

PORTOLA VALLEY SCHOOL DISTRICT
COUNTY OF SAN MATEO
PORTOLA VALLEY, CALIFORNIA

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

PORTOLA VALLEY SCHOOL DISTRICT

JUNE 30, 2011

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FINANCIAL SECTION

GOODELL,
PORTER,
SANCHEZ &
BRIGHT, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD J. GOODELL, CPA
MICHELLE M. HANSON, CPA

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Trustees
Portola Valley School District
Portola Valley, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Portola Valley School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described below, 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; and the provisions of *California Code of Regulations* Title 5 Education, Section 19810, and following. 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.

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that include the financial data for its component unit. The District has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component unit are not presented.

The net contribution to the District during the current year from the legally separate component unit was \$1,161,149.

In our opinion, because of the omission of the component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the component unit of the Portola Valley School District, as of June 30, 2011, or the changes in financial position thereof for the year then ended.

In our opinion, except for the effects of omitting the component unit as discussed above, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Portola Valley School District, as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the Portola Valley School District internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 12, and 46 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 the 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 Portola Valley School District's financial statements as a whole. The accompanying statistical schedules, and combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the financial statements of Portola Valley School District. The statistical schedules, the schedule of expenditures of federal awards and the combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

November 28, 2011

PORTOLA VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

The discussion and analysis of Portola Valley School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements and the District's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

General Fund: Expenditures during 2010-2011 exceeded revenues by \$1,953,520. The General Fund balance increased due to a loan of \$2,850,000. In 2010-11, the District implemented GASB 54, which required the inclusion of previously separately reported special revenue funds in the General Fund. Both the Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects have been included in the General Fund. The effect on General Fund balance for this change was an increase of \$968,745.

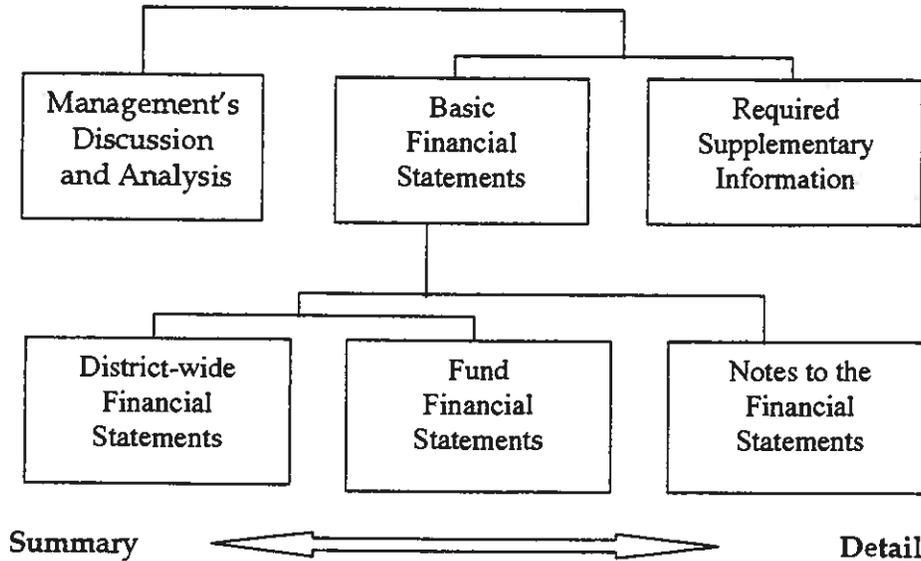
The District incurred debt of \$2,850,000, the proceeds of which is restricted, held in a trust account to be spent only for the purpose of the loan.

Regular current year operations of the General Fund resulted in deficit spending of \$667,626. The inclusion of the special revenue funds and the loan activity increased the fund balance by \$2,650,168, after deficit spending the net change to fund balance was \$1,982,542.

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Components of the Financial Section



The first two statements are *district-wide financial statements*, the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's more significant funds with all other non-major funds presented in total in one column. A comparison of the District's general fund budget is included.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2010-11?"

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

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

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ **Governmental Funds**

Most of the District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund and Bond Interest and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They 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 operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ **Fiduciary Funds**

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate 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.

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were \$11.3 million at June 30, 2011. The unrestricted deficit is \$392,517. Investments in capital assets, net of related debt, account for \$10.5 million of the total net assets. A comparative analysis of government-wide data is presented in Table 1.

(Table 1)
Comparative Statement of Net Assets

	Governmental Activities	
	2011	2010
Assets		
Cash and investments	\$ 3,033,231	\$ 3,672,096
Receivables	650,049	631,165
Prepaid expenditures	403,786	466,460
Capital assets	31,115,416	30,545,324
Total assets	\$ 35,202,482	\$ 35,315,045
Liabilities		
Accounts payable and other current liabilities	\$ 634,782	\$ 1,922,472
Deferred revenue	756,664	796,964
Long-term liabilities	22,504,313	20,429,589
Total liabilities	\$ 23,895,759	\$ 23,149,025
Net Assets		
Invested in capital assets, net of related debt	\$ 10,527,922	\$ 10,365,085
Restricted	1,171,318	1,380,061
Unrestricted (deficit)	(392,517)	420,874
Total net assets	\$ 11,306,723	\$ 12,166,020

PORTOLA VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

The District's net asset position decreased \$859 thousand this fiscal year (see Table 2). The District's expenses for instructional and pupil services represented 81% of total expenses. The purely administrative activities of the District accounted for just 5% of total costs. The remaining 14% was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo and depreciation (see Figure 2).

(Table 2)
Comparative Statement of Change in Net Assets

	Governmental Activities	
	2011	2010
Revenues		
Program revenues	\$ 838,527	\$ 488,941
General revenues		
Taxes levied for general purposes	8,154,734	8,087,763
Taxes levied for other specific purposes	967,192	635,377
Taxes levied for debt service	1,293,020	1,468,152
Federal and State Aid not restricted to specific purposes	333,047	644,017
Interest and investment earnings	78,357	39,902
Interagency revenues		105,267
Miscellaneous	984,001	2,379,853
Total revenues	<u>12,648,878</u>	<u>13,849,272</u>
Expenses		
Instruction	9,465,656	9,745,016
Instruction related services	1,059,022	980,703
Pupil support services	418,282	317,703
General administration	737,757	901,394
Plant services	700,912	856,829
Other	1,126,546	2,425,476
Total expenses	<u>13,508,175</u>	<u>15,227,121</u>
Increase (Decrease) in net assets	<u>\$ (859,297)</u>	<u>\$ (1,377,849)</u>

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

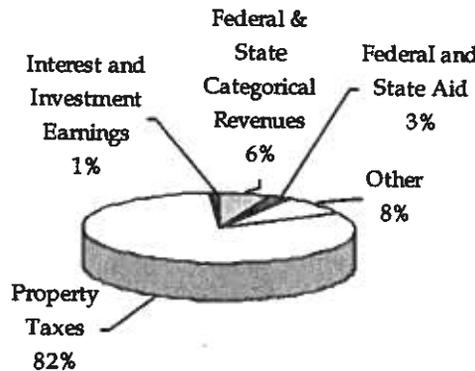
JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS (CONTINUED)

