COVINA-VALLEY UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2012

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Covina-Valley Unified School District
Covina, California

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 the Covina-Valley Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 the Covina-Valley Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, budgetary comparison information and other postemployment benefits information on pages 59 and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2012

UNIFIED SCHOOL DISTRICT

District Superintendent
Catherine J. Nichols, Ed.D.

This section of Covina-Valley Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

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

The *Business-Type Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

The Primary unit of the government is the Covina-Valley Unified School District.

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REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

Business-Type Activities - The District charges fees to help it cover the costs of certain services it provides. The District's Daycare Before and After School programs and services are included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

The District's revenues continued to decline during the past year, primarily due to the ongoing effects of a recessionary economy of the State, continued decline in enrollment and other considerations as noted in this report. Employee concessions for salaries and benefits continued during the 2011-2012 fiscal year. The District's limited resources were reevaluated and directed towards maintaining strong educational programs for students served by the District. In addition, to its ongoing efforts in the maintenance and repair of existing facilities, the District continued its construction and modernization projects, a few which are listed below:

- Athletic field improvements at South Hills High School
- Finance and Business Academy at Northview High School
- Arts, Media, and Entertainment Academy at Covina High School
- Electronic marquees for all of the high schools
- Electrical upgrades in preparation of construction of the new Vocational Education Center

The tax rate currently assessed to property owners in the District is well within the limits promised in bond elections.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were $37.4 million for the fiscal year ended June 30, 2012. Of this amount, $7.0 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 66.2	$ 71.6	$ -	$ -	$ 66.2	$ 71.6
Capital assets	113.6	112.8	-	-	113.6	112.8
Total Assets	**179.8**	**184.4**	**-**	**-**	**179.8**	**184.4**
Liabilities						
Current liabilities	20.4	22.5	-	-	20.4	22.5
Long-term obligations	122.0	122.3	-	-	122.0	122.3
Total Liabilities	**142.4**	**144.8**	**-**	**-**	**142.4**	**144.8**
Net Assets						
Invested in capital assets, net of related debt	14.1	17.9	-	-	14.1	17.9
Restricted	16.3	12.0	-	-	16.3	12.0
Unrestricted	7.0	9.7	-	-	7.0	9.7
Total Net Assets	**$ 37.4**	**$ 39.6**	**$ -**	**$ -**	**$ 37.4**	**$ 39.6**

The $7.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 17. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 4.6	$ 5.0	$ 0.5	$ 0.6	$ 5.1	$ 5.6
Operating grants and contributions	29.4	25.2	-	-	29.4	25.2
Capital grants and contributions	(1.0)	0.1	-	-	(1.0)	0.1
General revenues:						
Federal and State aid not restricted	76.2	17.3	-	-	76.2	17.3
Property taxes	17.1	77.2	-	-	17.1	77.2
Other general revenues	7.5	3.7	-	-	7.5	3.7
Total Revenues	**133.8**	**128.5**	**0.5**	**0.6**	**134.3**	**129.1**
Expenses						
Instruction-related	91.6	86.6	-	-	91.6	86.6
Student support services	12.6	11.9	-	-	12.6	11.9
Administration	6.0	6.1	-	-	6.0	6.1
Maintenance and operations	12.3	11.9	-	-	12.3	11.9
Other	12.1	11.9	0.5	0.6	12.6	12.5
Total Expenses	**$ 134.6**	**$ 128.4**	**$ 0.5**	**$ 0.6**	**$ 135.1**	**$ 129.0**

Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was $134.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $17.1 million because the cost was paid by those who benefited from the programs ($4.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($28.4 million). We paid for the remaining "public benefit" portion of our governmental activities with $83.7 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction-related, student support services, administration, maintenance and operations and all other costs. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction-related	$ 91.6	$ 86.6	$ 69.1	$ 69.3
Student support services	12.6	11.9	4.8	4.1
Administration	6.0	6.1	4.4	4.8
Maintenance and operations	12.3	11.9	12.2	11.7
Other	12.1	11.9	11.1	8.3
Total	**$ 134.6**	**$ 128.4**	**$ 101.6**	**$ 98.2**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $42.0 million, which is a decrease of $4.4 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2011	Revenues	Expenditures	June 30, 2012
General Fund	$ 23.0	$ 121.1	$ 117.4	$ 26.7
Child Development Fund	0.3	1.9	2.1	0.1
Cafeteria Fund	3.1	5.8	5.1	3.8
Building Fund	10.0	15.1	23.1	2.0
Capital Facilities Fund	1.9	0.1	-	2.0
County School Facilities Fund	4.5	(0.9)	-	3.6
Special Reserve Fund for Capital Outlay Projects	-	-	-	-
Bond Interest and Redemption Fund	3.6	6.3	6.1	3.8
Total	**$ 46.4**	**$ 149.4**	**$ 153.8**	**$ 42.0**

The primary reasons for these increases and decreases are:

- As the District's principal operating fund, the General Fund, is comprised of unrestricted as well as restricted dollars. The fund balance in the General Fund increased by $3.7 million. The net increase is primarily due to a one-time $1.3 million of additional Special Education revenue and reduction of expenditures by $2.4 million.

- The fund balance in the Building Fund decreased by $8.0 million due primarily to the following construction and modernization projects in process or completed:

  - Athletic field improvements at South Hills High School
  - Finance and Business Academy at Northview High School
  - Arts, Media, and Entertainment Academy at Covina High School
  - Electronic marquees for all of the high schools

- The fund balances in the Child Development Fund, Cafeteria Fund, Capital Facilities Fund, County School Facilities Fund, Special Reserve Fund for Capital Outlay Projects Fund and Bond Interest and Redemption Fund remained fairly stable from the prior year, showing a net decrease of approximately $0.1 million.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 59.)

In total, final budgetary revisions for the 2011-2012 fiscal year projected an increase in the estimated fund balance of $0.3 million. Final actuals resulted in a fund balance increase of $3.7 million, which was explained in the section above. The total difference between the final budget and actual was $3.4 million. Revenue changes were $1.3 million higher than anticipated, inclusive of transfers in; and expenditures were lower by $2.1 million, inclusive of transfers out, from the final budget.

Noteworthy budget revisions to revenues are outlined below:

- One-time $1.3 million of additional Special Education funding

Noteworthy budget revisions to expenditures are outlined below:

- Certificated and classified salaries and benefits were $0.6 million less than projections due to additional one-time funding used to reduce salaries, lower extra-pay, overtime, and stipend costs.

- Books and supplies decreased $1.2 million as a result of school site and department savings.

- Other operating expenditures decreased by $0.2 million reflecting utility savings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had $113.6 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of just under $0.8 million, or 0.7 percent, from last year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and construction in progress	$ 4.7	$ 12.2	$ -	$ -	$ 4.7	$ 12.2
Buildings and improvements	106.2	97.7	-	-	106.2	97.7
Equipment	2.7	2.9	-	-	2.7	2.9
Total	**$ 113.6**	**$ 112.8**	**$ -**	**$ -**	**$ 113.6**	**$ 112.8**

This year's major additions included:

Completion of South Hills High School IT Academy	$ 2,982,581
Completion of South High School's Beautification Project	2,934,806
Completion of Finance and Business Academy at Northview High School	2,958,066
Completion of Arts, Media, and Entertainment Academy at Covina High School	2,592,145
Completion of installation of relocatables classrooms	1,999,334
Total	$ 13,466,932

This year's additions included capital lease agreements, building improvements and classroom equipment such as computers. No new debt was issued for these additions.

Several capital projects are planned for the 2012-2013 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $122.0 million in long-term obligations outstanding versus $125.2 million last year, a decrease of 2.6 percent. Those long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds - net (financed with property taxes)	$ 112.7	$ 113.4	$ -	$ -	$ 112.7	$ 113.4
Qualified Academy Zone bonds	4.2	4.5	-	-	4.2	4.5
Capitalized lease obligations	0.4	0.5	-	-	0.4	0.5
Compensated absences	1.4	1.0	-	-	1.4	1.0
Early retirement incentives	1.8	3.9	-	-	1.8	3.9
Other postemployment benefits	-	0.2	-	-	-	0.2
Claims liability	1.5	1.7	-	-	1.5	1.7
Total	**$ 122.0**	**$ 125.2**	**$ -**	**$ -**	**$ 122.0**	**$ 125.2**

The District's general obligation bond rating continues to be "Ad3." The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of $112.7 million is significantly below statutorily-imposed limits.

