

LA MESA-SPRING VALLEY SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2012



**LA MESA-SPRING VALLEY SCHOOL DISTRICT
OF SAN DIEGO COUNTY**

LA MESA, CALIFORNIA

JUNE 30, 2012

La Mesa-Spring Valley School District was formed in 1915 and is located in the eastern portion of San Diego County. The District encompasses approximately 26 square miles including the City of La Mesa, a portion of the City of El Cajon and the unincorporated communities of Mt. Helix, Casa de Oro, and Spring Valley. There were no changes in the boundaries of the District during the current year. The District currently operates seventeen elementary schools and four middle schools.

GOVERNING BOARD

Member	Office	Term Expires
Bill Baber	President	December, 2012
Bob Duff	Vice President	December, 2014
Penny Halgren	Clerk	December, 2014
Emma Turner	Member	December, 2012
Rick Winet	Member	December, 2014

DISTRICT ADMINISTRATORS

Brian E. Marshall
Superintendent

Karen Walker
Assistant Superintendent, Instruction

Claudia Bender
Assistant Superintendent, Human Resources

David Yoshihara*
Assistant Superintendent, Business Services

* Mr. Yoshihara resigned subsequent to June 30, 2012. As of the date of this report, the position is vacant.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds – Balance Sheet.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Proprietary Funds – Statement of Net Assets	18
Proprietary Funds – Statement of Revenues, Expenses, and Changes in Net Assets.....	19
Proprietary Funds – Statement of Cash Flows.....	20
Fiduciary Funds – Statement of Net Assets.....	21
Notes to Financial Statements	22

REQUIRED SUPPLEMENTARY INFORMATION

General Fund – Budgetary Comparison Schedule	50
Schedule of Funding Progress	51
Notes to Required Supplementary Information.....	52

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	53
Schedule of Average Daily Attendance (ADA).....	54
Schedule of Instructional Time	55
Schedule of Financial Trends and Analysis.....	56
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	57
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet.....	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	59
Notes to Supplementary Information.....	60

LA MESA-SPRING VALLEY SCHOOL DISTRICT
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2012

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	64
Independent Auditors' Report on State Compliance	66

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	68
Financial Statement Findings.....	69
Federal Award Findings and Questioned Costs	70
State Award Findings and Questioned Costs.....	71
Summary Schedule of Prior Audit Findings	73

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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State Board of Accountancy

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the La Mesa-Spring Valley School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the La Mesa-Spring Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of La Mesa-Spring Valley School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012 on our consideration of La Mesa-Spring Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the required supplementary information, such as management's discussion and analysis on pages 3 through 10, the budgetary comparison information on page 50, and the schedule of funding progress on page 51 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the La Mesa-Spring Valley School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 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 basic financial statements as a whole.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 4, 2012

LA MESA-SPRING VALLEY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

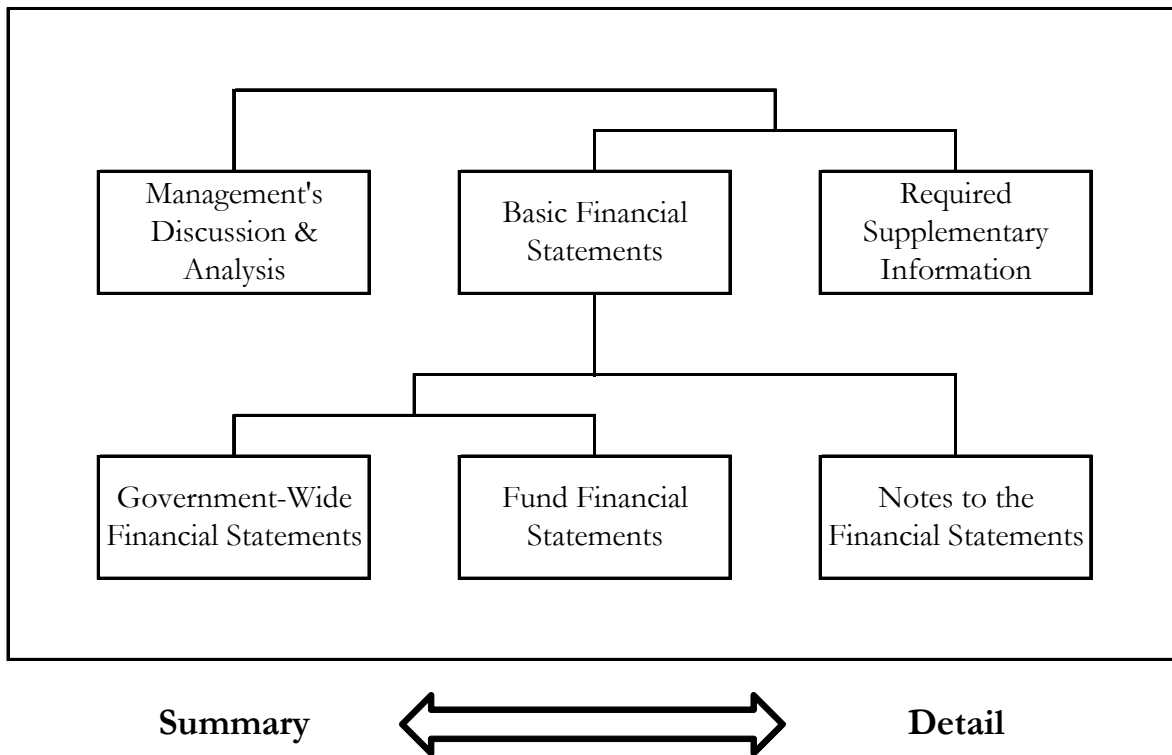
Our discussion and analysis of La Mesa-Spring Valley School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets were \$44,034,758 at June 30, 2012. This was a decrease of \$4,581,619 from the prior year.
- Overall revenues were \$104,929,353 which was exceeded by expenses of \$109,510,972.
- General Fund revenues and other financing sources were exceeded by expenditures and other financing uses by \$1,450,521.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
 - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

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

Government-Wide Statements

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

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District had net assets of \$43,565,949 related to governmental activities and \$468,809 related to business-type activities at June 30, 2012. The decrease in net assets from the prior year is primarily due to decreases in cash and capital assets.

	Governmental Activities			Business-Type Activities		
	2012	2011	Net Change	2012	2011	Net Change
ASSETS						
Current and other assets	\$ 31,749,774	\$ 33,799,445	\$ (2,049,671)	\$ 533,073	\$ 665,053	\$ (131,980)
Capital assets	77,995,950	80,416,499	(2,420,549)	-	-	-
Total Assets	109,745,724	114,215,944	(4,470,220)	533,073	665,053	(131,980)
LIABILITIES						
Current liabilities	16,082,505	13,019,598	(3,062,907)	64,264	154,706	90,442
Long-term liabilities	50,097,270	53,090,316	2,993,046	-	-	-
Total Liabilities	66,179,775	66,109,914	(69,861)	64,264	154,706	90,442
NET ASSETS						
Invested in capital assets, net of related debt	41,625,339	42,923,831	(1,298,492)	-	-	-
Restricted	5,627,797	7,967,500	(2,339,703)	-	-	-
Unrestricted	(3,687,187)	(2,785,301)	(901,886)	468,809	510,347	(41,538)
Total Net Assets	\$ 43,565,949	\$ 48,106,030	\$ (4,540,081)	\$ 468,809	\$ 510,347	\$ (41,538)

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The following table takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues, expenses, and special items for the year.

The District's total revenues relating to governmental activities were \$101,334,544, primarily from federal and state aid and categorical programs and property taxes.

The District's total expenditures relating to governmental activities were \$105,874,625, predominately related to educating and caring for students.