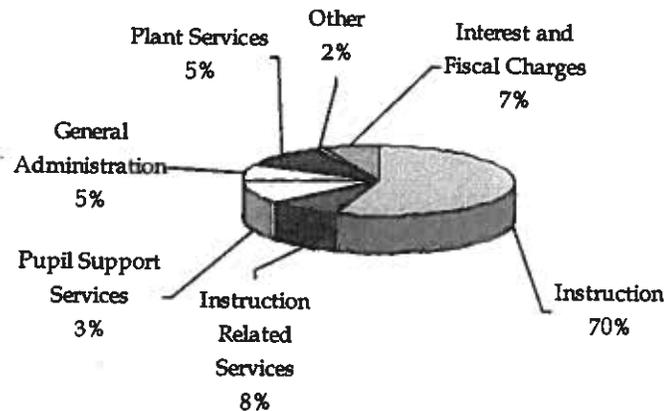
Governmental Activities

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$13.5 million. The amount that our local taxpayers financed for these activities through property taxes was \$10.4 million. Federal and State aid not restricted to specific purposes totaled \$333 thousand. State and Federal Categorical revenue totaled \$782 thousand, (see Figure 1).

**Sources of Revenue for the 2010-11 Fiscal Year
Figure 1**



**Expenses for the 2010-11 Fiscal Year
Figure 2**



PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$3.4 million, an increase of \$798 thousand from the previous fiscal year's combined ending balance of \$2.6 million. The General Fund balance increased \$868 thousand.

General Fund Budgetary Highlights

Over the course of the school year, the District revised the Adopted Budget twice. In December, the First Interim Budget was approved by the Governing Board. This budget reflected changes that occurred since the adoption of the budget in June 2011. Significant changes in the First Interim Budget included actual amounts for property tax revenue based on the J-29B report that was furnished by the San Mateo County Office of Education, personnel costs based on actual staffing, the conclusion of labor contract negotiations with the Portola Valley Teachers Association and the Classified Employees Association and actual special education program costs based on updated Individual Education Plans (IEP).

In February, the Second Interim Budget was presented to the Governing Board for approval. This budget reflected changes that occurred since the adoption of the First Interim Budget in December. This budget reflected revisions to State of California K-12 education funding as set forth by the Governor in his January Revised Budget. The Second Interim Budget also provided the most current information on funding reductions for the 2011-12 school year.

Revenue and expenses associated with grants from the Portola Valley Schools Foundation endowment are added to both the First and Second Interim Budgets. Funds not fully utilized during the 2010-11 school year have been deferred to the 2011-12 school year for use as specified in the grant.

PORTOLA VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL ANALYSIS OF THE FUND STATEMENTS (CONCLUDED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2010-11 fiscal year, the District had invested \$31.1 million (net of depreciation) in a broad range of capital assets, including school buildings, site improvements, vehicles, and equipment. This amount represents a net increase of \$570 thousand over the previous fiscal year due to beginning a solar project, decreased by depreciation expense.

**Table 3
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2011 and 2010**

	2011	2010	Difference Increase (Decrease)
Land	\$ 4,172,050	\$ 4,172,050	
Site Improvements	12,007	12,864	\$ (857)
Buildings	25,658,360	26,341,108	(682,748)
Machinery and Equipment	15,346	19,302	(3,956)
Work in Process	1,257,653		1,257,653
Totals	\$ 31,115,416	\$ 30,545,324	\$ 570,092

Long-Term Debt

At June 30, 2011, the District had \$22.5 million in long-term debt outstanding.

**Table 4
Comparative Schedule of Outstanding Debt
June 30, 2011 and 2010**

	2011	2010
General Obligation Bonds	\$ 18,770,000	\$ 19,515,000
Other Post-employment Benefits	146,899	64,236
Early Retirement Incentives	217,000	169,475
Compensated Absences	16,675	15,639
Capital Lease Obligations	3,353,739	665,239
Totals	\$ 22,504,313	\$ 20,429,589

The District continues to maintain excellent credit ratings on all of its debt issues.

The long-term debt paid by the District was \$988 thousand in 2011. The District incurred new long-term debt of \$3.1 million, including a Federally assisted solar project loan of \$2.8 million.

PORTOLA VALLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Portola Valley School District is not sheltered from the economic challenges that face our State and Nation. The Property tax revenue growth rate has fallen to all-time lows since the District attained "Basic Aid" status. Continuing reductions to categorical program funding from the State of California created additional financial challenges for the District. Short term funding through the American Relief and Recovery Act lessened some of the financial strain on the District.

Looking ahead, flat property tax growth appears to be likely as will reductions in Federal and State categorical program funding. Enrollment growth does not appear to be a major factor at this time. Labor contract negotiations with both labor organizations have not been settled for the 2011-12 year.

The District has a long history of sound financial management. The development of a sizeable special reserve fund of \$1.4 million in the early part of the decade for the purpose of serving as a "rainy day" fund should the District experience financial challenges proved to be fortuitous. In addition to expenditure reductions of over \$1 million during the 2008-09 and 2009-10 school years in the areas of administration, facilities and non-instructional operations, the availability of significant reserve funds has allowed the District to maintain a high level of educational programs and services at a time when many California school districts were cutting programs and increasing class size. Class size of 20 or less, foreign language, music, art and science instruction by specialty teachers as well as award-winning programs with learning challenges have not been compromised.

The District's strong financial health is largely as a result of high residential property values and the corresponding property tax revenue it receives. These property values are not only a result of the unique nature of Portola Valley and surrounding areas, but also the District's stellar K-8 educational program. In a community when a majority of parents are able to afford the high-cost of a private school for their children, Portola Valley parents enroll them in Ormondale (K-3) and Corte Madera (4-8) schools.

With the close of the 2011-12 school year, the District will have utilized a majority of these special reserve funds. The Governing Board and District administration in partnership with the Portola Valley Schools Foundation are committed to maintaining the District's long-term financial health.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact District Superintendent Tim Harretty, Portola Valley School District Business Office, 4575 Alpine Road, Portola Valley, CA 94028, (650) 851-1777, extension 3000.

PORTOLA VALLEY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2011

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Note 2)	\$ 3,033,231
Accounts Receivable (Note 4)	650,049
Prepaid Expenditures (Note 1G)	403,786
Capital Assets, Net of Depreciation (Note 6)	<u>31,115,416</u>
 Total Assets	 <u>\$ 35,202,482</u>
 <u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	\$ 634,782
Deferred Revenue (Note 1G)	756,664
Long-term Liabilities (Note 11)	
Due Within One Year	\$ 911,660
Due After One Year	<u>21,592,653</u>
Total Long-Term Liabilities	<u>22,504,313</u>
 Total Liabilities	 <u>\$ 23,895,759</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	\$ 10,527,922
Restricted For:	
Debt Service	1,171,318
Unrestricted (Deficit)	<u>(392,517)</u>
 Total Net Assets	 <u>\$ 11,306,723</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

