

LA MESA-SPRING VALLEY SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2011



LA MESA SPRING VALLEY SCHOOL DISTRICT
OF SAN DIEGO COUNTY

LA MESA, CALIFORNIA

JUNE 30, 2011

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

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
La Mesa-Spring Valley School District
La Mesa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the La Mesa-Spring Valley School District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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; and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010 – 11*. 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, each major fund, and the aggregate remaining fund information of the La Mesa-Spring Valley School District, as of June 30, 2011, 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 5, 2011 on our consideration of the 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.

SAN DIEGO

RANCHO CUCAMONGA

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The required supplementary information, such as management's discussion and analysis on pages 3 through 8, the budgetary comparison schedule on page 48, and the schedule of funding progress on page 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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*, the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christine White Accountancy Corporation

San Diego, California

December 5, 2011

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

INTRODUCTION

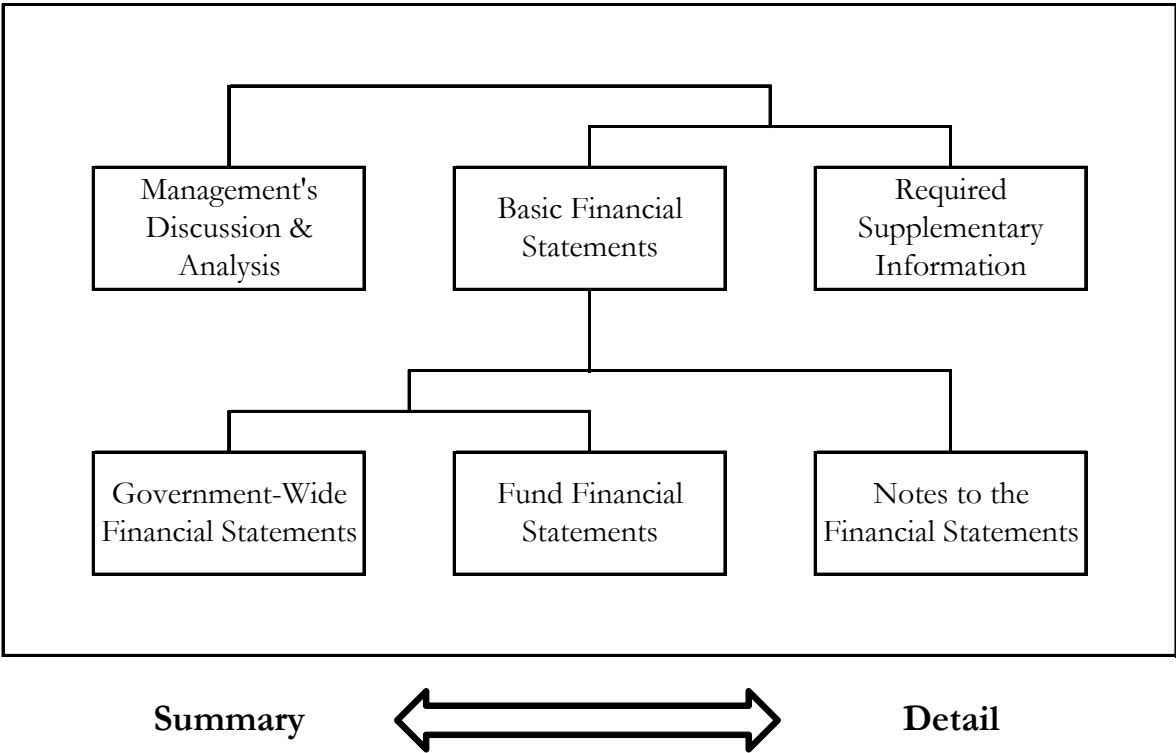
Our discussion and analysis of La Mesa-Spring Valley School District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net assets were \$48.1 million at June 30, 2011. This was an increase of \$1.2 million over the prior year.
- ▶ Overall revenues were \$107.9 million, which exceeded expenses of \$106.7 million.
- ▶ General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$4.4 million.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



LA MESA SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*
JUNE 30, 2011

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 District experienced an increase in net assets. To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the federal and state governments, and condition of facilities. The District has continued to see an increase in enrollment at the K-3 levels which is projected to provide stable enrollment for the District.

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
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Assets

The District's combined net assets were \$48,106,030 at June 30, 2011.