	Governmental Activities			Business-Type Activities		
	2012	2011	Net Change	2012	2011	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 2,481,772	\$ 3,071,848	\$ (590,076)	\$ 3,363,417	\$ 3,299,835	\$ 63,582
Operating grants and contributions	21,798,839	25,956,832	(4,157,993)	11,051	10,894	157
General revenues						
Property taxes	24,033,555	23,100,160	933,395	-	-	-
Unrestricted federal and state aid	51,931,950	51,887,376	44,574	-	-	-
Other	1,088,428	3,882,997	(2,794,569)	220,341	218,211	2,130
Total Revenues	101,334,544	107,899,213	(6,564,669)	3,594,809	3,528,940	65,869
EXPENSES						
Instruction	60,135,016	60,026,528	108,488	-	-	-
Instruction-related services	11,052,567	10,213,859	838,708	-	-	-
Pupil services	15,644,870	15,072,363	572,507	-	-	-
General administration	4,201,259	5,316,125	(1,114,866)	-	-	-
Plant services	7,705,412	8,525,050	(819,638)	-	-	-
Ancillary and community services	1,406,450	1,390,798	15,652	-	-	-
Debt service	1,441,180	2,215,979	(774,799)	-	-	-
Other outgo	324,999	-	324,999	-	-	-
Depreciation	3,954,216	3,912,395	41,821	-	-	-
Other	8,656	9,607	(951)	3,636,347	3,731,474	(95,127)
Total Expenses	105,874,625	106,682,704	(808,079)	3,636,347	3,731,474	(95,127)
Change in net assets	(4,540,081)	1,216,509	(5,756,590)	(41,538)	(202,534)	160,996
Net Assets - Beginning	48,106,030	46,889,521	1,216,509	510,347	712,881	(202,534)
Net Assets - Ending	\$ 43,565,949	\$ 48,106,030	\$ (4,540,081)	\$ 468,809	\$ 510,347	\$ (41,538)

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets (continued)

The cost of all the governmental activities this year was \$105,874,625. The net cost of those activities was only \$81,594,014. The amount that our taxpayers ultimately financed for these activities through taxes was only \$24,033,555.

	Total cost of services	Net cost of services
Instruction	\$ 60,135,016	\$ 49,116,339
Instruction-related services	11,052,567	8,794,541
Pupil services	15,644,870	6,347,341
General administration	4,201,259	3,702,854
Plant services	7,705,412	7,614,597
Ancillary and community services	1,406,450	296,664
Debt service	1,441,180	1,441,180
Transfers to other agencies	324,999	324,488
Depreciation	3,954,216	3,954,216
Other	8,656	1,794
Total Expenses	\$ 105,874,625	\$ 81,594,014

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$18,759,132, which is less than last year's ending fund balance of \$21,759,996. The District's General Fund had \$2,250,730 less in operating revenues than expenditures for the year ended June 30, 2012, offset by a transfer in of \$800,209, leading to a decrease in fund balance of \$1,450,521 from the prior year.

CURRENT YEAR BUDGET 2011-12

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011-12 the District had invested \$77,995,950 in capital assets, net of accumulated depreciation. The District had multiple small projects in 2011-12 that were more than offset by the depreciation expense on capital assets, leading to a decrease in capital assets of \$2,420,549 from the prior year.

	Governmental Activities		
	2012	2011	Net Change
CAPITAL ASSETS			
Land	\$ 16,201,920	\$ 16,201,920	\$ -
Construction in progress	617,245	116,328	500,917
Land improvements	4,105,683	3,965,318	140,365
Buildings & improvements	98,493,670	98,202,206	291,464
Furniture & equipment	8,812,679	8,211,758	600,921
Accumulated depreciation	(50,235,247)	(46,281,031)	(3,954,216)
Total Capital Assets	\$ 77,995,950	\$ 80,416,499	\$ (2,420,549)

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end, the District had \$52,707,362 in long-term debt, a decrease of \$382,954 from last year – as shown below. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2012	2011	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 42,560,622	\$ 43,200,342	\$ (639,720)
Capital leases	82,097	108,263	(26,166)
Early retirement incentive	1,894,660	2,782,130	(887,470)
Compensated absences	852,350	740,322	112,028
Other general long-term debt	-	490,855	(490,855)
Net OPEB obligation	7,317,633	5,768,404	1,549,229
Total Long-term Liabilities	\$ 52,707,362	\$ 53,090,316	\$ (382,954)

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. A major key to higher funding for education is the recovery of the economy. There were two tax initiatives on the November 2012 ballot – the Governor's Proposition 30 and a rival tax initiative, Proposition 38. Since the Governor's proposal was approved by voters in November 2012, K-12 spending will remain flat at roughly the 2011-12 level. State categorical program flexibility continues for the 2011-12 and 2012-13 fiscal years with no anticipated changes. School districts are currently authorized to use funding from Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2013-14 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2012-13 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office, La Mesa-Spring Valley School District, 4750 Date Avenue; La Mesa, CA 91942.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,695,794	\$ 297,273	\$ 8,993,067
Accounts receivable	23,072,063	13,010	23,085,073
Internal balances	(222,790)	222,790	-
Inventory	204,707	-	204,707
Capital assets, not depreciated	16,819,165	-	16,819,165
Capital assets, net of accumulated depreciation	61,176,785	-	61,176,785
Total Assets	109,745,724	533,073	110,278,797
LIABILITIES			
Accrued liabilities	2,456,519	64,264	2,520,783
Current loans	10,820,284	-	10,820,284
Deferred revenue	195,610	-	195,610
Long-term liabilities, current portion	2,610,092	-	2,610,092
Long-term liabilities, non-current portion	50,097,270	-	50,097,270
Total Liabilities	66,179,775	64,264	66,244,039
NET ASSETS			
Invested in capital assets, net of related debt	41,625,339	-	41,625,339
Restricted for			
Capital projects	1,172,852	-	1,172,852
Debt service	2,688,294	-	2,688,294
Educational programs	1,766,651	-	1,766,651
Unrestricted	(3,687,187)	468,809	(3,218,378)
Total Net Assets	\$ 43,565,949	\$ 468,809	\$ 44,034,758

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 60,135,016	\$ 8,281	\$ 11,010,396	\$ (49,116,339)		\$ (49,116,339)
Instruction-related services						
Instructional supervision and administration	3,164,696	123,038	2,056,500	(985,158)		(985,158)
Instructional library, media, and technology	1,995,265	-	24,006	(1,971,259)		(1,971,259)
School site administration	5,892,606	-	54,482	(5,838,124)		(5,838,124)
Pupil services						
Home-to-school transportation	3,250,454	30,228	1,172,993	(2,047,233)		(2,047,233)
Food services	5,709,289	1,076,642	4,073,581	(559,066)		(559,066)
All other pupil services	6,685,127	86,199	2,857,886	(3,741,042)		(3,741,042)
General administration						
Centralized data processing	709,814	-	-	(709,814)		(709,814)
All other general administration	3,491,445	90,407	407,998	(2,993,040)		(2,993,040)
Plant services	7,705,412	60,650	30,165	(7,614,597)		(7,614,597)
Ancillary services	124,396	-	109,077	(15,319)		(15,319)
Community services	1,282,054	998,954	1,755	(281,345)		(281,345)
Enterprise activities	8,656	6,862	-	(1,794)		(1,794)
Interest on long-term debt	1,441,180	-	-	(1,441,180)		(1,441,180)
Other Outgo	324,999	511	-	(324,488)		(324,488)
Depreciation (unallocated)	3,954,216	-	-	(3,954,216)		(3,954,216)
Total Governmental Activities	\$ 105,874,625	\$ 2,481,772	\$ 21,798,839	(81,594,014)		
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	\$ 3,636,347	\$ 3,363,417	\$ 11,051		\$ (261,879)	(261,879)
Total Business-Type Activities	3,636,347	3,363,417	11,051		(261,879)	(261,879)
Total School District	\$ 109,510,972	\$ 5,845,189	\$ 21,809,890			(81,855,893)
General revenues						
Taxes and subventions						
Property taxes, levied for general purposes				21,069,237	-	21,069,237
Property taxes, levied for debt service				2,931,284	-	2,931,284
Property taxes, levied for other specific purposes				33,034	-	33,034
Federal and state aid not restricted for specific purposes				51,931,950	-	-
Interest and investment earnings				173,617	-	-
Miscellaneous				914,811	220,341	1,135,152
Subtotal, General Revenue				77,053,933	220,341	25,168,707
CHANGE IN NET ASSETS				(4,540,081)	(41,538)	(4,581,619)
Net Assets - Beginning				48,106,030	510,347	48,616,377
Net Assets - Ending				\$ 43,565,949	\$ 468,809	\$ 44,034,758