<u>Governmental Activities</u>	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Instruction	\$ 9,465,656	\$ 40,385	\$ 370,897	\$ (9,054,374)
Instruction-Related Services:				
Supervision of Instruction	75,621			(75,621)
Instructional Library, Media and Technology	90,121			(90,121)
School Site Administration	893,280	8,176	673	(884,431)
Pupil Services:				
Home-To-School Transportation	31,298			(31,298)
Food Services	27,941			(27,941)
All Other Pupil Services	359,043	7,674	981	(350,388)
General Administration:				
All Other General Administration	737,757			(737,757)
Plant Services	700,912			(700,912)
Ancillary Services	55,967			(55,967)
Interest on Long-Term Debt	912,388			(912,388)
Other Outgo	158,191		409,741	251,550
Total Governmental Activities	\$ 13,508,175	\$ 56,235	\$ 782,292	(12,669,648)

General Revenues:

Property Taxes Levied For:	
General Purposes	8,154,734
Debt Service	1,293,020
Other Specific Purposes	967,192
Federal and State Aid Not Restricted to Specific Purposes	333,047
Interest and Investment Earnings	78,357
Miscellaneous	984,001
Total General Revenues	11,810,351
Change (Decrease) in Net Assets	(859,297)
Net Assets Beginning	12,166,020
Net Assets Ending	\$ 11,306,723

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash (Note 2)	\$ 1,865,037	\$ 1,168,129	\$ 65	\$ 3,033,231
Accounts Receivable (Note 4)	637,786	3,123	9,140	650,049
Due From Other Funds (Note 5)	9,139			9,139
Prepaid Expenditures (Note 1G)	60,907			60,907
Total Assets	\$ 2,572,869	\$ 1,171,252	\$ 9,205	\$ 3,753,326
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts Payable	\$ 274,524			\$ 274,524
Due to Other Funds (Note 5)			\$ 9,139	9,139
Total Liabilities	274,524		9,139	283,663
Fund Balances (Note 1G):				
Nonspendable	61,807			61,807
Restricted	1,536,245	\$ 1,171,252		2,707,497
Assigned	134		66	200
Unassigned	700,159			700,159
Total Fund Balances	2,298,345	1,171,252	66	3,469,663
Total Liabilities and Fund Balances	\$ 2,572,869	\$ 1,171,252	\$ 9,205	\$ 3,753,326

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance - governmental funds \$ 3,469,663

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

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

Capital assets, at historical cost	\$	38,872,038	
Accumulated depreciation:		(7,756,622)	
Net:		31,115,416	

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt.

Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 342,879

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

owing at the end of the period was: (360,258)

Unamortized premiums: In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, premiums are amortized over the life of the debt.

Unamortized premiums at year end are: (756,664)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds	\$	18,770,000	
Other post-employment benefits		146,899	
Early retirement incentives		217,000	
Compensated absences		16,675	
Capital lease obligations		3,353,739	
Total		(22,504,313)	

Total net assets - governmental activities \$ 11,306,723

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

	<u>General Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Revenue Limit Sources				
State Apportionments	\$ 137,520			\$ 137,520
Local Sources	<u>8,154,734</u>			<u>8,154,734</u>
Total Revenue Limit	8,292,254			8,292,254
Federal Revenue	316,548			316,548
Other State Revenue	217,393	\$ 4,241		221,634
Other Local Revenue	<u>2,457,342</u>	<u>1,296,254</u>	<u>\$ 64,847</u>	<u>3,818,443</u>
Total Revenues	<u>11,283,537</u>	<u>1,300,495</u>	<u>64,847</u>	<u>12,648,879</u>
<u>Expenditures</u>				
Certificated Salaries	6,129,725			6,129,725
Classified Salaries	1,691,304			1,691,304
Employee Benefits	2,095,240			2,095,240
Books and Supplies	840,042			840,042
Services and Other				
Operating Expenditures	875,458		35,707	911,165
Capital Outlay	1,257,653			1,257,653
Debt Service:				
Principal Retirement	161,500	745,000		906,500
Interest and Fiscal Charges	<u>186,135</u>	<u>625,964</u>		<u>812,099</u>
Total Expenditures	<u>13,237,057</u>	<u>1,370,964</u>	<u>35,707</u>	<u>14,643,728</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,953,520)</u>	<u>(70,469)</u>	<u>29,140</u>	<u>(1,994,849)</u>
Other Financing Sources (Uses):				
Operating Transfers In (Note 5)	29,139			29,139
Operating Transfers Out (Note 5)			(29,139)	(29,139)
Other Sources	2,850,000			2,850,000
Other Uses	<u>(57,000)</u>			<u>(57,000)</u>
Total Other Financing Sources (Uses)	<u>2,822,139</u>	<u>0</u>	<u>(29,139)</u>	<u>2,793,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	868,619	(70,469)	1	798,151
Fund Balances - July 1, 2010 (Restated - Note 15)	<u>1,429,726</u>	<u>1,241,721</u>	<u>65</u>	<u>2,671,512</u>
Fund Balances - June 30, 2011	<u>\$ 2,298,345</u>	<u>\$ 1,171,252</u>	<u>\$ 66</u>	<u>\$ 3,469,663</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds \$ 798,151

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

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

	Expenditures for capital outlay:	\$ 1,257,653	
	Depreciation expense:	<u>(687,561)</u>	
	Net:		570,092

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

979,605

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(2,850,000)

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

	Issue costs amortized for the period:	\$ <u>(18,300)</u>	
	Net:		(18,300)

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

(174,816)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(1,036)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES-CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2011

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (82,663)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: (120,630)

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 40,300

Total change (decrease) in net assets - governmental activities \$ (859,297)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Agency Fund</u>
<u>Assets</u>	
Cash (Note 2)	\$ 1,717
Total Assets	\$ <u>1,717</u>
<u>Liabilities</u>	
Due to Student Groups	\$ 1,717
Total Liabilities	\$ <u>1,717</u>
Total Net Assets	\$ <u>0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The governing authority of the District consists of five elected officials who, together, constitute the Board of Trustees. The District provides educational services to grades kindergarten through eighth and operates one elementary school and one middle school. The District includes all funds that are controlled by or dependent on the District's governing board for financial reporting purposes.

Component Units:

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 Portola Valley School District, this includes general operations, food service and student related activities of the District. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. Criteria considered in the determination of component units includes but is not limited to:

- Materiality of the entity to the primary government
- Selection of governing authority
- Accountability for fiscal matters
- Ability of the component unit entity to significantly influence operations

Accordingly, for the year ended June 30, 2011, the District considers the Portola Valley School District Foundation, a nonprofit public benefit corporation, to be a legally separate component unit. Financial information for the Foundation was not available for inclusion in the audit report. The contribution to the District by the Foundation in the current year was \$1,161,149 (10% of General Fund revenue) and is included in the District's financial statements as local revenue in the General Fund.

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District and its component units.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus and the modified accrual basis of accounting.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

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

Revenues - exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

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

Deferred revenue:

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

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Expenses/expenditures:

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Expenditures incurred in the unrestricted resources shall be reduced first from the committed resources, then from assigned resources and lastly, the unassigned resources.

D. Fund Accounting

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

MAJOR GOVERNMENTAL FUNDS:

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes amounts separately accounted for by the District in the Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects.

Bond Interest and Redemption Fund is maintained for repayment of bonds issued for the District.

NON-MAJOR GOVERNMENTAL FUNDS:

Special Revenue Funds are used to report the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service and capital outlay, and that comprise a substantial portion of the fund's resources. The District maintained no non-major special revenue funds.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Concluded)

NON-MAJOR GOVERNMENTAL FUNDS (CONCLUDED):

Debt Service Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest. The District maintains one non-major debt service fund:

1. The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. The indebtedness relating to these apportionments is fully paid.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The District maintains one non-major capital projects fund:

1. Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981.