	Governmental Activities			Business-Type Activities		
	2011	2010	Net Change	2011	2010	Net Change
ASSETS						
Current assets	\$ 33,799,445	\$ 24,070,623	\$ 9,728,822	\$ 665,053	\$ 835,757	\$ (170,704)
Non-current assets, net	80,416,499	82,800,541	(2,384,042)	-	-	-
Total Assets	114,215,944	106,871,164	\$ 7,344,780	665,053	835,757	\$ (170,704)
LIABILITIES						
Current liabilities	13,019,598	8,945,715	4,073,883	154,706	122,876	31,830
Non-current liabilities	53,090,316	51,035,928	2,054,388	-	-	-
Total Liabilities	66,109,914	59,981,643	\$ 6,128,271	154,706	122,876	\$ 31,830
NET ASSETS						
Invested in capital assets, net of related debt	42,923,831	44,097,252	(1,173,421)	-	-	-
Restricted	7,967,500	5,685,279	2,282,221	-	-	-
Unrestricted	(2,785,301)	(2,893,010)	107,709	510,347	712,881	(202,534)
Total Net Assets	\$ 48,106,030	\$ 46,889,521	\$ 1,216,509	\$ 510,347	\$ 712,881	\$ (202,534)

**LA MESA SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Assets

The District's total revenues were \$107.9 million. The majority of the revenue comes from federal and state aid and categorical programs (72%) and property taxes (21%).

The total cost of all programs and services was \$106.7 million. The District's expenses are predominately related to educating and caring for students (80%). Administrative activities accounted for just 5% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 8% of all costs. The remaining expenses were for ancillary services, depreciation, community services, and other outgo (7%).

	Governmental Activities			Business-Type Activities		
	2011	2010	Net Change	2011	2010	Net Change
REVENUES						
Program revenues						
Charges for services	\$ 3,071,848	\$ 2,707,277	\$ 364,571	\$ 3,299,835	\$ 3,303,380	\$ (3,545)
Operating grants	25,956,832	24,346,277	1,610,555	10,894	88,989	(78,095)
General revenues						
Property taxes	23,100,160	24,353,670	(1,253,510)	-	-	-
Unrestricted federal and state aid	51,887,376	48,078,367	3,809,009	-	-	-
Other	3,882,997	918,489	2,964,508	218,211	167,506	50,705
Total Revenues	107,899,213	100,404,080	7,495,133	3,528,940	3,559,875	(30,935)
EXPENSES						
Instructional and instruction related	70,240,387	79,659,305	(9,418,918)	-	-	-
Pupil services	15,072,363	13,041,883	2,030,480	-	-	-
General administration	5,316,125	5,837,685	(521,560)	-	-	-
Plant services	8,525,050	9,029,675	(504,625)	-	-	-
Interest	2,215,979	3,237,584	(1,021,605)	-	-	-
Depreciation	3,912,395	3,845,216	67,179	-	-	-
Other	1,400,405	1,718,090	(317,685)	3,731,474	3,059,799	671,675
Total Expenses	106,682,704	116,369,438	(9,686,734)	3,731,474	3,059,799	671,675
Transfers & special items	-	412,960	(412,960)	-	(412,960)	412,960
Excess (deficiency)	1,216,509	(15,552,398)	(16,768,907)	(202,534)	87,116	289,650
Net Assets - Beginning	46,889,521	62,441,919	15,552,398	712,881	625,765	(87,116)
Net Assets - Ending	\$ 48,106,030	\$ 46,889,521	\$ (1,216,509)	\$ 510,347	\$ 712,881	\$ 202,534

LA MESA SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*
JUNE 30, 2011

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (*continued*)

Capital Assets

By the end of 2011 the District had invested \$126.7 million in a broad range of capital assets, including (Land Improvements, Building Construction, Work in Progress, and Equipment) (See Table). This amount represents a net increase of 1% over last year's amount of \$125.4 million. Total depreciation expense for the year was \$3.9 million and capital expenditures amounted to \$2.1 million. More detailed information about capital assets can be found in Note 4 to the financial statements. The District plans to add to the capital assets for 2011-12 by completing or continuing the projects currently in progress.

	Governmental Activities		
	2011	2010	Net Change
CAPITAL ASSETS			
Land and construction in progress	\$ 16,318,248	\$ 16,803,022	\$ (484,774)
Buildings and equipment	110,379,282	108,608,267	1,771,015
Accumulated depreciation	(46,281,031)	(42,610,748)	(3,670,283)
Total Capital Assets	\$ 80,416,499	\$ 82,800,541	\$ (2,384,042)

Long-Term Debt

At year-end the District had \$53.1 million in General Obligation Bonds, Capital Leases, Postemployment Benefits, Compensated Absences, etc. – a decrease of 1.3% from last year – as shown in the Table below. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.) The District has no current plans to issue additional long-term debt.