Other obligations include compensated absences payable, other postemployment benefits and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012 ARE NOTED BELOW:

Accomplishments to support student learning during the 2011-2012 school year included professional development activities for teachers, administrators, and classified staff to support the District's primary goals to increase student achievement, close the achievement gap, and create a four-year-college going culture. Staff development focused on building expertise in Effective First Instruction. Administrators, teacher-leaders and staff all received extensive training in supporting the most efficient lesson design and delivery, yielding the highest percent of student mastery of essential learning. Deconstruction of standards, pacing and benchmark development was created and refined. K-12 teachers and administrators participated in training focused on the new Common Core Standards and Smarter Balanced Assessments. Kindergarten and first-grade teachers began initial implementation of the Common Core State Standards. Thinking Maps training was provided to administrators, and trainer-of-trainers at all schools. Administrators and Counselors received Naviance training to build a four-year college-going culture. Support structures, such as articulation, were added to build greater district-wide coherence. All teachers at Program Improvement schools completed Guided Language Acquisition Design certification to better meet the needs of our English learners. K-8 teachers and administrators started year one of a two-year focus on Write From the Beginning. In an effort to increase communication with all stakeholders, training was provided on Aeries parent portal to increase staff, parents, and students access to grades and other pertinent information from home, thereby increasing communication between home and school.

After meeting 14 of the 18 targets necessary to freeze in Program Improvement within the Federal Adequate Yearly Progress (AYP) accountability system, the District continued to analyze data specific to subgroups and sites. Program Improvement funds were used to contract with a State approved District Assistance Intervention Team (DAIT) to implement a plan to address teaching and learning needs of the District. Three recommendations were provided to the District through this process, one in leadership, instruction, and evaluation. The Local Educational Area Plan (LEAP) was carefully revised to ensure that these recommendations were integrated into all District program areas. The District continued to ensure alignment of expenditures and purchases toward achievement of the recommendations through review of each of the Single Plans for Student Achievement, professional development, and purchase orders. The 2011-2012 budget was built with a focus on the goals of the District, specific actions noted in the LEAP, and major support to Program Improvement schools and subgroups exhibiting gaps.

In addition to Federal Adequate Yearly Progress (AYP) growth, the District's State Academic Performance Index (API) increased. Achievement showed ongoing growth, providing an important gauge to measure the success of the District or schools. Over an eight-year period, C-VUSD experienced a nearly 100-point gain in the Academic Performance Indicator (API) scores: from 699 in 2003-2004 to 797 in 2011-2012.

From 2010 to 2012 the District grew 28 API points. The growth at the schools over that same period was staggering. In a two-year period, most schools achieved double-digit API growth. The 2010-2012 combined API increase totaled a growth of 577 API points. Additionally, nine schools have over 800 API points, exceeding the State target for an outstanding school. Five elementary schools have an API score exceeding 850. Several additional laurels came to the District; one school gaining the title of California Distinguished School, another being noted as a Title I Achieving School, and a third receiving California School Board Association's Golden Bell recognition. Schools flourished as programs such as AVID, No Excuses University and California Partnership Academies were added. As a whole, the District continued to make great strides in meeting the goals of increasing student achievement, closing the achievement gap and ensuring a four-year college-going culture, thus creating extraordinary futures for all students.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012-2013 fiscal year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

- Base revenue limit is budgeted at $5,232, an increase of $56 per ADA from the 2011-2012 funding level. Revenue limit funding also includes a positive 3.24 percent cost-of-living adjustment, or $212 per ADA, which is offset by an increase in the deficit factor from 20.602 percent to 22.272 percent. Projected Second Period Apportionment (P2 ADA) is projected at 12,559 including Special Education, County Operated Programs, and Independent Study. Enrollment projections indicate a decline in student population that directly effects revenue limit funding. As such, District's have the option of being funded on the higher of current or prior year P2 ADA. The District will be funded on the prior year P2 ADA of 12,764.

- Revenue limit income is budgeted at $67.8 million, a decrease of $1.1 million, or 1.6 percent from the prior year. This includes property tax revenues budgeted at $9.8 million, or 9.5 percent of total revenues.

- Federal income is budgeted at $7.4 million, a decrease of $2.7 million, or 26.6 percent from the prior year. The decline in funding is mostly attributed to the elimination of one-time stimulus funding received through Federal Education Job and Medicaid Assistance Act.

- State income is budgeted at $13.9 million, a decrease of $0.9 million, or 6.1 percent from prior year. The decline in funding is mostly attributed to one-time additional funding received for the State Special Education program and State Special Education Mental Health Services program. Other State revenue sources include; State Lottery program, Categorical Flexibility Programs, Class-Size Reduction program, Transportation programs, and other restricted State programs.

- Other local revenue is budgeted at $13.7 million, a decrease of $2.4 million, or 14.9 percent from prior year. The reduction is primarily attributed to the elimination of Redevelopment Agency Funds and lower interest projections.

Expenditures are based on the following forecasts:

	Staffing Ratio	Enrollment
Grades kindergarten through three	22:1	3,282
Grades four through eight	37:1	4,472
Grades nine through twelve	37:1	4,734

The new items specifically addressed in the budget are:

- The District has taken over the responsibility as the Administrative Unit for the East San Gabriel Valley Special Education Local Plan Area (SELPA) commencing in the 2012-2013 fiscal year. This will result in the District recognizing additional revenue, expenditures, and ending fund balance for the operations of the SELPA. In addition, the District will also recognize pass through revenue within the Special Education Pass-Through Fund.

- The District utilized one-time funds of $2.6 million received through Federal Education Job and Medicaid Assistance Act to pay for teacher salaries and benefits during the 2011-2012 fiscal year. For the 2012-2013 fiscal year, these funds will not be available and will revert back to the unrestricted general fund.

- For the General Fund, projected expenditures are updated to account for full restoration of school year and for added cost for health and welfare benefits. Revenue estimates have been modified for decline in student enrollment, one-time Federal stimulus funding and prior-year adjustments in Special Education funding. As a result of changes, contributions from the General Fund to Restricted programs is anticipated to rise by $2.7 million.

- Interest income from reserves held at the Los Angeles County Treasury Office is projected at $0.1 million with an interest rate of 1.0 percent; a decrease of $0.09 million from 2011-2012. Interest earnings were computed using an annual interest rate of 1.2 percent, and will be greatly impacted by the additional deferrals in apportionment funding.

- For the 2012-2013 fiscal year, all furlough days were eliminated and salaries and benefits have been restored. This totals approximately $3.7 million in additional costs for the General Fund.

- For the 2012-2013 fiscal year, salary projections incorporate added costs for step, column, and longevity totaling approximately $0.7 million.

- For the 2012-2013 fiscal year, budget projections include additional contributions to cover health premium rate increases, plus the reduction in employee contributions per the collective bargaining agreement. The General Fund costs for health and welfare benefits are estimated at $10.6 million, an increase of $1.0 million from the prior year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact David A. Rivera, the Chief Business Officer, at Covina-Valley Unified School District, 519 East Badillo Street, Covina, California, 91723, or e-mail at drivera@cvusd.k12.ca.us.

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 27,650,803	$ 43,445	$ 27,694,248
Receivables	36,791,247	56	36,791,303
Prepaid expenses	20,088	-	20,088
Deferred cost on issuance	1,427,029	-	1,427,029
Stores inventories	167,713	-	167,713
Deferred charges on refunding	217,054	-	217,054
Capital Assets			
Land and construction in process	4,695,546	-	4,695,546
Other capital assets	181,653,594	-	181,653,594
Less: Accumulated depreciation	(72,792,162)	-	(72,792,162)
Total Capital Assets	113,556,978	-	113,556,978
Total Assets	179,830,912	43,501	179,874,413
LIABILITIES			
Accounts payable	12,521,404	8,084	12,529,488
Accrued interest payable	1,940,718	-	1,940,718
Deferred revenue	20,357	-	20,357
Current loans	5,935,000	-	5,935,000
Long-term obligations			
Current portion of long-term obligations	5,013,362	-	5,013,362
Noncurrent portion of long-term obligations	116,972,523	-	116,972,523
Total Long-Term Obligations	121,985,885	-	121,985,885
Total Liabilities	142,403,364	8,084	142,411,448
NET ASSETS			
Invested in capital assets, net of related debt	14,102,616	-	14,102,616
Restricted for:			
Debt service	1,826,983	-	1,826,983
Capital projects	5,619,777	-	5,619,777
Educational programs	2,474,177	-	2,474,177
Other activities	3,809,122	-	3,809,122
Other restrictions	2,586,842	35,417	2,622,259
Unrestricted	7,008,031	-	7,008,031
Total Net Assets	$ 37,427,548	$ 35,417	$ 37,462,965