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,626,524	\$ 5,069,270	\$ 8,695,794
Accounts receivable	22,145,932	926,131	23,072,063
Due from other funds	330,639	3,179	333,818
Stores inventory	145,642	59,065	204,707
Total Assets	\$ 26,248,737	\$ 6,057,645	\$ 32,306,382
LIABILITIES			
Accrued liabilities	\$ 1,899,838	\$ 74,910	\$ 1,974,748
Due to other funds	4,307	552,301	556,608
Current loans	10,820,284	-	10,820,284
Deferred revenue	108,298	87,312	195,610
Total Liabilities	12,832,727	714,523	13,547,250
FUND BALANCES			
Nonspendable	189,292	59,065	248,357
Restricted	1,409,934	5,284,057	6,693,991
Assigned	5,425,694	-	5,425,694
Unassigned	6,391,090	-	6,391,090
Total Fund Balances	13,416,010	5,343,122	18,759,132
Total Liabilities and Fund Balances	\$ 26,248,737	\$ 6,057,645	\$ 32,306,382

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
JUNE 30, 2012

Total Fund Balance - Governmental Funds \$ 18,759,132

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds 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	\$ 128,231,197	
Accumulated depreciation	<u>(50,235,247)</u>	77,995,950

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 unmatrued interest owing at the end of the period was:

(481,771)

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:

Total general obligation bonds	\$ 42,560,622	
Capital leases	82,097	
Early retirement incentive	1,894,660	
Compensated absences	852,350	
Net OPEB obligation	<u>7,317,633</u>	(52,707,362)

Total Net Assets - Governmental Activities	\$	<u>43,565,949</u>
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The accompanying notes are an integral part of these financial statements.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources			
State aid	\$ 39,089,852	\$ -	\$ 39,089,852
Local sources	20,701,692	-	20,701,692
Transfers	590,057	-	590,057
Federal sources	7,061,886	4,293,913	11,355,799
Other state sources	16,388,746	944,560	17,333,306
Other local sources	8,246,678	4,017,160	12,263,838
Total Revenues	92,078,911	9,255,633	101,334,544
EXPENDITURES			
Current			
Instruction	59,644,896	460,910	60,105,806
Instruction-related services			
Instructional supervision and administration	3,080,805	100,188	3,180,993
Instructional library, media, and technology	1,995,265	-	1,995,265
School site administration	5,844,901	47,705	5,892,606
Pupil services			
Home-to-school transportation	3,257,188	-	3,257,188
Food services	31	5,855,508	5,855,539
All other pupil services	6,685,127	-	6,685,127
General administration			
Centralized data processing	876,418	-	876,418
All other general administration	3,240,168	251,277	3,491,445
Plant services	7,695,653	25,322	7,720,975
Facilities acquisition and maintenance	379,939	548,558	928,497
Ancillary services	124,396	-	124,396
Community services	1,280,299	1,755	1,282,054
Enterprise activities	-	8,656	8,656
Debt service			
Principal	26,166	1,520,000	1,546,166
Interest and other	198,389	1,185,888	1,384,277
Total Expenditures	94,329,641	10,005,767	104,335,408
Excess (Deficiency) of Revenues			
Over Expenditures	(2,250,730)	(750,134)	(3,000,864)
Other Financing Sources (Uses)			
Transfers In	800,209	-	800,209
Transfers Out	-	(800,209)	(800,209)
Net Financing Sources (Uses)	800,209	(800,209)	-
NET CHANGE IN FUND BALANCE	(1,450,521)	(1,550,343)	(3,000,864)
Fund Balance - Beginning	14,866,531	6,893,465	21,759,996
Fund Balance - Ending	\$ 13,416,010	\$ 5,343,122	\$ 18,759,132

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds	\$ (3,000,864)
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds 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 period is:

Expenditures for capital outlay:	\$ 1,533,667	
Depreciation expense:	<u>(3,954,216)</u>	(2,420,549)

Debt service:

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

1,546,166

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 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:

498,378

Accreted interest on long-term debt:

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

(880,280)

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES, continued
FOR THE YEAR ENDED JUNE 30, 2012**

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 amount earned. The difference between compensated absences paid and compensated absences earned, was:

(112,028)

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:

(1,549,229)

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. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

1,378,325

Change in Net Assets of Governmental Activities

\$	(4,540,081)
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The accompanying notes are an integral part of these financial statements.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2012

		Business-Type Activities
		Enterprise Funds
		Child Development
ASSETS		
Current assets		
Cash and cash equivalents	\$	297,273
Accounts receivable		13,010
Due from other funds		266,707
Total current assets		576,990
Total Assets		576,990
LIABILITIES		
Current liabilities		
Accrued liabilities		64,264
Due to other funds		43,917
Total current liabilities		108,181
Total Liabilities		108,181
NET ASSETS		
Unrestricted		468,809
Total Net Assets	\$	468,809

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds
	Child Development
OPERATING REVENUE	
Local revenues	\$ 3,590,530
Total operating revenues	3,590,530
OPERATING EXPENSE	
Salaries and benefits	2,853,373
Supplies and materials	131,564
Professional services	651,410
Total operating expenses	3,636,347
Operating income/(loss)	(45,817)
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	4,279
Total non-operating revenues/(expenses)	4,279
CHANGE IN NET ASSETS	(41,538)
Net Assets - Beginning	510,347
Net Assets - Ending	\$ 468,809

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

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds
	Child Development
Cash flows from operating activities	
Cash received from user charges	\$ 3,344,809
Cash payments for payroll, insurance, and operating costs	(4,137,049)
Net cash provided by (used for) operating activities	(792,240)
Cash flows from investing activities	
Interest received	4,279
Net cash provided by (used for) investing activities	4,279
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(787,961)
CASH AND CASH EQUIVALENTS	
Beginning of year	1,085,234
End of year	\$ 297,273
Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	\$ (45,817)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,095)
(Increase) decrease in due from other funds	(242,626)
Increase (decrease) in accounts payable	(90,442)
Increase (decrease) in due to other funds	(410,260)
Net cash provided by (used for) operating activities	\$ (792,240)

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012

	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Fund</u>
ASSETS	
Cash and cash equivalents	\$ 178,748
Total Assets	<u>\$ 178,748</u>
LIABILITIES	
Due to student groups	\$ 178,748
Total Liabilities	<u>\$ 178,748</u>

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

The La Mesa-Spring Valley Educational Foundation is a nonprofit organization that supports the La Mesa Spring Valley School District. It was established in 1983 by a group of citizens. The foundation provides a formalized avenue for raising funds to directly support public education in the La Mesa-Spring Valley School District. The La Mesa-Spring Valley Educational Foundation is not a component unit of the La Mesa-Spring Valley School District as it does not meet the criteria noted above.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-Wide Statements. The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary and fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others that cannot be used to support the District's own programs.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (Education Code Section 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections 38091 and 38100*).

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

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

Debt Service Funds: Debt service funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Proprietary Funds

Enterprise Funds: Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services.

Child Care Fund: The District maintains the childcare before and after school (parent paid) program in the Child Care Enterprise Fund.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Fiduciary Funds

Trust and Agency Funds: Trust and agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the District's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Student Body Fund: The Student Body Fund is an agency fund and, therefore, consists only of accounts such as cash and balancing liability accounts, such as due to student groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (*Education Code Sections 48930–48938*).

D. Basis of Accounting – Measurement Focus

Government-Wide, Proprietary, and Fiduciary Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Governmental Funds

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.

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. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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.