FIDUCIARY FUNDS:

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

E. Budgets and Budgetary Accounting

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

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

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting (Concluded)

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

F. 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.

G. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county either are secured by federal depository insurance or are collateralized.

Investments Valuation - In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. However, the District's financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

2. Prepaid Expenditures

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 expenditure in the period it benefits. Debt issuance costs are reported as prepaid expenditures on the government-wide financial statements, Statement of Net Assets and amortized over the life of the related debt.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over an estimated useful life of 5-50 years depending on the asset class.

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Unamortized bond premium is included in deferred revenue on the government-wide financial statements, Statement of Net Assets.

5. Compensated Absences

All vacation pay is accrued and paid when incurred in the government-wide financial statements. Liability for these amounts is reported in the governmental funds as carryover occurs.

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

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

7. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

8. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted net assets first.

9. Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned, based primarily on the extent to which the District is bound to honor constraints on how specific amounts are to be spent:

Nonspendable Fund Balance - Includes the portions of fund balance not appropriable for expenditures.

Restricted Fund Balance - Includes amounts subject to externally imposed and legally enforceable constraints.

Committed Fund Balance - Includes amounts subject to District constraints self-imposed by formal action of the District Governing Board.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

9. Fund Equity (Continued)

Assigned Fund Balance - Includes amounts the District intends to use for a specific purpose. Assignments may be established by the District Governing Board, or the Superintendent of the District.

Unassigned Fund Balance - Includes the residual balance that has not been assigned to other funds and is not restricted, committed, or assigned to specific purposes.

Fund Balances

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

	General Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
Nonspendable:				
Revolving Fund	\$ 900			\$ 900
Prepaid Expenditures	60,907			60,907
Total Nonspendable Fund Balance	<u>61,807</u>			<u>61,807</u>
Restricted For:				
Remaining Modernization Expenditures	1,536,245			1,536,245
Debt Service		\$ 1,171,252		1,171,252
Total Restricted Fund Balance	<u>1,536,245</u>	<u>1,171,252</u>		<u>2,707,497</u>
Assigned For:				
Purpose of Fund			\$ 66	66
Future Facilities Maintenance/Repairs	134			134
Total Assigned Fund Balance	<u>134</u>	<u>0</u>	<u>66</u>	<u>200</u>
Unassigned:				
Other Unassigned	700,159			700,159
Total Unassigned Fund Balance	<u>700,159</u>	<u>0</u>	<u>0</u>	<u>700,159</u>
Total Fund Balances	<u>\$ 2,298,345</u>	<u>\$ 1,171,252</u>	<u>\$ 66</u>	<u>\$ 3,469,663</u>

Fund Balance Policy

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain unrestricted fund balance in its General Fund sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

9. Fund Equity (Concluded)

Fund Balance Policy (Concluded)

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels because of temporary revenue shortfalls or unpredicted one-time expenditures.

The District has adopted a policy to achieve and maintain unrestricted fund balance in the General Fund of 4% of total General Fund expenditures, other uses and transfers out at the close of each fiscal year, consistent with the recommended level promulgated by the State of California.

Additional detailed information, along with the complete *Fund Balance Policy* can be obtained from the District.

10. Revenue Limit/Property Tax

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

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

PORTOLA VALLEY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

G. Assets, Liabilities and Equity (Concluded)

10. Revenue Limit/Property Tax (Concluded)

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. However, because the District is funded under basic aide funding provisions, the state does not have a revenue limit obligation.

The District's Base Revenue Limit is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

H. New GASB Accounting Standard Adoption

In March, 2009 the Governmental Accounting Standards Board (GASB) issued GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions in an effort to improve the consistency in reporting fund balance components, enhance fund balance presentation, improve the usefulness of fund balance information, and clarify the definitions of the governmental fund types. The classification requirements in GASB 54 improve financial reporting by providing fund balance categories and classifications that are more easily understood. The requirements of GASB 54 are effective for financial statements for period beginning after June 15, 2010 making the new standard effective for the year ending June 30, 2011.

NOTE 2 - CASH AND INVESTMENTS

A. The District had the following cash and investments at June 30, 2011:

	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Credit Quality Rating</u>
Cash in Bank	\$ 1,717	\$ 1,717	Not Rated
Cash in Revolving Fund	900	900	Not Rated
Cash with Fiscal Agent	1,536,245	1,536,245	Not Rated
Cash in County Treasury	1,499,710	1,496,086	Not Rated
Total Cash	\$ 3,038,572	\$ 3,034,948	

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Cash in Banks and in Revolving Fund

Cash balances in banks, and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). These amounts are held within various financial institutions. As of June 30, 2011, the carrying amount of the District's accounts was \$1,539,763, of which \$1,286,245 was not insured by the FDIC.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled \$1,496,086 as of June 30, 2011. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$1,499,710. The District is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds. The county is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

B. Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts held in a commercial bank trust account for federally assisted solar loan proceeds from which vendor payments are made for the project.

C. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2011:

<u>Governmental Activities</u>	<u>Fiduciary Funds Statement of Net Assets</u>	<u>Total</u>
<u>\$3,033,231</u>	<u>\$1,717</u>	<u>\$3,034,948</u>

PORTOLA VALLEY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

D. Risk Disclosure

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy required that at least 30% of the District's investment portfolio mature in less than one year. Additional limitations are that the average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase. At June 30, 2011, the District had the following investment maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less than 1</u>	<u>1 or 2</u>	<u>2 or More</u>
County Treasury	\$ 1,499,710	\$ 797,396	\$ 250,602	\$ 1,047,998
Total	\$ 1,499,710	\$ 797,396	\$ 250,602	\$ 1,047,998

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2011 excess of expenditures over appropriations in individual funds are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
Major Governmental Funds:	
General Fund	
Employee Benefits	\$ 34,717
Books, Supplies and Equipment	38,107
Contract Services	49,005
Capital Outlay	1,257,653
Debt Service-Interest	113,030
Other Uses	57,000
Non-Major Governmental Funds:	
Capital Facilities Fund	
Contract Services	30,707
Transfers Out	9,139

The District incurred unanticipated expenditures for which the budgets were not revised. The District incurred capital outlay expenditures for the solar project for which the budget was not revised.

The District did not approve a budget for Bond Interest and Redemption Fund.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - ACCOUNTS RECEIVABLE

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

	General Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total
Federal Government				
Categorical Aid Programs	\$ 51,923			\$ 51,923
State Government				
Revenue Limit	33,625			33,625
Lottery	48,694			48,694
Other	9,621			9,621
Total State Government	91,940			91,940
Local Government	79,438		\$ 9,139	88,577
Interest	10,383	\$ 3,123		13,506
Miscellaneous	404,102		1	404,103
Total Accounts Receivable	<u>\$ 637,786</u>	<u>\$ 3,123</u>	<u>\$ 9,140</u>	<u>\$ 650,049</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

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

	Interfund Receivables	Interfund Payables
Major Governmental Funds:		
General Fund	\$ 9,139	
Non-Major Governmental Funds:		
Capital Facilities Fund		\$ 9,139
Total	<u>\$ 9,139</u>	<u>\$ 9,139</u>

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS (CONCLUDED)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2010-2011 fiscal year were as follows:

	Transfers In	Transfers Out
Major Governmental Funds:		
General Fund	\$ 29,139	
Non-Major Governmental Funds:		
Capital Facilities Fund		\$ 29,139
Total	\$ 29,139	\$ 29,139

Transfer of \$29,139 from the Capital Facilities Fund to General Fund to support various site and technology improvement leases paid from the General Fund.