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Governmental Activities:				
Instruction	$ 77,820,483	$ 2,054,359	$ 18,097,473	$ (929,273)
Instruction-related activities:				
Supervision of instruction	3,048,654	115,551	1,677,549	-
Instructional library, media, and technology	1,307,468	-	936,576	-
School site administration	9,382,926	32,793	437,537	-
Pupil services:				
Home-to-school transportation	2,281,558	99,312	525,191	-
Food services	4,909,086	999,312	4,574,371	-
All other pupil services	5,425,301	161,436	1,502,975	-
Administration:				
Data processing	1,739,581	-	19,790	-
All other administration	4,276,518	235,352	1,410,174	-
Plant services	12,343,694	13,016	163,265	-
Facility acquisition and construction	450,571	-	-	-
Ancillary services	12,860	-	-	-
Community services	16,588	-	-	-
Enterprise services	8,656	-	2,201	-
Interest on long-term obligations	5,854,911	-	-	-
Other outgo	5,755,037	920,501	-	-
Total Governmental Activities	134,633,892	4,631,632	29,347,102	(929,273)
Business-Type Activities				
Enterprise services	455,344	486,205	-	-
Total Business-Type Activities	455,344	486,205	-	-
Total School District Activities	$ 135,089,236	$ 5,117,837	$ 29,347,102	$ (929,273)

General revenues and subventions:
- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (58,597,924)	$ -	$ (58,597,924)
(1,255,554)	-	(1,255,554)
(370,892)	-	(370,892)
(8,912,596)	-	(8,912,596)
(1,657,055)	-	(1,657,055)
664,597	-	664,597
(3,760,890)	-	(3,760,890)
(1,719,791)	-	(1,719,791)
(2,630,992)	-	(2,630,992)
(12,167,413)	-	(12,167,413)
(450,571)	-	(450,571)
(12,860)	-	(12,860)
(16,588)	-	(16,588)
(6,455)	-	(6,455)
(5,854,911)	-	(5,854,911)
(4,834,536)	-	(4,834,536)
(101,584,431)	-	(101,584,431)
-	30,861	30,861
-	30,861	30,861
(101,584,431)	30,861	(101,553,570)
10,547,216	-	10,547,216
6,245,799	-	6,245,799
292,218	-	292,218
76,174,211	-	76,174,211
329,667	69	329,736
7,192,818	-	7,192,818
100,781,929	69	100,781,998
(802,502)	30,930	(771,572)
38,230,050	4,487	38,234,537
$ 37,427,548	$ 35,417	$ 37,462,965

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	$ 8,353,896	$ 14,259,698	$ 22,613,594
Receivables	35,774,278	1,007,429	36,781,707
Due from other funds	-	1,500,000	1,500,000
Prepaid expenditures	20,088	-	20,088
Stores inventories	120,110	47,603	167,713
Total Assets	$ 44,268,372	$ 16,814,730	$ 61,083,102
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 10,131,914	$ 1,447,089	$ 11,579,003
Due to other funds	1,500,000	-	1,500,000
Current loans	5,935,000	-	5,935,000
Deferred revenue	20,357	-	20,357
Total Liabilities	17,587,271	1,447,089	19,034,360
Fund Balances:			
Nonspendable	175,198	47,603	222,801
Restricted	2,423,638	15,269,112	17,692,750
Assigned	4,172,850	50,926	4,223,776
Unassigned	19,909,415	-	19,909,415
Total Fund Balances	26,681,101	15,367,641	42,048,742
Total Liabilities and Fund Balances	$ 44,268,372	$ 16,814,730	$ 61,083,102

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Total Fund Balance - Governmental Funds		**$ 42,048,742**
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	$ 186,349,140	
Accumulated depreciation is:	(72,792,162)	
Net Capital Assets		113,556,978
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		1,427,029
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,940,718)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.		2,586,842
The District has refunded debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2012.		217,054
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	(93,764,831)	
Unamortized premium	(3,133,039)	
Qualified Zone Academy bonds	(4,195,734)	
Capital leases payable	(382,731)	
Compensated absences (vacations)	(1,398,138)	
Other postemployment benefits (OPEB)	(25,780)	
Early retirement incentives	(1,757,905)	
In addition, the District has issued "capital appreciation" bonds. The accretion of interest on those bonds to date is:	(15,810,221)	
Total Long-Term Obligations		(120,468,379)
Total Net Assets - Governmental Activities		**$ 37,427,548**

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	$ 68,855,567	$ -	$ 68,855,567
Federal sources	9,884,265	5,035,356	14,919,621
Other State sources	23,573,664	849,052	24,422,716
Other local sources	17,948,396	7,457,059	25,405,455
Total Revenues	120,261,892	13,341,467	133,603,359
EXPENDITURES			
Current			
Instruction	69,881,655	1,427,485	71,309,140
Instruction-related activities:			
Supervision of instruction	2,957,778	86,714	3,044,492
Instructional library, media and technology	1,305,494	-	1,305,494
School site administration	9,199,950	147,440	9,347,390
Pupil services:			
Home-to-school transportation	2,066,064	-	2,066,064
Food services	1,594	4,893,689	4,895,283
All other pupil services	5,112,539	-	5,112,539
Administration:			
Data processing	1,722,809	-	1,722,809
All other administration	5,968,350	364,738	6,333,088
Plant services	11,926,267	109,753	12,036,020
Facility acquisition and construction	1,285,457	7,350,475	8,635,932
Community services	16,404	-	16,404
Other outgo	5,755,037	-	5,755,037
Enterprise services	2,201	-	2,201
Debt service			
Principal	76,242	3,886,270	3,962,512
Interest and other	71,307	2,605,111	2,676,418
Total Expenditures	117,349,148	20,871,675	138,220,823
Excess (Deficiency) of Revenues Over Expenditures	2,912,744	(7,530,208)	(4,617,464)
Other Financing Sources (Uses)			
Transfers in	809,525	-	809,525
Other sources - proceeds of refunding bonds	-	15,050,332	15,050,332
Transfers out	-	(809,525)	(809,525)
Other uses - payment to refunded bond escrow agent	-	(14,839,108)	(14,839,108)
Net Financing Sources (Uses)	809,525	(598,301)	211,224
NET CHANGE IN FUND BALANCES	3,722,269	(8,128,509)	(4,406,240)
Fund Balance - Beginning	22,958,832	23,496,150	46,454,982
Fund Balance - Ending	$ 26,681,101	$ 15,367,641	$ 42,048,742

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

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 YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds		**$ (4,406,240)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	$ 7,975,606	
Depreciation expense	(7,245,211)	
Net Expense Adjustment		730,395
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and early retirement incentives 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, $2,162,187 of early retirement incentives were paid. Vacation earned was more than the amounts used by $377,296.		1,784,891
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was more that the annual required contribution.		127,267
Governmental funds report the effects of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This is the net effect of these related items:		
Premium on issuance	(1,413,543)	
Deferred cost on issuance	137,381	
Deferred charges on refunding	217,054	
Combined adjustment		(1,059,108)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. This year the District issued general obligation refunding bonds.		(13,495,000)

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued
FOR THE YEAR ENDED JUNE 30, 2012

Repayment of principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities.	
General obligation bonds	$ 18,010,000
Qualified Zone Academy bonds	281,270
Capital lease obligations	76,242
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased by $738,493, and second, $2,364,735 of additional interest was accreted on the District's "capital appreciation" general obligation bonds.	(3,103,228)
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	251,009
Change in Net Assets of Governmental Activities	**$ (802,502)**

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

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 43,445	$ 5,037,209
Receivables	56	9,540
Total Current Assets	43,501	5,046,749
LIABILITIES		
Current Liabilities		
Accounts payable	8,084	942,401
Current portion of long-term obligations	-	507,397
Total Current Liabilities	8,084	1,449,798
Noncurrent Liabilities		
Noncurrent portion of long-term obligations	-	1,010,109
NET ASSETS		
Restricted	35,417	2,586,842
Total Net Assets	$ 35,417	$ 2,586,842

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	Internal Service Fund
OPERATING REVENUES		
Local and intermediate sources	$ 486,205	$ 12,331,336
OPERATING EXPENSES		
Payroll costs	440,354	-
Supplies and materials	7,882	2,210
Other operating cost	7,108	12,111,527
Total Operating Expenses	**455,344**	**12,113,737**
Operating Income	**30,861**	**217,599**
NONOPERATING REVENUES		
Interest income	69	33,410
Change in Net Assets	30,930	251,009
Total Net Assets - Beginning	4,487	2,335,833
Total Net Assets - Ending	$ 35,417	$ 2,586,842

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Fund	Governmental Activities
	Child Care Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 486,210	$ 537,590
Cash receipts from interfund services provided	-	11,824,458
Cash payments to other suppliers of goods or services	(7,882)	(12,420,034)
Cash payments to employees for services	(438,204)	-
Other operating cash payments	(7,108)	-
Net Cash Provided (Used by) Operating Activities	33,016	(57,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	69	33,410
Net Increase (Decrease) in Cash and Cash Equivalents	33,085	(24,576)
Cash and Cash Equivalents - Beginning	10,360	5,061,785
Cash and Cash Equivalents - Ending	$ 43,445	$ 5,037,209
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 30,861	$ 217,599
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables	5	30,712
Accrued liabilities	2,150	(141,431)
Claims liability	-	(164,866)
NET CASH PROVIDED (USED BY) OPERATING ACTIVITIES	$ 33,016	$ (57,986)

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

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Agency Funds
ASSETS	
Deposits and investments	$ 129,604
Receivables	4,564
Amounts due from employees	728,868
Stores inventories	40,504
Total Assets	$ 903,540
LIABILITIES	
Accounts payable	$ 28,452
Due to student groups	875,088
Total Liabilities	$ 903,540

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates ten elementary, three middle, three high schools, an alternative high school, a children's center program and adult education centers.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. 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.