E. Assets, Liabilities, Fund Balance and Net Assets

Cash and Cash Equivalents

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

Investments

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

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (continued)

Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, Fund Balance and Net Assets (continued)

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Liabilities, Fund Balance and Net Assets (*continued*)

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Assets

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

F. Interfund Activity

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. Budgetary Data

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

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

I. Property Tax

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

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Activities	Business-Type Activities	Fiduciary Funds
Cash in county	\$ 7,723,015	\$ 297,273	\$ -
Cash on hand and in banks	5	-	178,748
Cash with fiscal agent	929,124	-	-
Cash in revolving fund	43,650	-	-
Total cash and cash equivalents	\$ 8,695,794	\$ 297,273	\$ 178,748

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The San Diego County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is based upon the District’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Cash with Fiscal Agent - Cash with Fiscal Agent represents \$929,124 recorded in the Building Fund. The monies are held by Union Bank and are restricted for construction costs relating to the District’s Proposition M bond.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$8,020,288 and an amortized book value of \$8,043,904. The average weighted maturity for this pool is 370 days.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2012, the pooled investments in the County Treasury were rated AAAs/S1 by Standard and Poor's.

F. Custodial Credit Risk – Deposits

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

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Total Business- Type Activities
Federal Government				
Categorical aid	\$ 1,439,510	\$ 807,564	\$ 2,247,074	\$ -
State Government				
Apportionment	15,102,171	-	15,102,171	-
Categorical aid	2,301,870	103,035	2,404,905	-
Lottery	920,410	-	920,410	-
Local Government				
Interest	10,527	1,646	12,173	889
Other Local Sources	2,371,444	13,886	2,385,330	12,121
Total	\$ 22,145,932	\$ 926,131	\$ 23,072,063	\$ 13,010

As of October 31, 2012 the District had received \$21,625,824 of accounts receivable noted above. The full balance is expected to be collected.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 16,201,920	\$ -	\$ -	\$ 16,201,920
Construction in progress	116,328	617,245	116,328	617,245
Total Capital Assets not Being Depreciated	16,318,248	617,245	116,328	16,819,165
Capital assets being depreciated				
Land improvements	3,965,318	140,365	-	4,105,683
Buildings & improvements	98,202,206	291,464	-	98,493,670
Furniture & equipment	8,211,758	600,921	-	8,812,679
Total Capital Assets Being Depreciated	110,379,282	1,032,750	-	111,412,032
Less Accumulated Depreciation				
Land improvements	2,454,533	97,460	-	2,551,993
Buildings & improvements	38,276,721	3,501,553	-	41,778,274
Furniture & equipment	5,549,777	355,203	-	5,904,980
Total Accumulated Depreciation	46,281,031	3,954,216	-	50,235,247
Governmental Activities				
Capital Assets, net	\$ 80,416,499	\$ (2,304,221)	\$ 116,328	\$ 77,995,950

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due From/Due To)

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

Due To Other Funds	Due From Other Funds			
	General Fund	Non-Major Governmental Funds	Child Development Enterprise Fund	Total
General Fund	\$ -	\$ -	\$ 4,307	\$ 4,307
Non-Major Governmental Funds	289,901	-	262,400	552,301
Child Development Enterprise Fund	40,738	3,179	-	43,917
Total Due From Other Funds	\$ 330,639	\$ 3,179	\$ 266,707	\$ 600,525

Due from the Cafeteria Fund to the General Fund for indirect and other costs	\$ 276,640
Due from the Cafeteria Fund to the Child Development Enterprise Fund for a short-term loan	260,000
Due from the Child Development Enterprise Fund to the General Fund for GASB 45 and other costs	40,738
Due from the Child Development Fund to the General Fund for indirect and GASB 45 costs	13,957
Due from the General Fund to the Child Development Enterprise Fund to correct expenditures	4,307
Due from the Child Development Enterprise Fund to the Cafetera Fund for ESS snacks	3,179
Due from the Capital Facilities Fund to the General Fund for administrative fees	1,704
Total	\$ 600,525

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In	
	General Fund	
Non-Major Governmental Funds		800,209
Total Interfund Transfers	\$	800,209

Transfer from the Special Reserve Fund for other than Capital Outlay to the General Fund for salary and wellness program and to reimburse for early retirement incentive payments	\$ 799,564
Transfer from the Cafeteria Fund to the General Fund for vending machine proceeds	645
Total	\$ 800,209

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012 consisted of the following:

	General Fund	Non-Major Governmental Funds	District-Wide	Total Governmental Activities	Total Business- Type Activities
Payroll	\$ 391,135	\$ 21,369	\$ -	\$ 412,504	\$ 41,148
Vendors payable	1,508,703	53,541	-	1,562,244	23,116
Unmatured interest	-	-	481,771	481,771	-
Total	\$ 1,899,838	\$ 74,910	\$ 481,771	\$ 2,456,519	\$ 64,264

NOTE 7 – DEFERRED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 103,267	\$ -	\$ 103,267
Local deferrals	5,031	87,312	92,343
Total	\$ 108,298	\$ 87,312	\$ 195,610

NOTE 8 – CURRENT LOANS

On July 1, 2011, the District issued \$8,895,000 of Tax and Revenue Anticipation Notes bearing interest at 1 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on April 1, 2012. By June 30, 2012, the District had paid off the notes.

In April 2012, the District received a temporary loan of \$14,250,000 from the San Diego County Treasury bearing interest at 0.75 percent. The temporary loan was received to supplement cash flows. As of June 30, 2012, the District had made principal payments of \$3,429,716 leaving a balance outstanding of \$10,820,284. By August 2012, the District had paid off the temporary loan.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2012 consisted of the following:

	Balance July 01, 2011	Additions	Deductions	Balance June 30, 2012	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 38,874,708	\$ -	\$ 1,520,000	\$ 37,354,708	\$ 1,700,000
Accreted interest	4,325,634	880,280	-	5,205,914	-
Total general obligation bonds	43,200,342	880,280	1,520,000	42,560,622	1,700,000
Capital leases	108,263	-	26,166	82,097	27,444
Early retirement incentive	2,782,130	-	887,470	1,894,660	882,648
Compensated absences	740,322	112,028	-	852,350	-
Other general long-term debt	490,855	-	490,855	-	-
Net OPEB obligation	5,768,404	2,864,943	1,315,714	7,317,633	-
Total	\$ 53,090,316	\$ 3,857,251	\$ 4,240,205	\$ 52,707,362	\$ 2,610,092

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2012 amounted to \$852,350. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. General Obligation Bonds

On March 5, 2002, the voters of the La Mesa-Spring Valley School District approved by more than 55% Proposition M, authorizing the issuance and sale of \$44,000,000 of general obligation bonds. On June 26, 2002, the District issued Series A of the Election of 2002 General Obligation Bonds in the amount of \$31,330,140. On March 9, 2005, the District refinanced the Series A bonds and issued Series B bonds. The 2005 General Obligation Refunding Bonds amounted to \$31,885,000 and the 2002 General Obligation Bonds, Series B amounted to \$12,669,709, resulting in total bond indebtedness of \$44,554,709, as described below:

- The 2005 General Obligation Refunding Bonds Consist of current interest serial bonds of \$31,885,000 with stated interest rates ranging from 3.0% to 5.0% and fully maturing on August 1, 2021. The principal balance outstanding as of June 30, 2012 is \$24,925,000.
- The 2002 General Obligation Series B bond issue consists of: (a) current interest serial bonds of \$240,000 with a stated interest rate of 3.0% and fully maturing on August 1, 2005; and, (b) capital appreciation serial bonds of \$12,429,709 with a yield ranging from 4.9% to 5.2% and fully maturing on August 1, 2028. The balance outstanding as of June 30, 2012 is \$17,635,622, which includes accreted interest on the capital appreciation bonds.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT (continued)

B. General Obligation Bonds (continued)

The annual requirements to amortize all general obligation bonds payable outstanding at June 30, 2012 were as follows:

Year Ended June 30,	Principal*	Interest	Total
2013	\$ 1,700,000	\$ 1,156,250	\$ 2,856,250
2014	1,890,000	1,096,750	2,986,750
2015	2,095,000	1,025,625	3,120,625
2016	2,325,000	935,813	3,260,813
2017	2,565,000	836,562	3,401,562
2018 - 2022	15,671,472	3,608,841	19,280,313
2023 - 2027	8,516,976	14,393,022	22,909,998
2028 - 2029	2,591,260	6,078,740	8,670,000
Total	<u>\$ 37,354,708</u>	<u>\$ 29,131,603</u>	<u>\$ 66,486,311</u>