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

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

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 4,172,050			\$ 4,172,050
Work in progress		\$ 1,257,653		1,257,653
Total capital assets, not being depreciated	4,172,050	1,257,653	\$ 0	5,429,703
Capital assets being depreciated:				
Buildings	33,297,410			33,297,410
Improvements of sites	17,153			17,153
Equipment	127,772			127,772
Total capital assets, being depreciated	33,442,335	0	0	33,442,335
Less accumulated depreciation for:				
Buildings	6,956,302	682,748		7,639,050
Improvements of sites	4,289	857		5,146
Equipment	108,470	3,956		112,426
Total accumulated depreciation	7,069,061	687,561	0	7,756,622
Total capital assets, being depreciated, net	26,373,274	(687,561)	0	25,685,713
Governmental activities capital assets, net	\$ 30,545,324	\$ 570,092	\$ 0	\$ 31,115,416

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION (CONCLUDED)

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:

Instruction	\$547,460
Instructional supervision and administration	74,478
Instructional library, media and technology	41,759
School site administration	3,651
All other pupil services	3,956
All other general administration	<u>16,257</u>
Total	<u>\$687,561</u>

NOTE 7 - BONDED DEBT

In March 2002, the District issued \$6,000,000 of General Obligation Bonds, authorized in an election held in the District in 2001. The bonds were issued to improve schools by financing and modernization projects at Corte Madera and Ormondale Schools. Payments of principal and interest on the bonds will be made payable on February 1 and August 1 of each year commencing February 1, 2003 from the collection of *ad valorem* taxes upon all property subject to taxation by the District.

In December 2009, refunding bonds in the amount of \$4,910,000 were issued by the Portola Valley School District to defease the Series 1998 General Obligation Bonds. The bonds bear interest rates of 2% to 4% with maturity dates of August 1, 2010 to August 1, 2028. The bonds are issued by the District at a premium sufficient to refund all of the District's General Obligation Bonds, Election of 1998, Series 1998 and to pay costs of issuance of the Bonds.

In May 2010, refunding bonds in the amount of \$9,180,000 were issued by the Portola Valley School District to defease the Series 2001 General Obligation Bonds. The bonds bear interest rates of 2% to 5% with maturity dates of August 1, 2010 to August 1, 2025. The bonds are issued by the District at a premium sufficient to refund all of the District's General Obligation Bonds, Election of 1998, Series 2001 and to pay costs of issuance of the Bonds.

The outstanding general obligation bonded debt of the Portola Valley School District at June 30, 2011 is:

Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding July 01, 2010	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2011
2002	4.25-5.25	2032	\$ 6,000,000	\$ 5,425,000		\$ 105,000	\$ 5,320,000
2009	2.0-4.0	2029	4,910,000	4,910,000		250,000	4,660,000
2010	2.0-5.0	2026	9,180,000	9,180,000		390,000	8,790,000
Total			<u>\$ 20,090,000</u>	<u>\$ 19,515,000</u>	<u>\$ 0</u>	<u>\$ 745,000</u>	<u>\$ 18,770,000</u>

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7 - BONDED DEBT (CONCLUDED)

As described above, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the advance refunding met the requirements of an in-substance debt defeasance and therefore the deferred debt removed as a liability from the District's government-wide financial statements.

The annual requirements to amortize general obligations bonds payable outstanding as of June 30, 2011 are as follows:

Year Ended June 30	Principal	Interest	Total
2012	\$ 595,000	\$ 612,673	\$ 1,207,673
2013	610,000	599,585	1,209,585
2014	630,000	586,248	1,216,248
2015	655,000	572,367	1,227,367
2016	670,000	557,036	1,227,036
2017-2021	3,730,000	2,504,820	6,234,820
2022-2026	4,600,000	1,877,138	6,477,138
2027-2031	5,880,000	1,013,363	6,893,363
2032	1,400,000	141,835	1,541,835
Totals	<u>\$ 18,770,000</u>	<u>\$ 8,465,065</u>	<u>\$ 27,235,065</u>

NOTE 8 - CAPITAL LEASE OBLIGATIONS

The District leases equipment under various lease agreements, which provide for title to pass upon expiration of the lease periods. Additionally, on July 20, 2010, the District entered into an improvement lease agreement for solar equipment in the amount of \$2,850,000. Future minimum lease payments under these agreements are as follows:

Year Ended June 30	Lease Payment
2012	\$ 469,576
2013	497,993
2014	431,388
2015	428,246
2016	328,389
2017-2021	1,316,584
2022-2026	1,309,062
2027	256,949
Total payments	<u>5,038,187</u>
Less amounts representing interest	<u>(1,684,448)</u>
Present value of net minimum lease payments	<u>\$ 3,353,739</u>

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 8 - CAPITAL LEASE OBLIGATIONS (CONCLUDED)

The District will receive no sublease rental revenues nor pay any contingent rentals for these agreements.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

The Portola Valley School District accounts for postemployment benefits under GASB Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension. This accounting requires the District to report its liability for other postemployment benefits (OPEB) consistent with newly established generally accepted accounting principles by reflecting an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

Plan Description

The District provides retiree health benefits, based on age, service and eligibility for pension benefits under either the California State Teachers' Retirement System (CalSTRS) or California Public Employees' Retirement System (CalPERS). Only employees hired prior to July 1, 2001 are eligible to receive District-paid retiree health benefits. The District provides coverage to the following groups of employees and the District and retirees share in the cost of benefits as follows:

	<u>Administrator</u>	<u>Certificated</u>	<u>Classified</u>
Benefits provided	Medical	Medical	Medical
Duration	5 years	5 years	5 years
Required service	10 years	10 years	10 years
Minimum age	56	56	55
Dependent coverage	No	No	No
District contribution	100%	100%	100%
District cap	Active cap	Active cap	Active cap

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

Funding Policy

Employees are not required to contribute to the plan. In order to fully fund the plan, the District would be required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's policy is to pay the benefits as a cash outlay after retirement (the pay-as-you-go method).

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost

For fiscal year ended June 30, 2011, the District's annual OPEB cost (expense) was \$148,463. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the first year of implementing the standard was as follows:

<u>Fiscal Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	<u>\$148,463</u>	<u>44.3%</u>	<u>\$82,663</u>

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	\$149,057
Interest on OPEB Obligation	4,978
Adjustment to annual required contribution	<u>(5,572)</u>
Annual OPEB cost (expense)	148,463
Payments made	<u>(65,800)</u>
Increase in net OPEB obligation	82,663
Net OPEB obligation-beginning of year	<u>64,236</u>
Net OPEB obligation-end of year	<u>\$146,899</u>

Funding Status and Funding Progress

As of October 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$1,051,036, all of which is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (CONCLUDED)

Funding Status and Funding Progress (Concluded)

The funded status of the plan as of June 30, 2011 was as follows:

Actuarial accrued liability (AAL)	\$1,051,036
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$1,051,036</u>
Funded ratio (actuarial value of plan assets/ AAL)	0.00

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 benefits 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 October 1, 2010, actuarial valuation, the "entry age normal" actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return, an annual healthcare cost trend rate of 4% per year, and an assumed payroll increase rate of 3%. The UAAL is being amortized using the level percentage of projected payroll method using a 30 year amortization period. The remaining amortization period at June 30, 2011, was twenty-eight years.