	Governmental Activities		
	2011	2010	Net Change
LONG-TERM LIABILITIES			
General obligation bonds	\$ 43,200,342	\$ 43,724,188	\$ (523,846)
Net OPEB	5,768,404	4,515,209	1,253,195
Compensated absences	740,322	782,455	(42,133)
Early retirement incentive	2,782,130	3,663,546	(881,416)
Capital leases	108,263	133,211	(24,948)
Other long-term liabilities	490,855	981,410	(490,555)
Total Long-term Liabilities	\$ 53,090,316	\$ 53,800,019	\$ (709,703)

**LA MESA SPRING VALLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

CURRENT YEAR BUDGET 2010-11

The District revises its annual budget over the course of the year. This is done to reflect any changes in expected revenues and expenditures. The final amendment to the budget was approved on June 21, 2011. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

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. The 2011 State Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one-time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2012-13 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact 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, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 13,476,341	\$ 1,085,234	\$ 14,561,575
Accounts receivable	19,630,844	9,915	19,640,759
Internal balances	430,096	(430,096)	-
Inventory	130,832	-	130,832
Prepaid expenses	131,332	-	131,332
Capital assets, non-depreciable	16,318,248	-	16,318,248
Capital assets, depreciable, net	64,098,251	-	64,098,251
Total Assets	114,215,944	665,053	114,880,997
LIABILITIES			
Accrued liabilities	3,252,730	154,706	3,407,436
Current loans	9,260,469	-	9,260,469
Deferred revenue	506,399	-	506,399
Long-term liabilities, current portion	2,924,391	-	2,924,391
Long-term liabilities, non-current portion	50,165,925	-	50,165,925
Total Liabilities	66,109,914	154,706	66,264,620
NET ASSETS			
Invested in capital assets, net of related debt	42,923,831	-	42,923,831
Restricted for			
Capital projects	3,546,076	-	3,546,076
Debt service	2,455,880	-	2,455,880
Educational programs	1,965,544	-	1,965,544
Unrestricted	(2,785,301)	510,347	(2,274,954)
Total Net Assets	\$ 48,106,030	\$ 510,347	\$ 48,616,377

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, 2011**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES						
Instruction	\$ 60,026,528	\$ 44,851	\$ 16,646,510	\$ (43,335,167)	\$ -	\$ (43,335,167)
Instruction-related services						
Instructional supervision and administration	2,054,529	168,808	864,205	(1,021,516)	-	(1,021,516)
Instructional library, media, and technology	2,066,874	-	54,436	(2,012,438)	-	(2,012,438)
School site administration	6,092,456	-	40,452	(6,052,004)	-	(6,052,004)
Pupil services						
Home-to-school transportation	3,129,296	49,322	938,801	(2,141,173)	-	(2,141,173)
Food services	5,110,398	1,184,021	3,749,277	(177,100)	-	(177,100)
All other pupil services	6,832,669	112,017	3,296,075	(3,424,577)	-	(3,424,577)
General administration						
Centralized data processing	641,788	-	-	(641,788)	-	(641,788)
All other general administration	4,674,337	87,095	331,061	(4,256,181)	-	(4,256,181)
Plant services	8,525,050	7	10,339	(8,514,704)	-	(8,514,704)
Ancillary services	43,013	148	25,656	(17,209)	-	(17,209)
Community services	1,347,785	1,414,961	20	67,196	-	67,196
Enterprise activities	9,607	9,491	-	(116)	-	(116)
Interest on long-term debt	2,215,979	-	-	(2,215,979)	-	(2,215,979)
Other outgo	-	1,127	-	1,127	-	1,127
Depreciation (unallocated)	3,912,395	-	-	(3,912,395)	-	(3,912,395)
Total Governmental Activities	\$ 106,682,704	\$ 3,071,848	\$ 25,956,832	(77,654,024)	-	(77,654,024)
BUSINESS-TYPE ACTIVITIES						
Enterprise activities	\$ 3,731,474	\$ 3,299,835	\$ 10,894	\$ -	\$ (420,745)	\$ (420,745)
Total Business-Type Activities	\$ 3,731,474	\$ 3,299,835	\$ 10,894	-	(420,745)	(420,745)
General revenues						
Taxes and subventions						
				20,300,556	-	20,300,556
				2,767,460	-	2,767,460
				32,144	-	32,144
				51,887,376	-	51,887,376
				157,449	-	157,449
				3,725,548	218,211	3,943,759
				78,870,533	218,211	79,088,744
CHANGE IN NET ASSETS						
				1,216,509	(202,534)	1,013,975
				46,889,521	712,881	47,602,402
				\$ 48,106,030	\$ 510,347	\$ 48,616,377