The District has financial and operational relationships with the Covina-Valley Unified School District Facilities Finance Corporation (Corporation), as represented by the Qualified Academy Zone Bonds, 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 statements of the District.

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data for the District. The financial statements present the Corporation's financial activity within the Building Fund. Bonds issued are included as long-term obligation in the government-wide financial statements.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any education purpose, Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund do not currently meet the definition of special revenue funds as these are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenue formerly restricted to this program to the continued operation of the original programs, the revenue within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of $4,311,103, $3,709,039, $5,192,260, and $6,521,138, respectively.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Proprietary Funds Proprietary funds reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund Internal service funds may be 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.

Enterprise Fund Enterprise funds may be 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 before and after day care operations of the District.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for student body activities (ASB), and for payroll and related expenses paid in advance.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

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

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

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

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 equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary and fiduciary funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements/infrastructure, 20 years; equipment, 5 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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 straight-line method.

Current Loans

Current loans consist of amounts outstanding at June 30, 2012, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report $16,352,318 of restricted net assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

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

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship, or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	$27,650,803
Business-type activities	43,445
Fiduciary funds	129,604
Total Deposits and Investments	$27,823,852

Deposits and investments as of June 30, 2012, consisted of the following:

Cash on hand and in banks	$ 973,485
Cash in revolving	35,000
Investments	26,815,367
Total Deposits and Investments	$27,823,852

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

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

Specific Identification

The District maintains an investment of $26,815,367 with the Los Angeles County Investment Pool with a fair value of approximately $26,897,561. This investment has an average weighted maturity of 617 days.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's bank balance of $545,743 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Fund	Fiduciary Funds
Federal Government						
Categorical aid	$ 1,508,238	$ 748,611	$ -	$ 2,256,849	$ -	$ -
State Government						
Apportionment	26,767,814	-	-	26,767,814	-	-
Categorical aid	1,376,999	213,195	-	1,590,194	-	-
Lottery	1,175,032	-	-	1,175,032	-	-
Special education	3,347,764	-	-	3,347,764	-	-
Local Government						
Interest	26,016	25,600	6,729	58,345	56	-
Other Local Sources	1,572,415	20,023	2,811	1,595,249	-	4,564
Total	$ 35,774,278	$ 1,007,429	$ 9,540	$ 36,791,247	$ 56	$ 4,564

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 2,886,240	$ -	$ -	$ 2,886,240
Construction in Progress	9,348,080	7,384,580	14,923,354	1,809,306
Total Capital Assets Not Being Depreciated	12,234,320	7,384,580	14,923,354	4,695,546
Capital Assets Being Depreciated:				
Land Improvements	65,182,374	11,987,688	-	77,170,062
Buildings and Improvements	88,846,000	3,013,001	-	91,859,001
Furniture and Equipment	12,110,840	513,691	-	12,624,531
Total Capital Assets Being Depreciated	166,139,214	15,514,380	-	181,653,594
Total Capital Assets	178,373,534	22,898,960	14,923,354	186,349,140
Less Accumulated Depreciation:				
Land Improvements	15,705,093	3,766,786	-	19,471,879
Buildings and Improvements	40,609,591	2,811,306	-	43,420,897
Furniture and Equipment	9,232,267	667,119	-	9,899,386
Total Accumulated Depreciation	65,546,951	7,245,211	-	72,792,162
Governmental Activities Capital Assets, Net	$ 112,826,583	$ 15,653,749	$ 14,923,354	$ 113,556,978

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

Governmental Activities	
Instruction	$ 6,520,691
Home-to-school transportation	217,356
All other pupil services	289,808
Plant services	217,356
Total Depreciation Expenses All Activities	$ 7,245,211

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds are as follows:

Due To	Due From General Fund
Non-Major Governmental Funds	$ 1,500,000

A balance of $1,500,000 is due from the General Fund to the Cafeteria Non-Major Governmental Fund for a temporary cash flow loan.

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	Transfer From Non-Major Governmental Funds
General Fund	$ 809,525

The Child Development Non-Major Governmental Fund transferred $196,401 to the General Fund for the Tier III Categorical program transfer.

The Building Non-Major Governmental Fund transferred $613,124 to the General Fund to replenish it for the funds transfered for maintenance purposes.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Enterprise Funds	Fiduciary Funds
Salaries and benefits	$ 6,815,700	$ 153,622	$ 930,280	$ 7,899,602	$ 6,820	$ -
State apportionment	219,371	881,676	-	1,101,047	-	-
Supplies	658,065	34,212	-	692,277	-	-
Services	916,213	203,335	-	1,119,548	1,264	28,452
Construction	298,268	173,289	-	471,557	-	-
Other vendor payables	1,224,297	955	12,121	1,237,373	-	-
Total	$ 10,131,914	$ 1,447,089	$ 942,401	$ 12,521,404	$ 8,084	$ 28,452

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General Fund
Federal financial assistance	$ 9,273
State categorical aid	11,084
Total	$ 20,357

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued $5,935,000 of Tax Revenue Anticipation Notes dated February 24, 2012 through the California School Cash Reserve Program Authority. The notes mature on December 31, 2012, and yield 0.280 percent interest. The notes were sold to supplement cash flow. Repayment requires are that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account by October 31, 2012. As of June 30, 2012, the tax anticipation notes of $5,935,000 and related accrued interest and cash held in trust are included in these financial statements.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2011	Additions	Payments	Outstanding June 30, 2012
2/24/2012	0.28%	12/31/2012	$ -	$ 5,935,000	$ -	$ 5,935,000

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	$ 111,725,317	$ 15,859,735	$ 18,010,000	$ 109,575,052	$ 3,750,000
Premium on issuance	1,719,496	1,555,332	141,789	3,133,039	-
Qualified zone academy bonds	4,477,004	-	281,270	4,195,734	295,334
Early retirement incentives	3,920,092	-	2,162,187	1,757,905	377,303
Capital lease	458,973	-	76,242	382,731	83,328
Other postemployment benefits	153,047	726,045	853,312	25,780	-
Accumulated vacation - net	1,020,842	377,296	-	1,398,138	-
Claims liability	1,682,372	342,531	507,397	1,517,506	507,397
	$ 125,157,143	$ 18,860,939	$ 22,032,197	$ 121,985,885	$ 5,013,362

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on Qualified Zone Academy bonds are paid by the Building Fund. Payments on early retirement incentive are made by the General Fund. Payments on capital leases are also paid by the General Fund. Other postemployment benefits will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employee worked. Claims liability will be paid by the Internal Service Fund.

2001 Election General Obligation Bonds, Series A

On February 2, 2002, the District issued the $20,000,000 2001 Election General Obligation Bonds Series A. On December 6, 2011, the District issued the $13,495,000 2001 Election General Obligation Refunding Bonds, 2011 Series A. The net proceeds from the Refunding Bonds were used to advance refund the District's outstanding 2001 Election General Obligation Bonds, Series A. As the advance refunding met the requirements of an in-substance defeasance, the associated assets and liability were removed from the District's financial statements. As of June 30, 2012, the principal balance outstanding on the defeased debt amounted to $14,405,000 with amounts of $14,477,573, held in escrow account with U.S. Bank to fund the repayment to occur August 1, 2012.