NOTE 10 - EARLY RETIREMENT INCENTIVES

In addition to the benefits described in Note 9 and Note 12, the District has adopted an early retirement incentive program, pursuant to *Education Code* Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

A. Retiree Information

In 2009-2010, three employees retired in exchange for the additional two year service credit. In 2010-2011, an additional employee retired under the early retirement incentive as described.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 10 - EARLY RETIREMENT INCENTIVES (CONCLUDED)

A. Retiree Information (Concluded)

The 2010-2011 retiree is as follows:

<u>Position Vacated</u>	<u>Age</u>	<u>Service Credit</u>	<u>Retired Employee</u>		<u>Replacement Employee</u>	
			<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Teacher	67	16	\$111,626	\$ 15,447	\$ -	\$ -

As a result of this early retirement incentive program, the District expects to incur \$63,640 in additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$63,280
Administrative costs	<u>360</u>
Total additional costs	<u>\$63,640</u>

B. Summary of Obligations for Early Retirement Incentives

During fiscal year 2009-10 and 2010-11, the District offered an Early Retirement Incentive program whereby the service credit to eligible certificated employees is increased by two years. The agreement requires future payments by the District to STRS for the benefit of the retiring employees.

Future estimated payments at June 30, 2011, are as follows:

<u>Year Ended June 30</u>	<u>STRS Golden Handshakes</u>
2012	\$ 37,762
2013	37,179
2014	36,597
2015	36,016
2016	35,434
2017-19	<u>51,570</u>
Total Payments	234,558
Less amount representing interest	<u>(17,558)</u>
Present value of net minimum payments	<u>\$ 217,000</u>

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 - LONG-TERM DEBT

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
General Obligation Bonds	\$ 19,515,000		\$ 745,000	\$ 18,770,000	\$ 595,000
Other Post-employment Benefits	64,236	\$ 148,463	65,800	146,899	
Early Retirement Incentives	169,475	63,280	15,755	217,000	33,530
Compensated Absences	15,639	1,036		16,675	
Capital Lease Obligations	665,239	2,850,000	161,500	3,353,739	266,455
Totals	\$ 20,429,589	\$ 3,062,779	\$ 988,055	\$ 22,504,313	\$ 894,985

The compensated absences, other post-employment benefits, capital lease obligations and early retirement incentives will be paid by the General Fund. Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues.

NOTE 12- EMPLOYEE RETIREMENT SYSTEMS

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

The Compensated Absences payable, Early Retirement Incentives, Other Postemployment Benefits and Capital Lease Obligations will be paid from the General Fund. Payments on the General Obligation Bonds will be made from the Bond Interest and Redemption Fund from local revenues.

A. State Teachers' Retirement System (STRS)

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

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12- EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers' Retirement System (STRS) (Concluded)

Funding Policy. Active plan members are required to contribute 8.0% of their salary and the Portola Valley School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Portola Valley School District's contributions to STRS for the fiscal year ending June 30, 2011, 2010, and 2009 were \$485,317, \$522,846 and \$472,698, respectively, and equal 100% of the required contributions for each year.

B. California Public Employees Retirement System (CalPERS)

Plan Description. The Portola Valley School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Room 1820, Sacramento, CA 95814.

Funding Policy. Active plan members are required to contribute 7.0% of their salary, which Portola Valley School District contributes on their behalf. The Portola Valley School 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 2010-2011 was 10.707% of annual payroll. The contribution requirements of the plan members are established by State statute. The Portola Valley School District's employer contributions to CalPERS for the fiscal year ending June 30, 2011, 2010 and 2009 were \$175,831, \$152,282 and \$171,751, respectively, and equal 100% of the required employer contributions for each year.

C. Social Security

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

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12- EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

D. On Behalf Payment

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS and contributions to PERS for the year ended June 30, 2011. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local education agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. 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, 2011.

B. State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

NOTE 14 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The District participates in one joint venture under a joint powers agreement (JPA) with San Mateo County Schools Insurance Group for Property & Liability, Workers' Compensation and Medical/Dental. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and/or provides coverage for its members. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of its JPA, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPA.

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 15 - RESTATEMENT OF FUND BALANCES

As described in Note 1H, the District adopted Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. The District separately reports activity in Special Revenue Funds. GASB Statement 54 clarifies this fund type is used only to report the proceeds of specific revenue sources that are restricted or committed. The Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Outlay Projects do not meet the criteria of a Special Revenue Fund under GASB 54 and are reported in the General Fund.

The effect of this change in reporting is a restatement of beginning fund balances as follows:

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
Fund Balances, June 30, 2010, as originally reported	\$ 315,803	\$ 124	\$ 1,113,799
Report activity in the General Fund previously accounted for separately in a Special Revenue Fund	1,113,923	(124)	(1,113,799)
Fund Balances, June 30, 2010, as restated	\$ 1,429,726	\$ 0	\$ 0

NOTE 16 - SUBSEQUENT EVENT

Management has evaluated subsequent events through November 28, 2011, the date on which the financial statements were available to be issued.

- A. On July 13, 2011, the District issued \$3,052,000 of tax revenue anticipation notes. The notes mature June 29, 2012 and are priced to yield .35%. The notes were sold to supplement cash flow.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Revenue Limit Sources:				
State Apportionments	\$ 128,564	\$ 137,250	\$ 137,520	\$ 270
Local Sources	8,133,749	8,203,117	8,154,734	(48,383)
Total Revenue Limit	8,262,313	8,340,367	8,292,254	(48,113)
Federal Revenue	188,695	354,957	316,548	(38,409)
Other State Revenue	355,567	547,128	217,393	(329,735)
Other Local Revenue	2,138,383	2,467,338	2,457,342	(9,996)
Total Revenues	10,944,958	11,709,790	11,283,537	(426,253)
<u>Expenditures</u>				
Certificated Salaries	5,821,584	6,133,671	6,129,725	3,946
Classified Salaries	1,565,444	1,695,848	1,691,304	4,544
Employee Benefits	1,881,035	2,060,523	2,095,240	(34,717)
Books and Supplies	784,831	801,935	840,042	(38,107)
Services and Other				
Operating Expenditures	626,107	826,453	875,458	(49,005)
Capital Outlay			1,257,653	(1,257,653)
Debt Service:				
Principal Retirement	161,500	161,500	161,500	
Interest and Fiscal Charges	73,105	73,105	186,135	(113,030)
Total Expenditures	10,913,606	11,753,035	13,237,057	(1,484,022)
Excess of Revenues Over (Under) Expenditures	31,352	(43,245)	(1,953,520)	(1,910,275)
Other Financing Sources (Uses):				
Operating Transfers In	15,000	170,000	29,139	(140,861)
Operating Transfers Out		(150,000)		150,000
Other Sources			2,850,000	2,850,000
Other Uses			(57,000)	(57,000)
Total Other Financing Sources (Uses)	15,000	20,000	2,822,139	2,802,139
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	46,352	(23,245)	868,619	891,864
Fund Balances - July 1, 2010	1,640,046	1,429,726	1,429,726	0
Fund Balances - June 30, 2011	<u>\$ 1,686,398</u>	<u>\$ 1,406,481</u>	<u>\$ 2,298,345</u>	<u>\$ 891,864</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SUPPLEMENTARY INFORMATION SECTION

PORTOLA VALLEY SCHOOL DISTRICT

PORTOLA VALLEY, CALIFORNIA

JUNE 30, 2011

ORGANIZATION

The Portola Valley School District is located in San Mateo County in Portola Valley, California. There was no change in District boundaries during the year. The District operates one K-3 grade elementary school and one 4-8 grade middle school.

