A, Innovative Education Strategies	84.298A	14354	29,649
Title X McKinney-Vento Homeless Assistance Grants	84.196	14332	68,511
ARRA-Title X McKinney-Vento Homeless Assistance	84.387	15007	14,619
Vocational and Applied Tech Secondary II, Carl Perkins Act	84.048	13924	86,568
Individuals with Disabilities Education Act (IDEA):			
IDEA Basic Local Assistance Entitlement, Part B	84.173	13430	2,582,237
ARRA-IDEA Part B, Basic Local Assistance	84.173A	13431	2,405,122
IDEA Preschool Grants, Part B	84.181	23761	253,602
ARRA-IDEA Part B, Preschool Grants	84.392	15000	56,742
IDEA Preschool Local Entitlement, Part B	84.027A	13682	85,997
ARRA-IDEA Part B, Preschool Local Entitlement	84.391	15002	80,447
IDEA Preschool Staff Development, Part B	84.173A	13431	705
IDEA Early Intervention Grants, Part C	84.181	23761	172,843
Total U.S. Department of Education			<u>16,209,250</u>
U.S. Department of Health & Human Services:			
Passed through California Dept of Education:			
Quality Improvement Activities	93.575	14130	1,781
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	127,577
Total U.S. Department of Health & Human Services			<u>129,358</u>
Total Expenditures of Federal Awards			<u>\$ 20,374,980</u>

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with
Audited Financial Statements
For the Fiscal Year Ended June 30, 2010

*There were no differences between the Annual Financial and Budget Report and the
Annual Financial Statements in any funds.*

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2010

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as reduced by Education Code section 46201.2(a).

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.

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Other Independent Auditors' Reports

Board of Trustees
Covina-Valley Unified School District
Covina, California

**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**

We have audited the financial statements of Covina-Valley Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Covina-Valley Unified School 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 Covina-Valley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Covina-Valley Unified School District's internal control over financial reporting.

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

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

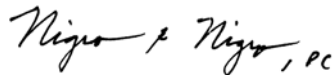
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covina-Valley Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and is described in the findings and questioned costs as finding 2010-1.

We noted certain matters that we reported to management of Covina-Valley Unified School District in a separate letter dated November 9, 2010.

Covina-Valley Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

November 9, 2010

Board of Trustees
Covina-Valley Unified School District
Covina, California

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

Compliance

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

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

In our opinion, Covina-Valley Unified School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2010-1.

Internal Control Over Compliance

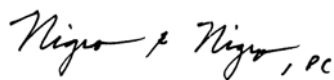
Management of Covina-Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Covina-Valley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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Covina-Valley Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Covina-Valley Unified School District's response, and accordingly, we express no opinion on it.

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



November 9, 2010

Board of Trustees
Covina-Valley Unified School District
Covina, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of Covina-Valley Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 9, 2010. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Yes
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 Program	4	Yes
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes

Description	Procedures in Audit Guide	Procedures Performed
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	4	Not applicable
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

We did not perform testing for independent study because the ADA is below the level that requires testing.

Based on our audit, we found that, for the items tested, Covina-Valley Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Covina-Valley Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, State Controller's Office, Department of Finance, 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.

Nigro & Nigro, PC

November 9, 2010

Findings and Questioned Costs

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010, 84.389</u>	<u>Title I, Part A Cluster</u>
<u>84.394</u>	<u>ARRA-State Fiscal Stabilization Fund</u>
<u>84.027, 84.173,</u>	
<u>84.391, 84.392</u>	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 611,249</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no financial statement findings in 2009-10.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

Schedule of Audit Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2010

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding 2010-1: Documentation of Employee Time and Effort (50000)

Program Identification: Special Education Cluster (CFDA No.84.027, 84.073, 84.391, 84.392)

Criteria: OMB Circular A-87 requires that employees funded solely from a single federal program must sign a semi-annual certification stating that he or she worked exclusively in that program during the certification period.

Condition: The District did not collect the semi-annual certifications for employees funded by the IDEA program in 2009-10.

Questioned Costs: Salaries and benefits charged to this program in 2009-10 totaled \$5,248,972.

Context: The salaries of certain employees are funded solely by the program.

Effect: The allocation of salaries charged to the federal program is not supported by the additional documentation required by OMB Circular A-87. The District did maintain adequate payroll and personnel records for the salaries charged. We found no salaries charged to the programs that were inappropriate.