2001 Election General Obligation Bonds, Series B

On June 19, 2003, the District issued the $30,000,000 2001 Election General Obligation Bonds, Series B. The Series B bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting $29,170,000, and an aggregate principal debt service balance of $59,170,000. The bonds have a final maturity to occur June 1, 2028, with interest rates of 2.20 to 5.20 percent. Proceeds from the sale of the bonds were used to improve health and safety conditions of neighborhood schools, relieve classroom overcrowding, replace inadequate electrical, heating and ventilation systems, roofs, plumbing and sewer systems, renovate outdated science laboratories, and renovate and/or add classrooms and other facilities. At June 30, 2012, the principal balance outstanding of the 2002 General Obligation Bonds, Series 2005 B was $30,640,999. Unamortized premium received on issuance of the bonds amounted to $520,272 as of June 30, 2012.

2006 Election General Obligation Bonds, 2006 Series A

On August 31, 2006, the District issued the $47,000,000 2006 Election General Obligation Bonds, Series 2006 A. The 2006 Series A were issued as current interest bonds, and have a final maturity to occur on August 1, 2031. Interest rates on the bonds range from of 4.00 to 5.00 percent. Proceeds from the sale of the bonds were used to repair or replace deteriorating plumbing, restrooms, heating, ventilation, and electrical systems; upgrade classroom technology and computers, construct new library/media centers, and upgrade inadequate classrooms, equipment, school facilities and grounds. At June 30, 2012, the principal balance outstanding of the 2006 Election General Obligation Bonds, 2006 Series A was $44,570,000. Unamortized premium received on issuance of the bonds amounted to $746,045 as of June 30, 2012.

2006 Election General Obligation Bonds, 2007 Series B

On October 3, 2007, the District issued the $18,999,949 2006 Election General Obligation Bonds, 2007 Series B. The 2007 Series B bonds were issued as capital appreciation bonds, with the value of the capital appreciation bonds accreting $19,460,051, and an aggregate principal debt service balance of $38,460,000. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields of 3.50 to 5.25 percent. Proceeds from the sale of the bonds were used to repair or replace deteriorating plumbing, restrooms, heating, ventilation, and electrical systems; upgrade classroom technology and computers, construct new library/media centers, and upgrade inadequate classrooms, equipment, school facilities and grounds. At June 30, 2012, the principal balance outstanding of the 2006 Election General Obligation Bonds, 2007 Series B was $20,869,053. Unamortized premium received on issuance of the bonds amounted to $363,235 as of June 30, 2012.

2001 Election General Obligation Refunding Bonds, 2011 Series A

On December 6, 2011, the District issued the $13,495,000 2001 Election General Obligation Refunding Bonds, 2011 Series A. The bonds have a final maturity to occur on August 1, 2026, with interest rates from 3.00 to 5.25 percent. The net proceeds of $15,050,332 (representing the principal amount of $13,495,000 plus premium on issuance of $1,555,332) from the issuance were used to advance refund the District's outstanding 2001 Election General Obligation Bonds, Series A and to pay the costs of issuance associated with the refunding bonds, with the prepayment to occur on August 1, 2012. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of $217,054 remain to be amortized using the straight-line method. The refunding resulted in a cumulative cash flow saving of $1,623,548 over the life of the new debt and an economic gain of $1,275,693 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 3.162 percent. At June 30, 2012, the principal balance outstanding on the 2001 Election General Obligation Refunding Bonds, 2011 Series A was $13,495,000. Unamortized premium received on issuance of the bonds amounted to $1,503,487 as of June 30, 2012.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2012
2/2/2002	8/1/2026	4.00%-5.00%	$20,000,000	$ 14,775,000	$ -	$ 14,775,000	$ -
6/19/2003	6/1/2028	2.20%-5.20%	30,000,000	31,070,735	1,425,264	1,855,000	30,640,999
8/31/2006	8/1/2031	4.00%-5.00%	47,000,000	45,010,000	-	440,000	44,570,000
10/3/2007	8/1/2032	3.50%-5.25%	18,999,949	20,869,582	939,471	940,000	20,869,053
12/6/2011	8/1/2026	3.00%-5.25%	13,495,000	-	13,495,000	-	13,495,000
				$ 111,725,317	$15,859,735	$ 18,010,000	$109,575,052

Debt Service Requirements to Maturity

The bonds mature through 2033 as follows:

Fiscal Year	Principal Including Accreted Interest To Date	Accreted Interest	Current Interest	Total
2013	$ 3,713,260	$ 36,740	$ 2,676,118	$ 6,426,118
2014	4,018,018	146,982	2,635,005	6,800,005
2015	4,202,996	267,004	2,577,205	7,047,205
2016	4,358,131	451,869	2,514,730	7,324,730
2017	4,521,043	618,957	2,452,805	7,592,805
2018-2022	25,792,323	5,897,677	11,022,738	42,712,738
2023-2027	33,423,373	12,006,627	7,446,901	52,876,901
2028-2032	26,993,791	8,151,209	2,732,843	37,877,843
2033	2,552,117	4,642,883	-	7,195,000
Total	$ 109,575,052	$32,219,948	$34,058,345	$ 175,853,345

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 the agreement was to provide $5,000,000 for financing the cost of purchasing equipment and certain improvements to the property. The financing for the improvements is proved by the issuance of 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, 2012, the outstanding balance on the QZABs is $4,195,734.

Year Ending June 30,	Principal	Interest	Total
2013	$ 295,334	$ 41,957	$ 337,291
2014	310,101	39,004	349,105
2015	325,606	35,903	361,509
2016	341,886	32,647	374,533
2017	358,980	29,228	388,208
2018-2022	2,082,769	88,566	2,171,335
2023	481,058	4,811	485,869
Total	$ 4,195,734	$ 272,116	$ 4,467,850

Early Retirement Incentive

During the 2007-2008 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 2007-2008 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 2010-2011 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, 2012, the balance of the combined obligations associated with the supplemental retirement plans was $1,757,905.

Capital Leases

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

	Equipment
Balance, July 1, 2011	$ 616,889
Payments	123,377
Balance, June 30, 2012	$ 493,512

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	$ 123,378
2014	123,378
2015	123,378
2016	123,378
Total	493,512
Less: Amount Representing Interest	110,781
Present Value of Minimum Lease Payments	$ 382,731

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was $728,349, and contributions made by the District during the year were $853,312. Interest on the net OPEB obligation and adjustments to the annual required contribution were $7,652 and $(9,956), respectively, which resulted in a decrease to the net OPEB obligation of $127,267. As of June 30, 2012, the net OPEB obligation was $25,780. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to $1,398,138.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2012, amounted to $1,517,506, using a discount factor of two percent.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	$ 35,000	$ -	$ 35,000
Stores inventories	120,110	47,603	167,713
Prepaid expenditures	20,088	-	20,088
Total Nonspendable	175,198	47,603	222,801
Restricted			
Legally restricted programs	2,423,638	3,859,661	6,283,299
Capital projects	-	7,641,750	7,641,750
Debt services	-	3,767,701	3,767,701
Total Restricted	2,423,638	15,269,112	17,692,750
Assigned			
Other assignments	4,172,850	50,926	4,223,776
Total Assigned	4,172,850	50,926	4,223,776
Unassigned			
Reserve for economic uncertainties	3,227,946	-	3,227,946
Remaining unassigned	16,681,469	-	16,681,469
Total Unassigned	19,909,415	-	19,909,415
Total	$ 26,681,101	$ 15,367,641	$ 42,048,742

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following District major funds exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	$ 110,671,499	$ 117,349,148	$ 6,677,649

Actual expenditures include on-behalf payments of $2,616,727 as required by generally accepted accounting principles, in addition to expenditures from Fund 11, Adult Education and Fund 14, Deferred Maintenance, due to their consolidation into the General Fund for reporting purposes.

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

Plan Description

The postemployment benefit plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Covina-Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 82 retirees and beneficiaries currently receiving benefits, 28 terminated plan members entitled to but not yet receiving benefits, and 1,019 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the District contributed $853,312 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 728,349
Interest on net OPEB obligation	7,652
Adjustment to annual required contribution	(9,956)
Annual OPEB cost (expense)	726,045
Contributions made	(853,312)
Decrease in net OPEB obligation	(127,267)
Net OPEB obligation, beginning of year	153,047
Net OPEB obligation, end of year	$ 25,780

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset/obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2010	$ 771,681	$ 789,512	102%	$ 152,945
2011	770,424	770,424	100%	153,047
2012	726,045	853,312	118%	25,780

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2011	$ -	$ 6,737,951	$ 6,737,951	0%	$ 64,729,826	10%

Actuarial Methods and Assumptions

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

In the July 1, 2011, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial five percent to an ultimate rate of eight percent. The cost trend rate used for the Dental and Vision programs was four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2012, was 27 years. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2012, the District was self-insured for property and liability coverage, and participated in the Alliance of Schools for Cooperative Insurance Programs (ASCIP) risk management pool for amounts in excess of the District's member retention limit $25,000 for property and liability claims.