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bill Youstra	President	December 2013
Scott Parker	Clerk	December 2013
Ray Villareal	Member	December 2013
Steven Humphreys	Member	December 2011
Jocelyn Swisher	Member	December 2015

ADMINISTRATION

Superintendent
Tim Hanretty

Assistant Superintendent
Dr. Carol Piraino

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

<u>Elementary</u>	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten	56	56
First through Third	247	247
Fourth through Sixth	226	226
Seventh and Eighth	<u>135</u>	<u>137</u>
Totals	<u>664</u>	<u>666</u>

Average daily attendance is a measurement of the numbers 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 the school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

PORTOLA VALLEY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>1982-1983 Actual Minutes</u>	<u>2010-2011 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	37,735	47,800	180	In Compliance
Grade 1	50,400	50,160	57,160	180	In Compliance
Grade 2	50,400	50,160	57,160	180	In Compliance
Grade 3	50,400	50,160	57,160	180	In Compliance
Grade 4	54,000	56,940	59,003	180	In Compliance
Grade 5	54,000	56,940	59,003	180	In Compliance
Grade 6	54,000	57,005	62,608	180	In Compliance
Grade 7	54,000	57,005	62,608	180	In Compliance
Grade 8	54,000	57,005	62,608	180	In Compliance

The District complied with the instructional time requirements under Education Code Sections 46201 through 46206 for all grade levels. However, the District received state funding under the Basic Aid Provisions of the revenue limit and therefore did not receive incentive funding for offering the required instructional time for fiscal year 2010-2011.

This schedule presents information on the amount of instruction 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.

PORTOLA VALLEY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District. There were no charter schools in the Portola Valley School District.

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

<u>Program Name:</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
US Department of Education:			
Passed through California			
Department of Education (CDE):			
Special Education IDEA:			
Local Assistance	84.027	13379	\$ 123,598
Preschool Local Entitlement	84.027A	13682	3,151
Preschool Staff Development, Part B, Sec 619	84.173A	13431	40
Preschool Grants, Part B, Sec 619	84.173	13430	1,645
Preschool Grants Local Entitlement, Part B, Sec 611	84.391	15002	754
Special Education ARRA IDEA:			
Basic Local Assistance	84.931	15003	2,387
Preschool Grants, Part B, Sec 619	84.392	15000	5,307
NCLB Title I, Basic Grant	84.010	14329	9,405
NCLB Title II, Improving Teacher Quality Local Grants	84.367	14341	16,155
NCLB Title III, Limited English Proficiency (LEP) Student Program	84.365	14346	24,531
NCLB Title IV, Safe & Drug Free Schools and Communities	84.186	14347	349
ARRA: State Fiscal Stabilization Fund	84.394	25008	1,284
Education Jobs Fund	84.410	25152	127,942
 Total			 <u>\$ 316,548</u>

PORTOLA VALLEY SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2011, Annual Unaudited Actual Financial Report Fund Balance	\$ 184,683	\$ 134	\$ 968,611
Adjustments and Reclassifications Increasing (Decreasing) the Fund Balance:			
Understatement of Retirement Incentive Expenditures	(39,141)		
Understatement of Interest Expenditure for Energy Loan	(151,908)		
Overstatement of State Revenue for Class-Size Reduction	(150,208)		
Understatement of Fiscal Charges Related to Tax Revenue Anticipation Notes	(50,071)		
Understatement of Energy Loan Proceeds on Deposit with Fiscal Agent	1,536,245		
To conform with GAAP, activity reported separately by the District in certain Special Revenue Funds is reported in the General Fund in these financial statements.	968,745	(134)	(968,611)
Net Adjustments and Reclassifications	2,113,662	(134)	(968,611)
June 30, 2011, Audited Financial Statement Fund Balance	\$ 2,298,345	\$ 0	\$ 0

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Unaudited Actual Financial Report for the year ended June 30, 2011.

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

	Budget	2010-2011	Restated	
	2011-2012		2009-2010	2008-2009
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 11,174,909	\$ 14,162,676	\$ 11,496,033	\$ 11,464,982
Expenditures	11,117,704	13,237,057	12,036,559	11,307,666
Other Uses and Transfers Out	57,205	57,000	0	147,050
Total Outgo	11,174,909	13,294,057	12,036,559	11,454,716
Change in Fund Balance (Deficit)	0	868,619	(540,526)	10,266
Ending Fund Balance	\$ 1,469,970	\$ 2,298,345	\$ 1,429,726	\$ 1,970,252
Available Reserves	\$ 1,469,970	\$ 700,159	\$ 1,113,799	\$ 1,743,703
Designated/Reserve for Economic Uncertainties	\$ 0	\$ 0	\$ 0	\$ 0
Undesignated/Unassigned Fund Balance	\$ 1,469,970	\$ 700,159	\$ 1,113,799	\$ 1,743,703
Available Reserves as a Percentage of Total Outgo	13.2%	5.3%	9.3%	15.2%
Total Long-Term Debt	\$ 21,592,653	\$ 22,504,313	\$ 20,429,589	\$ 20,410,866
Average Daily Attendance at P-2	690	664	700	710

The General Fund balance has increased \$338,359 during the past three years. For a District this size, the State recommends available reserves of 4% of total general fund expenditures, transfers out and other outgo (total outgo). Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty contained within the General Fund.

As described in Note 1H, the District implemented GASB 54 in fiscal year 2010-11. To make the amounts presented on the Schedule of Trends and Analysis for fiscal years 2008-09 and 2009-10 comparable to 2010-11, the District has elected to restate the prior periods presented to retroactively implement GASB 54.

Long-term debt increased by \$2,093,447 during the past two years.

Average daily attendance (ADA) has decreased by 46 during the past two years.

The amounts reported as Budget 2011-2012 are presented for audited analysis and have not been audited.