Cause: Due to a change in District personnel, the collection of the semi-annual certifications was not completed.

Recommendation: The District must collect semi-annual certifications for all employees working in all federal programs in the 2010-11 fiscal year. These documents must be completed throughout the year.

District Response: The District will collect the required semi-annual certifications for all employees in all Federal programs.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no state award findings or questioned costs in 2009-10.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

There were no findings or questioned costs in 2008-09.

Board of Trustees
Covina-Valley Unified School District
Covina, California

Our audit of the financial statements of Covina-Valley Unified School District as of and for the year ended June 30, 2010 was planned and performed in accordance with auditing standards generally accepted in the United States of America. As such, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. However, our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Our consideration of internal control was limited to procedures performed to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. Therefore, our procedures did not include testing the operating effectiveness of such controls and was not designed to discover significant deficiencies in internal control and, accordingly, we do not express an opinion on the effectiveness of the District's internal control.

As our consideration on internal control was for the limited purpose of expressing our opinion on the financial statement described in this letter, we would not necessarily identify all deficiencies in internal control that might be *significant deficiencies* or *material weaknesses* as those terms are defined by professional standards. Also, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by these controls.

As defined by professional standards, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned responsibilities, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

During the course of performing our procedures, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated November 9, 2010 on the financial statements of Covina-Valley Unified School District.

ASSOCIATED STUDENT BODY (ASB) FUNDS

Observation:

During our testing of Traweek Middle School ASB, we noted the following:

- We noted that the ASB did not prepare a budget for the 2009-10 school year.

Recommendation: We recommend that the ASB prepare an operating budget. A budget is an important tool to monitor the financial activities of the ASB. After preparation of an annual budget, the Student Council should adopt the budget and document it in the minutes.

Observation:

During our testing of the Sierra Vista Middle School ASB, we noted the following:

- We noted nine expenditures that had not been approved by the Student Council prior to the purchase. This is important to do, as it insures that the student body has, in fact, approved the purchase of goods or services.
- Our sample of four bank deposits included one where appropriate sub-receipts were not used or retained, so the deposit could not be reconciled.

Recommendation: We recommend that approval of the Student Council be obtained and documented in the minutes before the actual purchase of the items. All documentation should be retained because without it, there is no way to determine that the expenditures were made for authorized goods or services. In addition, when collecting cash the ASB must retain appropriate sub-receipts that reconcile to the deposit amount.

Observation:

During our testing of the Las Palmas Middle School ASB, we noted that receipt of goods was not documented for five of the 15 disbursements selected.

Recommendation: We recommend that after verifying the contents received that an "O.K. to pay" or "received" marking be indicated and retained. This is important to do, as it insures payment is not being made for items received incorrectly or not received at all.

Observation:

During our testing of the Northview High School ASB, we noted one expenditure that did not have adequate supporting documentation.

Recommendation: We recommend that all documentation for purchases be retained because without it there is no way to determine that the expenditures were made for authorized goods or services.

Observation:

During our testing of the Covina High School ASB, we noted the following:

- We noted that receipt of goods was not documented for five of the 15 disbursements selected.
- We noted five expenditures that had not been approved by the Student Council prior to the purchase. This is important to do, as it insures that the student body has, in fact, approved the purchase of goods or services.

Recommendation: We recommend that after verifying the contents received that an "O.K. to pay" or "received" marking be indicated and retained. This is important to do, as it insures payment is not being made for items received incorrectly or not received at all. It is also important that approval of the Student Council be obtained and documented in the minutes before the actual purchase of the items. All documentation should be retained because without it there is no way to determine that the expenditures were made for authorized goods or services.

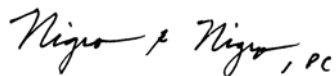
Observation:

During our testing of the South Hills High School ASB, we noted the following:

- During our disbursements testing, we noted one questionable expenditure. The disbursement was written for preparatory work performed on behalf of the ASB and appeared to be a payment for wages earned.
- During our cash receipts testing we noted that two of the 12 deposits were not made in a timely manner. The time between collection and deposit of funds ranged between four to six weeks.

Recommendation: We recommend that all wages earned be paid through the District's payroll system and not directly from ASB funds. We also recommend that cash receipts be deposited at least once per week.

This communication is intended solely for the information and use of the Board of Directors of Covina-Valley Unified School District and management of Covina-Valley Unified School District and is not intended to be and should not be used by anyone other than these specified parties.



November 9, 2010