Workers' Compensation

For the fiscal year of 2011-2012, the District was self-funded for its workers' compensation coverage. The workers' compensation experience of the District was calculated and applied to a premium rate, which was utilized to charge funds for the administration of the program. The District's self-insured retention limit for the 2011-2012 fiscal year was $250,000. Excess liability coverage for workers' compensation claims is provided by Schools Excess Liability Fund (SELF) public entity risk pool, through ASCIP.

Employee Medical Benefits

The District has contracted with various vendors to provide employee health benefits through the purchase of commercial insurance. Kaiser and Health Net provide medical care, Delta Dental and Delta Care provide dental care, VSP provides vision care and Mutual of Omaha provides life insurance.

Claims Liabilities

The District records an estimated liability for indemnity torts and other 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 fund 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, 2010 to June 30, 2012 (in thousands):

	Workers' Compensation
Liability Balance, July 1, 2010	$ 1,683,018
Claims and changes in estimates	450,814
Claims payments	451,460
Liability Balance, June 30, 2011	1,682,372
Claims and changes in estimates	507,398
Claims payments	672,264
Liability Balance, June 30, 2012	$ 1,517,506
Assets available to pay claims at June 30, 2012	$ 3,496,944

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were $4,341,471, $4,391,178, and $4,527,044, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were $1,799,288, $1,784,643, and $1,685,359, respectively, and equal 100 percent of the required contributions for each year.

Tax Deferred Annuity/Social Security

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $2,616,727 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Covina High Marquee	$ 22,192	June 30, 2013
Northview High Marquee	22,322	June 30, 2013
South Hills Marquee	23,606	June 30, 2013
Fairvalley Continuation Electrical	283,436	June 30, 2013
Fairvalley Continuation Vocational Center	115,474	June 30, 2013
Barranca Relocatables	7,477	June 30, 2013
Ben Lomond Relocatables	6,966	June 30, 2013
South Hills High Electrical	2,666	June 30, 2013
	$ 484,139	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) public entity risk pool and, through participation in ASCIP, the Schools Excess Liability Fund (SELF) public entity risk pool. The District pays an annual premium to ASCIP for its property/liability and workers' compensation excess liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2012, the District made a payment of $1,013,296 to ASCIP for services received.

NOTE 17 - SUBSEQUENT EVENTS

The District issued $8,345,000 of Tax Revenue Anticipation Notes dated July 2, 2012, through the California School Cash Reserve Program Authority. The notes mature on February 1, 2013, with an interest rate of 0.230 percent. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning December 2012, until 100 percent of principal and interest due is on account on January 31, 2013.

NOTE 18 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	$ 68,733,181	$ 68,957,013	$ 68,855,567	$ (101,446)
Federal sources	9,560,754	10,208,140	9,884,265	(323,875)
Other State sources	19,330,165	14,333,092	23,573,664	9,240,572
Other local sources	7,074,555	15,157,680	17,948,396	2,790,716
Total Revenues [1]	104,698,655	108,655,925	120,261,892	11,605,967
EXPENDITURES				
Current				
Certificated salaries	50,890,895	51,750,503	53,430,372	(1,679,869)
Classified salaries	15,647,709	16,458,471	17,835,329	(1,376,858)
Employee benefits	19,230,271	19,653,154	23,075,275	(3,422,121)
Books and supplies	5,035,197	4,632,410	3,913,375	719,035
Services and operating expenditures	10,558,313	12,483,664	12,082,925	400,739
Other outgo	5,411,731	4,787,333	5,342,519	(555,186)
Capital outlay	-	292,840	1,669,353	(1,376,513)
Total Expenditures [1]	106,774,116	110,058,375	117,349,148	(7,290,773)
Excess (Deficiency) of Revenues Over Expenditures	(2,075,461)	(1,402,450)	2,912,744	4,315,194
Other Financing Sources (Uses)				
Transfers in	3,180,937	3,309,525	809,525	(2,500,000)
Transfers out	(680,937)	(613,124)	-	613,124
Net Financing Sources (Uses)	2,500,000	2,696,401	809,525	(1,886,876)
NET CHANGE IN FUND BALANCES	424,539	1,293,951	3,722,269	2,428,318
Fund Balance - Beginning	22,958,832	22,958,832	22,958,832	-
Fund Balance - Ending	$ 23,383,371	$ 24,252,783	$ 26,681,101	$ 2,428,318

[1] On behalf payments of $2,616,727 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these funds are included in the Actual (GAAP Basis) revenues and expenditures, but are not included in the original and final General Fund budgets.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	$ -	$ 5,864,274	$ 5,864,274	0%	$ 64,180,287	9%
July 1, 2009	-	6,976,855	6,976,855	0%	68,551,431	10%
July 1, 2011	-	6,737,951	6,737,951	0%	64,729,826	10%

SUPPLEMENTARY INFORMATION

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster:			
Title I, Part A - Low Income and Neglected	84.010	14329	$ 2,167,533
Title I, Part A - Program Improvement LEA Corrective	84.010	14955	318,745
Subtotal Title I, Part A Cluster			2,486,278
Educational Technology State Grant Cluster:			
Title II, Part D - Enhancing Education Through Technology Formula Grant	84.318	14334	3,346
Title II, Part D - Enhancing Education Through Technology Competitive Grant	84.318	14368	298,168
ARRA Title II, Part D - Enhancing Education Through Technology	84.386	15126	73,779
Subtotal Education Technology State Grant Cluster			375,293
Title II, Part A - Improving Teacher Quality	84.367	14341	383,857
Title III, Limited English Proficiency	84.365	10084	190,704
Title X, McKinney-Vento Homeless Children Assistance	84.196	14332	38,406
Carl D. Perkins Career and Technical Education: Secondary Vocational Education	84.048	14894	71,907
Educational Jobs Fund	84.410	25152	2,636,418
Advanced Placement Exam - Fee Assistance	84.330	23900	14,692
Passed Through Puente Hills SELPA			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	2,510,184
Preschool Grant, Part B, Section 619	84.173	13430	76,234
Preschool Local Grant, Part B	84.027A	13682	98,889
Mental Health Allocation Part B	84.027	14468	338,626
Preschool Staff Development	84.173A	13431	1,721
Subtotal Special Education (IDEA) Cluster			3,025,654
Early Intervention Programs, Part C	84.181	23761	167,157
Total U.S. Department of Education			9,390,366

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012, Continued

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH SERVICES			
Passed Through California Department of Health Services			
Medi-Cal Cluster:			
Medi-Cal Billing Options	93.778	10013	$ 417,960
Medi-Cal Administrative Activities	93.778	10060	400,532
Subtotal Medi-Cal Cluster			818,492
Child Development Cluster:			
Child Development: Federal Child Care, Center-Based	93.575	13609&15136	188,816
Child Development: Federal State Preschool	93.596	13609	134,032
Subtotal Child Development Cluster			322,848
Total U.S. Department of Health and Human Services			1,141,340
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13523	3,093,831
Especially Needy Breakfast	10.553	13526	1,039,710
Basic School Breakfast	10.553	13525	12,440
Meal Supplement	10.556	13392	50,950
Food Distribution	10.555	13523	308,944
Subtotal Child Nutrition Cluster			4,505,875
Total U.S. Department of Agriculture			4,505,875
Total Federal Programs			$ 15,037,581

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2012

ORGANIZATION

The Covina-Valley Unified School District (the District) was unified on December 15, 1959 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates ten elementary, three middle, three high schools, an alternative high school, a children's center program and adult education centers.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Richard M. White	President	2013
Charles M. Kemp	Vice President	2013
Darrell A. Myrick	Clerk	2015
Mary L. Hanes, M.D.	Member	2015
William L. Knoll	Member	2015

ADMINISTRATION

NAME	TITLE
Catherine J. Nichols, Ed.D.	District Superintendent
William N. Brown	Assistant Superintendent, Personnel Services
Lynn Carmen Day	Assistant Superintendent, Educational Services
David Rivera	Chief Business Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	785	790
First through third	2,335	2,333
Fourth through sixth	2,570	2,568
Seventh and eighth	1,946	1,943
Home and hospital	-	2
Special education	296	301
Total Elementary	7,932	7,937
SECONDARY		
Regular classes	4,583	4,557
Continuation education	179	182
Opportunity schools	3	3
Home and hospital	3	4
Special education	167	163
Total Secondary	4,935	4,909
Total K-12	12,867	12,846