PORTOLA VALLEY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR FUNDS
 JUNE 30, 2011

	<u>Tax Override Fund</u>	<u>Capital Facilities Fund</u>	<u>Total Non- Major Governmental Funds</u>
<u>Assets</u>			
Cash	\$ 65		\$ 65
Accounts Receivable	1	\$ 9,139	9,140
Total Assets	<u>\$ 66</u>	<u>\$ 9,139</u>	<u>\$ 9,205</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to Other Funds		\$ 9,139	\$ 9,139
Fund Balances:			
Assigned	<u>\$ 66</u>		<u>66</u>
Total Liabilities and Fund Balances	<u>\$ 66</u>	<u>\$ 9,139</u>	<u>\$ 9,205</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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

	Tax Override Fund	Capital Facilities Fund	Total Non- Major Governmental Funds
<u>Revenues</u>			
Other Local Revenue	\$ 1	\$ 64,846	\$ 64,847
<u>Expenditures</u>			
Services and Other Operating Expenditures		35,707	35,707
Excess of Revenues Over Expenditures	1	29,139	29,140
Other Financing Sources (Uses):			
Operating Transfers Out		(29,139)	(29,139)
Excess of Revenues and Over Expenditures and Other Uses	1	0	1
Fund Balances - July 1, 2010	65	0	65
Fund Balances - June 30, 2011	<u>\$ 66</u>	<u>\$ 0</u>	<u>\$ 66</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS - STUDENT ACTIVITIES
FOR THE FISCAL YEAR END JUNE 30, 2011

	Beginning Balance	Additions	Deductions	Ending Balance
<u>STUDENT BODY ACCOUNT</u>				
<u>ASSETS</u>				
Cash	\$ 4,036	\$ 5,295	\$ 7,614	\$ 1,717
<u>LIABILITIES</u>				
Due to Student Groups	\$ 4,036	\$ 5,295	\$ 7,614	\$ 1,717

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

PORTOLA VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects. These schedules present the original adopted budget, final adopted budget, and the actual revenues and expenditures of these funds by object.

B. Schedule of Average Daily Attendance

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

C. 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 and number of days offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

D. Schedule of Charter Schools

This schedule was prepared for the District to disclose financial activity for all federally funded programs.

E. 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 requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

F. Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

G. Schedule of Financial Trends and Analysis

This schedule is presented to improve the evaluation and reporting of the going concern status of the District.

H. Combining Statements and Individual Fund Schedules

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

GOODELL,
PORTER,
SANCHEZ &
BRIGHT, LLP

C E R T I F I E D
P U B L I C
A C C O U N T A N T S

JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
REVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD J. GOODELL, CPA
MICHELLE M. HANSON, CPA

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

Board of Trustees
Portola Valley School District
Portola Valley, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portola Valley School District as of and for the year ended June 30, 2011 which collectively comprise the Portola Valley School District's basic financial statements and have issued our report thereon dated November 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Portola Valley 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*.

Portola Valley School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Portola Valley School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District Board and management and is not intended to be and should not be used by anyone other than the specified parties.


GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

November 28, 2011

GOODELL,
PORTER,
SANCHEZ &
BRIGHT, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
BEVERLY A. SANCHEZ, CPA
SUZY H. BRIGHT, CPA
RICHARD J. GOODELL, CPA
MICHELLE M. HANSON, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS

Board of Trustees
Portola Valley School District
Portola Valley, California

We have audited Portola Valley School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2010-11*, published by the Education Audit Appeals Panel that could have a direct and material effect on each of Portola Valley School District's State programs for the year ended June 30, 2011. Compliance with the applicable requirements is the responsibility of Portola Valley School District's management. Our responsibility is to express an opinion on the District's compliance with the applicable requirements based on our compliance audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance 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 Education Agencies 2010-11*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the compliance 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 State program occurred. The compliance audit includes examining, on a test basis, evidence about Portola Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our compliance audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Portola Valley School District's compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Yes
GANN Limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (Including Charter Schools):		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not Applicable
Districts or Charter Schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	4	Not Applicable
Before School	5	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction, for charter schools	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instructional Minutes - Classroom Based	3	Not Applicable

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

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


 GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
 Certified Public Accountants

November 28, 2011

FINDINGS AND QUESTIONED COSTS SECTION

PORTOLA VALLEY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified
that are not considered to be material
weakness?

Yes None reported

Noncompliance material to financial
statements noted?

Yes No

State Awards

Internal control over state programs:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified
that are not considered to be material
weakness?

Yes None reported

Type of auditor's report issued on compliance
for state programs:

Unqualified

PORTOLA VALLEY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section II - Financial Statements Findings

2011 - 1 - DEFICIT SPENDING - 60000

Specific Requirement That Was Not Complied With: Sound business practices require entities to maintain sufficient reserves to provide a cushion for financial uncertainties. Title 5, CCR, Section 15456 recommends the District maintain available reserves of at least 4% of total General Fund expenditures, transfers out, and other uses (total outgo).

Finding: The unrestricted fund balance of the District has been significantly reduced over the past several years. During the past two years, General Fund unrestricted fund balance has decreased \$1,043,544 (60%). Additionally, the District has financed capital improvement projects with loans which will be repaid by the General Fund. If the District continues to deplete reserves it will become difficult for the District to meet obligations without significant staff and program reductions.

Effect: Although the District's available reserves exceeded the State's minimum recommended amount, if the District continues to deplete reserves it may become difficult to maintain reserves of 4% of General Fund total outgo.

Recommendation: We recommend the District continuously monitor actual expenditures against budgeted 2011-2012 appropriations. No increase in expenditures should be approved unless an expenditure reduction is realized in a different area or unexpected revenue is realized. If budgeted revenues are not received, appropriate expenditure reductions must be made to prevent further increases in deficit spending.

District Response: The District concurs with this finding. By design, the Special Reserve funds were created earlier this decade to allow the District to maintain its high level of programs and services during challenging financial times. Now that these discretionary reserve funds have been nearly expended, the District is prepared to make the necessary expense reductions and/or secure additional sources of private revenue to meet its on-going financial obligations.

2011 - 2 - YEAR END ACCOUNTING CUT OFF PROCEDURES - 30000

Specific Requirement That Was Not Complied With: Under the modified accrual basis of accounting, expenditures are recognized in the period in which the related fund liability is incurred. Revenue is recorded in the fiscal year in which the resources are measurable and become collectable.

Finding: During our audit procedures over the financial statements of Portola Valley School District we found that accruals were incorrectly recorded at year end, resulting in an overstatement of General Fund balance of \$391,328. The overstatement occurred because accounts receivable were overstated and accounts payable were understated at June 30, 2011.

PORTOLA VALLEY SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

JUNE 30, 2011

Section II - Financial Statements Findings (Concluded)

2011 - 2 - YEAR END ACCOUNTING CUT OFF PROCEDURES - 30000 (CONCLUDED)

Effect: By circumventing controls over period end accounting, the District risks making management decisions based on unreliable information. This may cause failure to act to ensure the health of the District, or a delayed response to actual results of District activities.

Recommendation: The District should accrue all current liabilities and only accrue those receivables expected to be collected. We recommend procedures be developed which include a review by a second District employee to ensure the year-end accruals are accurately reported.

District Response: The District concurs with this finding. The District will accrue only those receivables that can be expected to be collected. The Accounting Technician will be trained to review the accrued receivables for accuracy before they are posted.

Section III - Federal Award Findings and Recommendations

No matters are reported.

Section IV - State Award Findings and Questioned Costs

No matters are reported.

PORTOLA VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2011

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
1. We recommend improving the controls over District payroll by requiring a second employee review all hourly employees' payroll entries.	Accepted Implemented	