* Principal excludes accreted interest of \$5,205,914

C. Lease Agreement

On November 26, 1997, the District entered into a leasing agreement with Xerox for photocopy equipment. The term of the lease ended in April, 2010 and went to a month to month agreement through June 2010. Effective May 26, 2010 the District entered into lease agreement with Ricoh Business Solutions, and the lease was subsequently sold to De Lage Laden Public Finance. Future minimum lease payments under this agreement are as follows:

Year Ended June 30,	Lease Payment
2013	\$ 30,888
2014	30,888
2015	26,657
Total	<u>88,433</u>
Less: Amount representing interest	<u>(6,336)</u>
Present value of minimum lease payments	<u>\$ 82,097</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 9 – LONG-TERM DEBT (continued)

D. Early Retirement Incentive

In April 2008 the District entered into a PARS supplementary retirement plan in which 32 certificated employees and 34 classified employees elected for early retirement in exchange for early retirement incentive payments. In April 2010 the District entered into a PARS supplementary retirement plan in which 52 certificated employees elected to take the early retirement incentive. As of June 30, 2012, the outstanding balance related to the District's early retirement incentive liability was \$1,894,660.

E. Other Long-term Liabilities

The District had other long-term liabilities related to student information system and textbook purchases that were both financed long-term through the vendors. The final payments were made during the year ended June 30, 2012.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 10 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2012:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Revolving cash	\$ 43,650	\$ -	\$ 43,650
Stores inventory	145,642	59,065	204,707
Total non-spendable	189,292	59,065	248,357
Restricted			
Educational programs	1,409,934	42,266	1,452,200
Capital projects	-	2,239,046	2,239,046
Debt service	-	2,688,294	2,688,294
All others	-	314,451	314,451
Total restricted	1,409,934	5,284,057	6,693,991
Assigned			
Lottery revenue	1,499,382	-	1,499,382
Deferred maintenance	1,042,978	-	1,042,978
Vacation balance	852,350	-	852,350
Option out transfer	700,000	-	700,000
Site donations, mini-grants, textbooks	329,610	-	329,610
Facility use funds	46,522	-	46,522
Option out funds	954,852	-	954,852
Total assigned	5,425,694	-	5,425,694
Unassigned			
Reserve for economic uncertainties	4,624,018	-	4,624,018
Remaining unassigned	1,767,072	-	1,767,072
Total unassigned	6,391,090	-	6,391,090
Total	\$ 13,416,010	\$ 5,343,122	\$ 18,759,132

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy targets a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 5 percent of General Fund expenditures and other financing uses, inclusive of the minimum required by California Education Code.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 –POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

A. Plan Description and Contribution Information

The District administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The District implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2009-10.

Membership of the plan consisted of the following:

Retirees and beneficiaries receiving benefits	189
Active plan members	1,052
Total	<u>1,241</u>
Number of participating employers	1

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. The District provides medical benefits at the same level they are receiving at the time of retirement for a period of up to age 65 or Medicare eligibility, if earlier, except in the case of some individual employment contracts which provide lifetime medical benefits.

B. Funding Policy

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2011-12, the District contributed \$1,315,714.

As of June 30, 2012, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$	2,951,766
Interest on net OPEB obligation		288,420
Adjustment to annual required contribution		(375,243)
Annual OPEB cost (expense)		<u>2,864,943</u>
Contributions made		<u>(1,315,714)</u>
Increase (decrease) in net OPEB obligation		1,549,229
Net OPEB obligation, beginning of the year		<u>5,768,404</u>
Net OPEB obligation, end of the year	\$	<u>7,317,633</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 and the preceding two years were as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 2,864,943	46%	\$ 7,317,633
2011	\$ 2,682,930	53%	\$ 5,768,404
2010	\$ 2,481,387	45%	\$ 4,515,209

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (continued)

D. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2011	\$ -	\$ 23,972,309	\$ 23,972,309	0%	\$ 66,898,045	36%

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, investment returns, 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.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level-Dollar Basis
Remaining Amortization Period	30
Actuarial Assumptions:	
Investment rate of return	5.0%
Discount rate	5.0%
Health care trend rate	4.0%

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Required Contribution	Percent of Required Contribution
2011-12	\$ 3,860,955	\$ 3,860,955	100%
2010-11	\$ 3,994,080	\$ 3,994,080	100%
2009-10	\$ 4,457,562	\$ 4,457,562	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$1,988,581 to CalSTRS (4.267% of salaries subject to CalSTRS in 2011-12).

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Required Contribution	Percent of Required Contribution
2011-12	\$ 1,853,000	\$ 1,853,000	100%
2010-11	\$ 1,885,799	\$ 1,885,799	100%
2009-10	\$ 1,797,537	\$ 1,797,537	100%

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Construction Commitments

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of \$886,245.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The La Mesa-Spring Valley School District participates in two joint ventures under joint powers agreement (JPA), the San Diego County Schools Risk Management JPA (RM) and Facilities Joint Powers Authority (FACJPA). The relationship between the District and the JPA's is such that the JPA's are not a component unit of the District for financial reporting purposes.

The RM JPA arranges for and provides workers' compensation, health, and property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

The FAC JPA consists of other districts within the county and the San Diego County Office of Education. The JPA is intended to provide members with the opportunity to achieve planning and construction savings by pooling the resources of its members and providing efficiencies and economies of scale which would potentially be unavailable if the members undertook planning and construction projects on an individual basis. The JPA also strives to develop alliances with SDCOE, Division of the State Architect, and the Office of Public School Construction.

The FAC JPA provides management of facilities planning and construction and expertise on a range of facilities and construction needs from technical support to master planning construction projects. Contracts for FACJPA services are negotiated on a case by case basis when the district utilizes FACJPA services.

Condensed audited financial information for the most currently available year is available from the JPA.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2012

NOTE 15 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 14, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year.

NOTE 16 – SUBSEQUENT EVENTS

In July 2012, the District received a temporary loan of \$12,249,513 from the San Diego County Treasury bearing interest at 0.75 percent. The loan was obtained from 85% of the 2011-12 property tax revenue. The temporary loan was received to supplement cash flows. Repayment of the loan will be made as property taxes are collected. The balance as of October 31, 2012 was \$11,473,090.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final	(Budgetary Basis)*	Final to Actual
REVENUES				
Revenue limit sources				
State aid	\$ 39,668,973	\$ 39,150,335	\$ 39,089,852	\$ (60,483)
Local sources	20,628,523	20,594,522	20,701,692	107,170
Transfers	575,186	587,019	590,057	3,038
Federal sources	5,932,093	7,433,181	7,061,886	(371,295)
Other State sources	13,402,988	14,237,050	14,411,194	174,144
Other local sources	7,773,521	8,162,548	8,242,484	79,936
Total Revenues	87,981,284	90,164,655	90,097,165	(67,490)
EXPENDITURES				
Certificated salaries	43,824,091	46,638,241	46,625,058	13,183
Classified salaries	14,995,955	15,295,352	15,543,585	(248,233)
Employee benefits	18,894,783	18,869,819	18,804,143	65,676
Books and supplies	5,498,311	6,662,856	4,464,915	2,197,941
Services and other operating expenditures	7,292,827	7,268,105	6,289,671	978,434
Capital outlay	122,355	1,015,887	838,858	177,029
Other outgo				
Excluding transfers of indirect costs	30,888	32,559	30,888	1,671
Transfers of indirect costs	(232,952)	(24,382)	(245,029)	220,647
Total Expenditures	90,426,258	95,758,437	92,352,089	3,406,348
Excess (Deficiency) of Revenues				
Over Expenditures	(2,444,974)	(5,593,782)	(2,254,924)	3,338,858
Other Financing Sources (Uses)				
Transfers In	472,173	849,508	851,810	2,302
Transfers Out	-	(128,282)	(128,282)	-
Net Financing Sources (Uses)	472,173	721,226	723,528	2,302
NET CHANGE IN FUND BALANCE	(1,972,801)	(4,872,556)	(1,531,396)	3,341,160
Fund Balance - Beginning	13,992,554	13,992,554	13,992,554	-
Fund Balance - Ending	\$ 12,019,753	\$ 9,119,998	\$ 12,461,158	\$ 3,341,160