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2011-12 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	32,365	30,207	36,000	33,600	43,519	175	-	Complied
Grades 1 - 3			50,400	47,040				
Grade 1	45,440	42,411			49,096	175	-	Complied
Grade 2	45,440	42,411			49,096	175	-	Complied
Grade 3	45,440	42,411			49,096	175	-	Complied
Grades 4 - 6			54,000	50,400				
Grade 4	53,245	49,695			52,554	175	-	Complied
Grade 5	53,245	49,695			52,554	175	-	Complied
Grade 6	53,245	49,695			56,020	175	-	Complied
Grades 7 - 8			54,000	50,400				
Grade 7	52,492	48,993			56,120	175	-	Complied
Grade 8	52,492	48,993			56,020	175	-	Complied
Grades 9 - 12			64,800	60,480				
Grade 9	60,013	56,012			62,464	175	-	Complied
Grade 10	60,013	56,012			62,464	175	-	Complied
Grade 11	60,013	56,012			62,464	175	-	Complied
Grade 12	60,013	56,012			62,464	175	-	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012

	(Budget) 2013 [1]	2012	2011	2010
GENERAL FUND [5]				
Revenues	$ 102,869,379	$ 112,569,632	$ 106,051,409	$ 101,614,426
Other sources	3,363,124	3,309,525	2,256,099	4,068,373
Total Revenues and Other Sources	106,232,503	115,879,157	108,307,508	105,682,799
Expenditures	111,576,502	110,214,886	104,981,437	106,648,073
Other uses and transfers out	664,210	613,124	756,099	4,068,372
Total Expenditures and Other Uses	112,240,712	110,828,010	105,737,536	110,716,445
INCREASE (DECREASE) IN FUND BALANCE	$ (6,008,209)	$ 5,051,147	$ 2,569,972	$ (5,033,646)
ENDING FUND BALANCE	$ 16,963,853	$ 22,972,062	$ 17,920,915	$ 15,350,943
AVAILABLE RESERVES [2]	$ 12,007,968	$ 19,909,415	$ 15,848,727	$ 13,393,226
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	10.70%	18.40%	14.99%	12.10%
LONG-TERM OBLIGATIONS	N/A	$ 121,985,885	$ 122,287,940	$ 124,293,656
K-12 AVERAGE DAILY ATTENDANCE AT P-2 [4]	12,729	12,867	13,087	13,406

The General Fund balance has increased by $7,621,119 over the past two years. The fiscal year 2012-2013 budget projects a decrease of $6,008,209 (26.2 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have decreased by $2,307,771 over the past two years.

Average daily attendance has decreased by 539 over the past two years. An additional decline of 138 ADA is anticipated during fiscal year 2012-2013.

[1] Budget 2013 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.
[3] On behalf payments of $2,616,727 has been excluded from the calculation of available reserves for the fiscal year ending June 30, 2012.
[4] Excludes adult education ADA.
[5] General Fund amounts do not include activity related to the consolidation of Fund 11, Adult Education Fund, and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
ASSETS				
Deposits and investments	$ 24,917	$ 1,584,030	$ 2,381,532	$ 2,054,951
Receivables	178,575	809,982	6,395	3,892
Due from other funds	-	1,500,000	-	-
Stores inventories	-	47,603	-	-
Total Assets	$ 203,492	$ 3,941,615	$ 2,387,927	$ 2,058,843
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 114,570	$ 84,890	$ 365,954	$ -
Fund Balances:				
Nonspendable	-	47,603	-	-
Restricted	50,539	3,809,122	2,021,973	2,058,843
Assigned	38,383	-	-	-
Total Fund Balances	88,922	3,856,725	2,021,973	2,058,843
Total Liabilities and Fund Balances	$ 203,492	$ 3,941,615	$ 2,387,927	$ 2,058,843

See accompanying note to supplementary information.

County School Facilities Fund		Special Reserve Fund for Capital Outlay Projects		Bond Interest and Redemption Fund		Total Non-Major Governmental Funds	
$	4,434,048	$	12,519	$	3,767,701	$	14,259,698
	8,561		24		-		1,007,429
	-		-		-		1,500,000
	-		-		-		47,603
$	4,442,609	$	12,543	$	3,767,701	$	16,814,730
$	881,675	$	-	$	-	$	1,447,089
	-		-		-		47,603
	3,560,934		-		3,767,701		15,269,112
	-		12,543		-		50,926
	3,560,934		12,543		3,767,701		15,367,641
$	4,442,609	$	12,543	$	3,767,701	$	16,814,730

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
REVENUES				
Federal sources	$ 529,481	$ 4,505,875	$ -	$ -
Other State sources	1,313,037	375,877	-	-
Other local sources	36,644	951,066	62,306	159,246
Total Revenues	1,879,162	5,832,818	62,306	159,246
EXPENDITURES				
Current				
Instruction	1,427,485	-	-	-
Instruction-related activities:				
Supervision of instruction	86,714	-	-	-
School site administration	147,440	-	-	-
Pupil services:				
Food services	23,354	4,870,335	-	-
Administration:				
All other administration	117,908	219,609	-	27,221
Plant services	92,783	16,970	-	-
Facility acquisition and construction	23,019	-	7,327,456	-
Debt service				
Principal	-	-	281,270	-
Interest and other	-	2,537	44,770	-
Total Expenditures	1,918,703	5,109,451	7,653,496	27,221
Excess (Deficiency) of Revenues Over Expenditures	(39,541)	723,367	(7,591,190)	132,025
Other Financing Sources (Uses)				
Other sources - proceeds of refunding bonds	-	-	15,050,332	-
Transfers out	(196,401)	-	(613,124)	-
Other uses - payment to refunded bond escrow agent	-	-	(14,839,108)	-
Net Financing Sources (Uses)	(196,401)	-	(401,900)	-
NET CHANGE IN FUND BALANCES	(235,942)	723,367	(7,993,090)	132,025
Fund Balance - Beginning	324,864	3,133,358	10,015,063	1,926,818
Fund Balance - Ending	$ 88,922	$ 3,856,725	$ 2,021,973	$ 2,058,843

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ 5,035,356
(907,636)	-	67,774	849,052
(21,637)	117	6,269,317	7,457,059
(929,273)	117	6,337,091	13,341,467
-	-	-	1,427,485
-	-	-	86,714
-	-	-	147,440
-	-	-	4,893,689
-	-	-	364,738
-	-	-	109,753
-	-	-	7,350,475
-	-	3,605,000	3,886,270
-	-	2,557,804	2,605,111
-	-	6,162,804	20,871,675
(929,273)	117	174,287	(7,530,208)
-	-	-	15,050,332
-	-	-	(809,525)
-	-	-	(14,839,108)
-	-	-	(598,301)
(929,273)	117	174,287	(8,128,509)
4,490,207	12,426	3,593,414	23,496,150
$ 3,560,934	$ 12,543	$ 3,767,701	$ 15,367,641

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012

(Amounts in thousands)	Actual Results for the Years					
	2011-2012		2010-2011		2009-2010	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	$ 9,884	8.8	$ 8,365	7.6	$ 10,603	10.1
State and local revenue included in revenue limit	68,855	61.2	70,764	64.0	68,887	65.9
Other State revenue	17,679	15.7	22,387	20.2	20,469	19.6
Other local revenue	6,430	5.7	2,777	2.5	1,662	1.6
Tuition and transfers in	9,722	8.6	6,313	5.7	2,974	2.8
Total Revenues	112,570	100.0	110,606	100.0	104,595	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	51,390	45.7	50,728	45.9	53,056	50.7
Classified salaries	16,355	14.5	16,029	14.5	17,159	16.4
Employee benefits	22,095	19.6	20,570	18.6	22,510	21.6
Total Salaries and Benefits	89,840	79.8	87,327	79.0	92,725	88.7
Books and supplies	3,335	3.0	3,485	3.2	3,733	3.6
Contracts and operating expenses	11,642	10.3	10,584	9.5	9,549	9.1
Capital outlay	296	0.3	-	0.0	-	0.0
Other outgo	5,102	4.5	6,640	6.0	7,009	6.7
Total Expenditures	110,215	97.9	108,036	97.7	113,016	108.1
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,355	2.1	2,570	2.3	(8,421)	(8.1)
OTHER FINANCING SOURCES (USES)						
Operating transfers, net	2,696	2.4	-	0.0	3,387	3.3
INCREASE (DECREASE) IN FUND BALANCE	5,051	4.5	2,570	2.3	(5,034)	(4.8)
FUND BALANCE, BEGINNING	17,921		15,351		20,385	
FUND BALANCE, ENDING	$ 22,972		$ 17,921		$ 15,351	

NOTE: General Fund amounts do not include activity related to the consolidation of Fund 11, Adult Education Fund, and Fund 14, Deferred Maintenance Fund.