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- On behalf payments of \$1,988,581 are not included in the actual revenues and expenditures reported in this schedule.
- Actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

See accompanying note to required supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Valuation of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2007	\$ -	\$ 31,282,109	\$ 31,282,109	0%	\$ 82,447,563	38%
July 1, 2009	\$ -	\$ 19,541,387	\$ 19,541,387	0%	\$ 82,447,563	24%
July 1, 2011	\$ -	\$ 23,972,309	\$ 23,972,309	0%	\$ 66,898,045	36%

See accompanying note to required supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of Funding Progress

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2012, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified salaries	\$ 15,295,352	\$ 15,543,585	\$ 248,233

The excess expenditure over appropriations was caused by several factors including: \$91,000 higher than anticipated costs of substitutes, extra time and overtime in a combination of unrestricted and restricted programs, \$10,500 higher than projected costs of vacation payout of Assistant Superintendent, and \$137,800 higher than anticipated costs of playground attendants and hourly ASES staff.

SUPPLEMENTARY INFORMATION

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,154,920
Title I, Part A, Program Improvement LEA Corrective Action Resources	84.010	14955	447,922
Subtotal Title I, Part A Cluster			<u>2,602,842</u>
Title II, Part A, Administrator Training	84.367	14344	6,000
Title II, Part A, Teacher Quality	84.367A	14341	545,355
ARRA - Education Technology State Grants	84.386	15019	6,273
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	357,165
Title III, Immigrant Education	84.365	15146	35,800
Title VIII, Impact Aid	84.041	10015	44,388
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,114,156
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	64,916
Part B, Preschool Grants	84.173	13430	168,289
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	256,710
ARRA - Preschool Local Entitlement, Part B	84.391	15002	51,982
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	277,410
Preschool Staff Development	84.173A	13431	1,147
Subtotal Special Education Cluster			<u>2,934,610</u>
IDEA Early Intervention Grants	84.181	23761	25,595
Title X, McKinney-Vento Homeless Assistance	84.196	14332	25,476
Education Jobs Fund	84.310	25152	33,237
Total U. S. Department of Education			<u>6,616,741</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program, Basic	10.553	13525	28,626
School Breakfast Program, Severe Need	10.553	13526	621,202
National School Lunch Program	10.555	13391	2,973,850
Special Milk Program for Children	10.556	13392	134,516
Child and Adult Care Food Program	10.558	13666	104,639
Summer Food Service Program for Children	10.559	13004	56,652
Subtotal Child Nutrition Cluster			<u>3,919,485</u>
USDA Commodities	10.558	13389	323,480
Total U. S. Department of Agriculture			<u>4,242,965</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
CCDF, General Child Development Program	93.596	13609	50,948
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	359,470
Total U. S. Department of Health & Human Services			<u>410,418</u>
Total Federal Expenditures			<u>\$ 11,270,124</u>

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2012

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,448	1,488
First through third	3,841	3,843
Fourth through sixth	3,782	3,781
Seventh through eighth	2,453	2,453
Community day school	18	19
Home and hospital	2	2
Special education	361	365
Total Elementary	11,905	11,951

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83		1986-87		2011-12 Actual Minutes	Number of Days	Status
	Actual Minutes	Actual Minutes Reduced	Minutes Requirement	Minutes Requirement Reduced			
Kindergarten	35,100	32,760	36,000	33,600	52,405	174	Complied
Grade 1	42,330	39,508	50,400	47,040	52,405	174	Complied
Grade 2	42,330	39,508	50,400	47,040	52,405	174	Complied
Grade 3	52,200	48,720	50,400	47,040	52,405	174	Complied
Grade 4	52,200	48,720	54,000	50,400	52,405	174	Complied
Grade 5	52,200	48,720	54,000	50,400	52,405	174	Complied
Grade 6	57,060	53,256	54,000	50,400	60,360	174	Complied
Grade 7	57,060	53,256	54,000	50,400	60,360	174	Complied
Grade 8	57,060	53,256	54,000	50,400	60,360	174	Complied

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	2013 (Budget)		2012		2011		2010	
General Fund - Budgetary Basis**								
Revenues And Other Financing Sources	\$	83,188,538	\$	90,948,975	\$	99,733,112	\$	93,716,862
Expenditures And Other Financing Uses		89,450,330		92,480,371		95,351,763		100,629,741
Net change in Fund Balance	\$	(6,261,792)	\$	(1,531,396)	\$	4,381,349	\$	(6,912,879)
Ending Fund Balance	\$	6,199,366	\$	12,461,158	\$	12,941,507	\$	10,509,506
Available Reserves*	\$	2,694,918	\$	6,391,090	\$	5,539,477	\$	6,098,914
Available Reserves As A Percentage Of Outgo		3.01%		6.91%		5.81%		6.06%
Long-term Debt	\$	50,097,270	\$	52,707,362	\$	53,090,316	\$	53,800,019
Average Daily Attendance At P-2		11,653		11,905		11,874		12,038

The General Fund balance has increased by \$1,951,652 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$6,261,792. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long term obligations have decreased by \$1,092,657 over the past two years.

Average daily attendance has decreased by 133 ADA over the past two years. A further decrease in ADA is anticipated during the 2012-13 fiscal year.

* Available reserves consist of all unassigned fund balance within the General Fund.

** The actual amounts reported in this schedule are for the General Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for other than Capital Outlay Projects, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects
June 30, 2012, annual financial and budget report fund balance	\$ 12,461,158	\$ 954,852
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	954,852	(954,852)
Net adjustments and reclassifications	954,852	(954,852)
June 30, 2012, audited financial statement fund balance	\$ 13,416,010	\$ -

See accompanying note to supplementary information.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2012**

	Child Development Fund			Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects		Bond Interest & Redemption Fund	Non-Major Governmental Funds						
ASSETS														
Cash and cash equivalents	\$	18,601	\$	113,275	\$	1,071,524	\$	753,997	\$	423,579	\$	2,688,294	\$	5,069,270
Accounts receivable		46,984		877,979		149		344		675		-		926,131
Due from other funds		-		3,179		-		-		-		-		3,179
Stores inventory		-		59,065		-		-		-		-		59,065
Total Assets	\$	65,585	\$	1,053,498	\$	1,071,673	\$	754,341	\$	424,254	\$	2,688,294	\$	6,057,645
LIABILITIES														
Accrued liabilities	\$	9,362	\$	56,030	\$	5,479	\$	4,039	\$	-	\$	-	\$	74,910
Due to other funds		13,957		536,640		-		1,704		-		-		552,301
Deferred revenue		-		87,312		-		-		-		-		87,312
Total Liabilities		23,319		679,982		5,479		5,743		-		-		714,523
FUND BALANCES														
Non-spendable		-		59,065		-		-		-		-		59,065
Restricted		42,266		314,451		1,066,194		748,598		424,254		2,688,294		5,284,057
Total Fund Balances		42,266		373,516		1,066,194		748,598		424,254		2,688,294		5,343,122
Total Liabilities and Fund Balance	\$	65,585	\$	1,053,498	\$	1,071,673	\$	754,341	\$	424,254	\$	2,688,294	\$	6,057,645