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$14,919,621
Medi-Cal Billing Options	93.778	117,960
Total Schedule of Expenditures of Federal Awards		$15,037,581

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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 requirements, whichever is greater, as required by Education Code Section 46201.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Covina-Valley Unified School District
Covina, California

We have audited the 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, 2012, which collectively comprise Covina-Valley Unified School District's basic financial statements and have issued our report thereon dated December 12, 2012. 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.

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

Internal Control Over Financial Reporting

Management of Covina-Valley Unified School District is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Covina-Valley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Covina-Valley Unified School District in a separate letter dated December 12, 2012.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day + Co., LLP

Rancho Cucamonga, California
December 12, 2012

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

Governing Board
Covina-Valley Unified School District
Covina, California

Compliance

We have audited Covina-Valley Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Covina-Valley Unified School District's major Federal programs for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

The 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 to determine the 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 Covina-Valley Unified School District's internal control over compliance.

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

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day + Co., LLP

Rancho Cucamonga, California
December 12, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Covina-Valley Unified School District
Covina, California

We have audited Covina-Valley Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012,* applicable to Covina-Valley Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above 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 in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012,* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. 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 compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Covina-Valley Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes, see below
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable

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	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not applicable
Mode of instruction	1	Not applicable
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instruction minutes classroom based	4	Not applicable

We did not perform steps related to work experience for continuation education because it was not offered by the District.

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

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 12, 2012

Schedule of Findings and Questioned Costs

COVINA-VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.556	Child Nutrition Cluster
84.410	Educational Jobs Fund
84.318, 84.386 (ARRA)	Educational Technology State Grant Cluster (includes ARRA)
93.778	Medi-Cal Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 451,127
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditors' report issued on compliance for programs:	Unqualified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

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

Governing Board
Covina-Valley Unified School District
Covina, California

In planning and performing our audit of the financial statements of Covina-Valley Unified School District for the year ended June 30, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2012, on the financial statements of Covina-Valley Unified School District.

INTERNAL CONTROLS

Other Postemployment Benefits (OPEB)

Observation

While the District has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the District's application of the statement is not consistent with the guidance noted within California State Accounting Manuel (CSAM) Procedure 785, *Postemployment Benefits Other Than Pensions (OPEB)*. For consistency in application of this guidance, once the District obtains an OPEB valuation based on an actuarial method, all of the District's OPEB contributions may be considered to be in relation to that valuation; that is, they may be considered to be on an actuarial basis rather than on a pay-as-you-go basis. Accordingly, upon implementation of this statement, the District is required to follow the methodology for attributing contributions for amortization of the unfunded liability between retirees and active employees as noted within the guidance. Currently, the District continues to charge this expense on a pay-as-you go basis, resulting in unrestricted general fund monies bearing the cost of this expense.

Recommendation

Adherence to the methodology for attributing contributions for the amortization of the unfunded liability between retirees and active employees will require review of the actuarial report to determine what percentage of the accrued liability is attributable to active eligible employee and to retirees. For retirees, the amortization of the past unfunded liability will require an allocation to all activities in proportion to total salaries or total full-time equivalents (FTEs) in all activities. For OPEB-eligible active employees, normal or "service" cost will be direct charged as a fringe benefit on a per-eligible-FTE basis to program(s) to which each OPEB-eligible active employee's salary is charged. In addition, for OPEB-eligible active employees, amortization of the past unfunded liability for OPEB-eligible active employees will either be direct charged as a fringe benefit on a per-eligible-FTE basis to program(s) to which each OPEB-eligible active employee's salary is charged or allocated to all activities in proportion to total salaries or total FTEs in all activities.

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REVOLVING CASH ACCOUNT

Observation

The District does not have a procedure in place to reconcile the revolving cash account to the imprest balance of $35,000. In addition, there is no clear audit evidence indicating bank reconciliations are being reviewed by an independent employee.

Recommendation

The District should design and implement procedures to ensure that monthly bank statements for the revolving cash account are reconciled to the imprest amount recorded in the District's general ledger. The most significant reconciling items will typically be deposits in transit, outstanding checks, and pending reimbursements from the district's cash in county treasury account. The District should also ensure that all reconciliations are reviewed for completeness and accuracy within a reasonable amount of time throughout the year. Evidence of this review should be available for audit purposes such as signing the bank reconciliation as proof of review.

PAYROLL – VACATION ACCRUALS

Observation

During our review of employee vacation accruals, we noted the District is allowing employees to carryover more time than permitted per the District Board policy. Since vacation time is required to be paid at the employee's most recent pay rate at the time of payout, allowing employees to carryover more than the allowable unused vacation time will result in the District having to pay unused vacation at higher pay rates. In addition, this practice will result in a higher vacation accrual liability for the District at year-end.

Recommendation

The District should implement necessary procedures to ensure District Board policies regarding vacation accruals are being adhere to. This will help ensure unused vacation time is being paid at appropriate pay rates and reduce the District vacation accrual liability.

CASH CLEARING CYCLE

Observation

During our review of the District's cash clearing account procedures, we noted that the District is currently not tracking the sequence of receipts remitted by sites and various departments to determine if there are gaps and/or out of sequence.

Recommendation

The District should consider implementing the use of a receipt log in order to keep track of site and department receipt number sequence. As receipts are collected from the sites and departments, District personnel responsible for reconciling site collections should ensure the last receipt number logged is in sequence with the current receipts being received. This will help the District monitor site and department deposits by ensuring all collections are received timely and intact.

ASSOCIATED STUDENT BODY

Sierra Vista Middle School

Observations

During our review of the associated study body procedures, the following issues were noted:

1. Deposits to the bank are not made in a timely manner with the number of days from receipt of cash to bank deposit ranging from twenty-one to forty-five days.
2. The site does not appear to be consistently obtaining receiving documentation prior to issuing checks against the ASB bank account. For four of the ten disbursements selected for testing, the site was unable to provide evidence of the goods/services being received.
3. Three out of three fundraisers were not pre-approved by the student council.

Recommendations

1. In order to safeguard cash collections, all cash collections should be deposited timely and intact. To avoid possible misappropriation of cash, all cash receipts to the ASB should be deposited to the bank within a week of the fundraising activity. Frequency of deposits should be increased based on the volume of cash received.
2. The site should implement and monitor procedures to ensure that receiving documentation is obtained for all ASB expenses. This documentation could be in the form of a teacher/administrator signature on the invoice, a packing slip, or a vendor receipt. In all cases, the documentation should be obtained prior to processing a check against the ASB bank account.
3. The site should use a fundraiser approval form to document the fundraiser approval. The fundraiser must be approved by the ASB prior to the events being held. The site should ensure this procedure is followed for all fundraisers and that ASB approval is clearly reflected in the ASB minutes.

South Hills High School

Observations

During our review of the associated study body procedures, the following issues were noted:

1. Deposits to the bank are not made in a timely manner with the number of days from receipt of cash to bank deposit ranging from eleven to twelve days.
2. One out of fifteen disbursements transactions reviewed did not have the required three approval signatures signifying pre-approval prior to the purchase being made.
3. Eleven of the fifteen expenditures reviewed were not pre-approved by the student council.
4. Revenue potential forms are not being consistently used to document and control fund-raising activities as they occur. Three out of four revenue potential forms reviewed were not completed. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
5. In review of the ASB bank reconciliation, the auditor noted forty-four stale dated checks.
6. One out of four ticket sales recap forms reviewed did not have an explanation for shortages noted.

Governing Board
Covina-Valley Unified School District

Recommendations

1. In order to safeguard cash collections, all cash collections should be deposited timely and intact. To avoid possible misappropriation of cash, all cash receipts to the ASB should be deposited to the bank within a week of the fundraising activity. Frequency of deposits should be increased based on the volume of cash received.
2. The site should review ASB cash disbursement procedures outlined in *Associate Student Body Accounting Manual and Desk Reference* published by Fiscal Crisis and Management Team (FCMAT). The manual suggest that three signatures, including District representative, student representative, and an advisor are required on all disbursements from the student body account pursuant to *California Education Code* Section 48933(5)(b).
3. All expenditures, prior to the items being purchased, should be approved by the student council to ensure that the proper funding is available. This approval should be clearly documented in the student body minutes, as well as on the purchase order associated with the expense being requested.
4. As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all monies due and so forth. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser to provide appropriate and effective analysis.
5. Outstanding checks over six months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation's. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".
6. The ticket sales recap form is a vital internal control tool. It should be used to compare sales to actual cash collections. This allows an analysis of the ticketed event to be performed to determine if all sales were properly documented and all cash was collected. Any cash shortages or overages noted should be explained and investigated immediately in effort to reduce the likely of misappropriation of assets.

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

VAVRINEK, TRINE, DAY + CO, LLP

Rancho Cucamonga, California
December 12, 2012