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	Child Development Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES							
Federal sources	\$ 50,948	\$ 4,242,965	\$ -	\$ -	\$ -	\$ -	\$ 4,293,913
Other State sources	583,894	317,815	-	-	-	42,851	944,560
Other local sources	417	1,048,651	7,854	60,322	4,465	2,895,451	4,017,160
Total Revenues	635,259	5,609,431	7,854	60,322	4,465	2,938,302	9,255,633
EXPENDITURES							
Current							
Instruction	460,910	-	-	-	-	-	460,910
Instruction-related services							
Instructional supervision and administration	100,188	-	-	-	-	-	100,188
School site administration	47,705	-	-	-	-	-	47,705
Pupil services							
Food services	-	5,855,508	-	-	-	-	5,855,508
General administration							
All other general administration	24,742	220,287	-	6,248	-	-	251,277
Plant services	21	-	25,301	-	-	-	25,322
Facilities acquisition and maintenance	-	-	406,662	141,896	-	-	548,558
Community services	1,755	-	-	-	-	-	1,755
Enterprise activities	-	8,656	-	-	-	-	8,656
Debt service							
Principal	-	-	-	-	-	1,520,000	1,520,000
Interest and other	-	-	-	-	-	1,185,888	1,185,888
Total Expenditures	635,321	6,084,451	431,963	148,144	-	2,705,888	10,005,767
Excess (Deficiency) of Revenues							
Over Expenditures	(62)	(475,020)	(424,109)	(87,822)	4,465	232,414	(750,134)
Other Financing Sources (Uses)							
Transfers Out	-	(645)	-	-	(799,564)	-	(800,209)
Net Financing Sources (Uses)	-	(645)	-	-	(799,564)	-	(800,209)
NET CHANGE IN FUND BALANCE	(62)	(475,665)	(424,109)	(87,822)	(795,099)	232,414	(1,550,343)
Fund Balance - Beginning	42,328	849,181	1,490,303	836,420	1,219,353	2,455,880	6,893,465
Fund Balance - Ending	\$ 42,266	\$ 373,516	\$ 1,066,194	\$ 748,598	\$ 424,254	\$ 2,688,294	\$ 5,343,122

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2012 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2012.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 11,355,799
Medi-Cal Billing Option	93.778	<u>(85,675)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$11,270,124</u>

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code Section 46201*. For 2011-12, the instructional day and minute requirements have been reduced pursuant to *Education Code Sections 46201.2 and 46201.3*.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2012

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

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Governing Board
La Mesa-Spring Valley School District
La Mesa, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of La Mesa-Spring Valley School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of La Mesa-Spring Valley School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered La Mesa-Spring Valley School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the La Mesa-Spring Valley School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the La Mesa-Spring Valley School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as item #2012-1 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Mesa-Spring 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*.

La Mesa-Spring 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 the La Mesa-Spring 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 governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 4, 2012

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board
La Mesa-Spring Valley School District
La Mesa, California

Compliance

We have audited La Mesa-Spring Valley School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. La Mesa-Spring Valley School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of La Mesa-Spring Valley School District's management. Our responsibility is to express an opinion on La Mesa-Spring Valley School District's compliance based on our audit.

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

In our opinion, La Mesa-Spring Valley School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control over Compliance

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

A *deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 4, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 La Mesa-Spring Valley School District
 La Mesa, California

We have audited La Mesa-Spring 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 2011-12*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of La Mesa-Spring Valley School District's management. Our responsibility is to express an opinion on La Mesa-Spring Valley School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about La Mesa-Spring Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on La Mesa-Spring Valley School District's compliance with the state laws and regulations referred to above.

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

PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Not Applicable
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

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PROGRAM NAME	PROCEDURES IN AUDIT GUIDE	PROCEDURES PERFORMED
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction (including in 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	Yes
After school	5	Yes
Before school	6	Yes
Contemporaneous Records of Attendance; for charter schools	3	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	4	Not Applicable

In our opinion, La Mesa-Spring Valley School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K – 12 Local Education Agencies 2011-12* and which are reported in the accompanying Schedule of Audit Findings and Questioned Costs as findings #2012-2 and #2012-3.

La Mesa-Spring 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 the La Mesa-Spring 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 governing board, management, others within the entity, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
December 4, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.010	Title I, Part A Cluster
84.365	Title III, LEP Student Program
93.778	Medi-Cal Billing Option

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 338,104
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditors' report issued on compliance for state programs:	Unqualified

LA MESA-SPRING VALLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

FINDING #2012-1: ASSOCIATED STUDENT BODY (ASB) CASH COLLECTIONS (30000)

Criteria: Cash collections in ASB funds should be supported by items such as revenue potential worksheets, deposit verification forms, and other supporting documentation.

Condition: In testing cash collections for student body funds at La Mesa and Parkway Middle Schools, it was noted that the sites are not using revenue potential worksheets to make a comparison between projected cash receipts and amounts actually collected. For book fair events conducted at Parkway Middle School, four out of ten deposits tested did not have a properly completed deposit verification form, and/or documentation, such as a tally sheet to log all donations or payments received, was not maintained.

Cause: Inadequate internal controls over cash collections in ASB funds.

Effect: Lack of sound internal controls and increased susceptibility to misappropriation of assets.

Perspective: Testing of ASB funds at La Mesa and Parkway Middle Schools.

Recommendation: We recommend that the school sites implement the use of revenue potentials for all fundraising events. We also recommend that a ticket log, tally sheet, cash receipt book or other documentation be maintained to track collection of student body funds

District Response: The district is providing training to ASB and Club advisors to reinforce the importance of documenting cash receipts. Procedures for conducting fundraising events and using revenue potential forms have been provided to staff. The internal auditor is working closely with advisors and finance staff to ensure that proper internal controls are in place including the use of revenue potential forms and documentation for cash deposits. Periodic audits of ASB funds will be completed by the Internal Auditor.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings and questioned costs for the year ended June 30, 2012.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

FIVE DIGIT CODE

10000
40000
41000
60000
61000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
CalSTRS
Miscellaneous
Classroom Teacher Salaries
Instructional Materials
Teacher Misassignments
School Accountability Report Card

FINDING #2012-2: INDEPENDENT STUDY (10000)

Criteria: Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation as a condition for apportionment attendance.

Condition: In testing short-term independent study we found instances in which there was no work sample maintained, no certificated staff signature, no independent study contract in place, and apportionment that exceeded the number of days in the contract.

Context: Four (4) of thirty (30) independent study contracts tested.

Cause: Lack of understanding of documentation requirements related to independent study.

Effect: The District could have claimed ADA for non-compliant short term independent study contracts.

Questioned Costs: ADA was overstated by 13 days, and the District's P-2 reporting period had 130 days. The District's base revenue limit was \$6,220.05. Thus, the potential overstatement was \$622.01. However, the testing occurred prior to the District submission of P-2, and the ADA was removed before submission.

Recommendation: We recommend that school sites be reminded of this documentation requirement and that short-term independent study attendance be disallowed for all invalid contracts.

District Response: The district will provide training to school site staff on an ongoing basis to ensure proper procedures are followed for the Independent Study Program. The internal auditor will meet one-on-one with school site staff to review documentation requirements and remind staff that invalid contracts cannot be claimed for apportionment. In addition, reminders of Independent Study procedures will be disseminated through newsletters and staff meetings. The internal auditor will continue to conduct audits of independent study contracts at all sites annually to monitor for compliance in this area.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2012-3: CLASS SIZE REDUCTION (CSR) PROGRAM (40000)

Criteria: Pursuant to Education Code Sections 52120-52128.5, the District received Class Size Reduction Program funding. Auditors are required to verify compliance in Section 19845.2 of the Standards and Procedures for Audits of California K-12 Local Education Agencies.

Condition: The District's submitted claim form (J-7 CSR) was incorrectly reported. One kindergarten class was reported as having an average class size between 22.45 to 22.94 pupils; however, it should have been categorized as a class size within the range of 22.95 to 24.94 pupils.

Cause: Data entry error.

Effect: The District was out of compliance with the State's requirements regarding class size reduction. The District has re-submitted the form J-7 CSR so there is no effect going forward.

Questioned Costs: The error resulted in an overstatement of apportionment of \$1,071. The District has re-submitted the form J-7 CSR to reflect the proper amount.

Recommendation: The District should review the form J-7 CSR to ensure that the numbers reported agree to the attendance system.

District Response: To ensure accuracy the J-7 CSR form totals will be reconciled to data obtained from the attendance/enrollment system prior to submission.

**LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDING #2011-1: PERSONNEL FILE DOCUMENTATION (30000)

Criteria: Per the 1986 Immigration Reform and Control Act, all U.S. employers are required to complete form I9 for all employees hired on or after 11/6/1986.

Condition: We noted during our audit of payroll and personnel files that not all employee files contained the I9 form.

Cause: Clerical oversight.

Effect: Potential non-compliance with the 1986 Immigration Reform and Control Act.

Perspective: Two of 20 personnel files tested did not contain the I-9 form for employees hired after 1986.

Recommendation: We recommend that the District implement a review or checklist to ensure all employee files are accurate and complete. We also recommend that the District perform a review of all historical files for active employees and ensure that any missing documentation is obtained.

District Response: The Human Resources Director will ensure that all personnel files for employees hired on or after 11/6/1986 are properly documented with form I9.

Current Status: Implemented

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-2: CASH RECEIPTS (30000)

Criteria: All District cash receipts should be properly supported by receipts and refund detail maintained. Individual receipts should be traceable to deposits to ensure timely and complete deposits.

Condition: In our testing of Transportation cash receipts it was noted that voided bus passes were not being maintained to support the refund and removal of the pass from use. It was also noted that not all sales records agreed to deposited amounts.

Cause: Clerical oversight.

Effect: Lack of sound internal controls and potential for misappropriation of District assets.

Perspective: Two of ten cash receipts tested had a discrepancy from the detailed sales log to the amount deposited, and no reconciliation or explanation for this variance was noted.

Recommendation: We recommend that all voided passes be maintained and kept on file to support the transaction. We also recommend that the Director of transportation review all sales logs to ensure they agree without exception to amounts deposited, with any variances documented and properly explained.

District Response: The District will ensure that all cash receipting activities are properly documented with supporting backup and submissions of receipts are accompanied by sufficient backup to enable effective review and oversight.

Current Status: Implemented

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-3: ASSOCIATED STUDENT BODY ACCOUNTING CONTROLS (30000)

Criteria: In our testing of associated student body accounts at Spring Valley Middle School it was noted that records to support fundraisers were not maintained for events where individual items were less than \$1.00. It was also noted that not all purchases were approved prior to the obligation of funds.

Condition: It was noted that revenue potentials, tally sheets, or estimated revenue reports are not being prepared for sales where items are individually less than \$1.00. It was also noted that one of 10 disbursements was made prior to approval.

Cause: Inadequate internal controls over fundraisers and clerical oversight on a purchase.

Effect: Lack of sound internal controls and increased susceptibility to misappropriation of assets.

Perspective: All revenue activities with individual sales below \$1.00.

Recommendation: We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. Training of staff is recommended to take place at least annually. The use of standardized procedures and forms is recommended. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.

District Response: The District is working closely with the Principals, Assistant Principals, and Activities Directors at the sites with ASB funds to improve compliance monitoring.

Current Status: Not implemented, see Finding #2012-1

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-4: RETURN OF INTEREST EARNED ON FEDERAL FUNDS (50000)

CFDA Numbers and Program Titles: 84.010 Title I Part A Basic Grants Low-Income and Neglected, 84.389 ARRA - Title I - Part A, 84.367 Title II Part A Administrator Training, 84.367A Title II Part A Teacher Quality, 84.318 Title II Part D Enhancing Education Through Technology Formula Grants, 84.386 ARRA - Education Technology State Grants, 84.365 Title III Limited English Proficient (LEP) Student Program, 84.365 Title III Immigration Education, 84.298A Title V Part A Innovative Education Strategies, 84.027 IDEA Basic Local Assistance Entitlement Part B Sec 611, 84.173 Part B Preschool Grants, 84.391 ARRA - Basic Local Assistance Entitlement Part B, 84.391 ARRA - Preschool Local Entitlement Part B, 84.392 ARRA - Part B Preschool Grants, 84.027A IDEA Preschool Local Entitlement Part B Sec 611, 84.173A Preschool Staff Development, 84.181 IDEA Early Intervention Grants, 84.196 Title X McKinney-Vento Homeless Assistance, and 84.410 Education Jobs Fund (SB 847).

Condition: It was noted that the District did not remit interest earned on advancement of federal dollars on a quarterly basis. The District has since performed the calculation and remitted payment.

Context: Interest earned on all advanced funded federal programs for the first quarter of the 2010-11 fiscal year.

Criteria: *Code of Federal Regulations, Title 34 –Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post Award Requirements, Section 80.21 Payment*, requires grantees and sub-grantees to promptly, but at least quarterly, remit to the federal agency interest earned on advances. The grantee or sub-grantee may keep interest amounts up to \$100 per year for administrative purposes.

Questioned Cost: \$25.39 was calculated for the first quarter of the 2010-11 fiscal year, this amount was remitted on 2/28/11.

Effect: Noncompliance of Federal Regulations Code and possible overstatement of interest revenue.

Cause: Clerical oversight.

Recommendation: We recommend that the District develop control procedures to ensure that interest earned on federal funds is remitted to the California Department of Education on a quarterly basis.

District Response: The District will remit interest earned on federal funds to the California Department of Education each quarter.

Current Status: Implemented

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-5: SIGNED ATTENDANCE ROSTERS (10000)

Criteria: Regular class attendance submitted to the California Department of Education should reconcile to the documents that support the District's Average Daily Attendance per Education Code Section 46000 et seq.

Condition: In our attendance testing we noted that not all attendance rosters were signed by certificated staff.

Context: 6 of 122 daily attendance rosters.

Cause: The school sites' personnel did not properly organize and maintain all source documents of attendance in the 2010-11 school year.

Effect: Non-compliance with State attendance documentation requirements.

Questioned Costs: There are no questioned costs as all student attendance could be substantiated by signed rosters from another period during the same school day.

Recommendation: The District should provide training to site attendance personnel on the requirements relating to the retention of attendance source documents.

District Response: The District will provide training to site attendance personnel on the requirements relating to retention of attendance source documents.

Current Status: Implemented

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-6: INDEPENDENT STUDY (10000)

Criteria: Section 51747 of the Education Code requires Independent Study contracts to be supported by proper documentation as a condition for apportionment attendance.

Condition: In testing short-term independent study we found instances in which general attendance was inaccurately reported as independent study.

Context: Two (2) of thirty (30) independent study contracts tested.

Cause: Clerical error by the attendance office.

Effect: The District claimed ADA for non-compliant short term independent study contracts.

Questioned Costs: There are no questioned costs. The attendance was properly supported and appears allowable, but was incorrectly categorized as independent study when the students were in class and should have been reported as regular elementary ADA.

Recommendation: We recommend the District remind attendance clerks of the importance for accurate attendance reporting and to review all independent study ADA to ensure it is properly supported by valid contracts.

District Response: The internal auditor will continue to monitor Independent Study agreements at all sites and will review Independent Study requirements and procedures with staff on a continuous basis. Frequent audits will identify any deficiencies in this area and they will be addressed immediately.

Current Status: Not implemented, see Finding #2012-2

LA MESA-SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2012

FINDING #2011-7: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: School facilities conditions assessments as indicated in a school's annual School Accountability Report Card should match the information indicated in the facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002.

Condition: The facility inspection tool (FIT) forms for selected schools were inconsistent with the School Accountability Report Card (SARC) that was published in the fiscal year 2010-11.

Context: Two out of six schools tested (La Presa Middle and La Mesa Dale Elementary).

Cause: School Accountability Report Cards were updated after repairs had been made to the school sites, but there was no subsequent update to the FIT form to support the evaluation and rating after repairs.

Fiscal Impact: Not applicable.

Effect: The School Accountability Report Cards as tested in the 2010-11 did not contain facilities conditions that agreed to the FIT forms.

Recommendation: We recommend that the District updates the SARC and ensure it agrees to the FIT forms. In addition, we recommend the District makes certain that future SARC's posted to the District's website are complete and in compliance with Education Code.

District Response: The District will complete new FIT forms after repairs are made following annual inspections. The internal auditor will review the FIT forms and ensure that the appropriate date is reflected on the SARC reports.

Current Status: Implemented