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

LA MESA SPRING VALLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 7,093,052	\$ 6,383,289	\$ 13,476,341
Accounts receivable	18,864,729	766,115	19,630,844
Due from other funds	741,681	123,116	864,797
Stores inventory	73,546	57,286	130,832
Total Assets	\$ 26,773,008	\$ 7,329,806	\$ 34,102,814
LIABILITIES			
Accrued liabilities	\$ 1,997,558	\$ 143,691	\$ 2,141,249
Due to other funds	142,051	292,650	434,701
Current loans	9,260,469	-	9,260,469
Deferred revenue	506,399	-	506,399
Total Liabilities	11,906,477	436,341	12,342,818
FUND BALANCES			
Nonspendable	117,196	-	117,196
Restricted			
Educational programs	1,965,544	-	1,965,544
Capital projects	-	3,546,076	3,546,076
Debt service	-	2,455,880	2,455,880
Assigned	7,244,314	891,509	8,135,823
Unassigned	5,539,477	-	5,539,477
Total Fund Balances	14,866,531	6,893,465	21,759,996
Total Liabilities and Fund Balances	\$ 26,773,008	\$ 7,329,806	\$ 34,102,814

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, 2011**

Total Fund Balance - Governmental Funds \$ 21,759,996

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	\$ 126,697,530	
Accumulated depreciation	46,281,031	80,416,499

Unamortized costs:

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the governmental-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in net long-term debt on the statement of net assets are:

131,332

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 unamortized interest owing at the end of the period was:

(1,111,481)

Long-term liabilities:

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

General obligation bonds payable	43,200,342	
Net OPEB obligation	5,768,404	
Compensated absences	740,322	
Capital leases payable	108,263	
Early retirement incentive payable	2,782,130	
Other long term debt	490,855	(53,090,316)

Total Net Assets - Governmental Activities \$ 48,106,030

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 BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	\$ 61,063,175	\$ -	\$ 61,063,175
Federal sources	10,619,980	3,488,879	14,108,859
Other state sources	18,246,215	838,691	19,084,906
Other local sources	9,440,500	4,202,300	13,642,800
Total Revenues	99,369,870	8,529,870	107,899,740
EXPENDITURES			
Current			
Instruction	60,879,326	598,331	61,477,657
Instruction-related services			
Instructional supervision and administration	1,951,462	103,067	2,054,529
Instructional library, media, and technology	2,066,874	-	2,066,874
School site administration	6,036,534	55,922	6,092,456
Pupil services			
Home-to-school transportation	3,154,274	-	3,154,274
Food services	118	5,129,937	5,130,055
All other pupil services	6,832,669	-	6,832,669
General administration			
Centralized data processing	663,288	-	663,288
All other general administration	3,452,848	10,427	3,463,275
Plant services			
Facilities acquisition and maintenance	8,532,319	4,741	8,537,060
Ancillary services	196,627	1,188,271	1,384,898
Community services	43,013	-	43,013
Enterprise activities	1,347,785	-	1,347,785
Enterprise activities	761	8,846	9,607
Debt service			
Principal	24,948	1,360,000	1,384,948
Interest and other	137,272	1,238,425	1,375,697
Total Expenditures	95,320,118	9,697,967	105,018,085
Excess (Deficiency) of Revenues			
Over Expenditures	4,049,752	(1,168,097)	2,881,655
Other Financing Sources (Uses)			
Transfers in	400,614	93,341	493,955
Transfers out	(93,341)	(400,614)	(493,955)
Net Financing Sources (Uses)	307,273	(307,273)	-
NET CHANGE IN FUND BALANCE	4,357,025	(1,475,370)	2,881,655
Fund Balance - Beginning, As Originally Stated	8,560,158	10,318,183	18,878,341
Fund Balance - Adjustments (See Note 17)	1,949,348	(1,949,348)	-
Fund Balance - Beginning, As Restated	10,509,506	8,368,835	18,878,341
Fund Balance - Ending	\$ 14,866,531	\$ 6,893,465	\$ 21,759,996

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
FOR THE YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Governmental Funds \$ 2,881,655

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: \$	1,542,201	
Depreciation expense:	(3,912,395)	(2,370,194)

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:

2,756,919

Gain or loss from the disposal of capital assets:

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

(527)

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:

(135,460)

Accreted interest on long-term debt:

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

(836,154)

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:

42,133

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:

(1,253,195)

Amortization of debt issue premium or discount:

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

131,332

Change in net assets of Governmental Activities \$ 1,216,509

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, 2011

	<u>Business-Type Activities</u>	
	<u>Enterprise Funds</u>	
	<u>Child Development</u>	
ASSETS		
Cash and cash equivalents	\$	1,085,234
Accounts receivable		9,915
Due from other funds		24,081
Total Assets		1,119,230
LIABILITIES		
Accrued liabilities		154,706
Due to other funds		454,177
Total Liabilities		608,883
NET ASSETS		
Unrestricted		510,347
Total Net Assets	\$	510,347

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 FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities</u>	
	<u>Enterprise Funds</u>	
	<u>Child Development</u>	
OPERATING REVENUE		
Local sales	\$	3,515,768
Total operating expenses		3,515,768
OPERATING EXPENSE		
Salaries and benefits		2,822,664
Supplies and materials		154,107
Professional services		754,703
Total operating expenses		3,731,474
OPERATING LOSS		(215,706)
NON-OPERATING REVENUES		
Interest income		5,874
Other non-operating revenues		7,299
Total non-operating revenues		13,173
CHANGE IN NET ASSETS		(202,533)
Net Assets - Beginning		712,880
Net Assets - Ending	\$	510,347

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, 2011

	<u>Business-Type Activities</u>
	<u>Enterprise Funds</u>
	<u>Child Development</u>
Cash flows from operating activities	
Cash received from user charges	\$ 3,530,144
Cash payments to employees for services	(2,790,833)
Cash payments to suppliers for goods and services	(908,810)
Net cash used by operating activities	(169,499)
Cash flows from non-capital financing activities	
Interfund transfers in/(out)	1,087,115
Net cash provided by non-capital financing activities	1,087,115
Cash flows from investing activities	
Interest received	5,874
NET INCREASE IN CASH	917,616
CASH	
Beginning of year	167,618
End of year	\$ 1,085,234
Reconciliation of operating loss to cash used in operating activities	
Operating loss	\$ (215,706)
Decrease in accounts receivable	14,376
Increase in accounts payable	31,831
Net cash used by operating activities	\$ (169,499)

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, 2011

	<u>ASB Agency Funds</u>	
ASSETS		
Cash and cash equivalents	\$	189,123
Total Assets	\$	189,123
LIABILITIES		
Due to other agencies/student groups	\$	189,123
Total Liabilities	\$	189,123

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

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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).

B. Financial Reporting Entity

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 five-member 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.

C. Component Unit

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

D. Other Related Entities

Joint Powers Authority (JPA). The District is associated with one JPA. This organization did not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 12 to the financial statements. This organization is:

- Southern California Relief

E. Basis of Presentation

Government-Wide Statements. The statement of net assets and the statement of activities display information about the primary government (the District) and its component units. 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 fiduciary funds and blended component units. Separate statements for each fund category – *governmental* 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 LEA, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

D. Basis of Presentation (*continued*)

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

Major Governmental Funds

General Fund. The general fund is the main operating fund of the LEA. 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 an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

Non-Major Governmental 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 an LEA 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 (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code Sections 38091 and 38100).

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

D. 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 (Fund 21) 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 LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) 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). This fund may also be used to account for any other revenues specifically for capital projects that are not restricted to funds 21, 25, 30, 35, or 49. Other authorized resources that may be transferred to the Special Reserve Fund for Capital Outlay Projects (Fund 40) are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and rentals and leases of real property specifically authorized for deposit to the fund by the governing board (Education Code Section 41003).

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 an LEA (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 (Fund 21) of the LEA. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund (Fund 51) of the LEA. The county auditor maintains control over the LEA'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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

D. Basis of Presentation (*continued*)

Proprietary Funds

Enterprise Funds. An enterprise fund is accounted for on the accrual basis. Capital assets and long-term debt (including all long-term debt obligations such as vacation pay and capital leases) are recorded in the fund. All revenues and expenses (rather than expenditures) are recorded, regardless of when they are received or paid. Depreciation of capital assets is recorded.

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

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 LEA'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).

E. 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.

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.

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

E. Basis of Accounting – Measurement Focus (*continued*)

Government-Wide, Proprietary, and Fiduciary Financial Statements (*continued*)

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenues – Exchange and Non-Exchange Transactions

Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K-12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded. The District recognizes property tax revenues actually received as reported on CDE's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

E. Basis of Accounting – Measurement Focus (*continued*)

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 combined 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.

Expenses/Expenditures

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

F. Assets, Liabilities, and Net Assets

Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2011 based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

Cash and Cash Equivalents

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

Inventories and Prepaid Items

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. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure."

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2011

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

F. Assets, Liabilities, 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 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
Furniture and Equipment	15 – 20
Vehicles	8

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 the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Net Assets (continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 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 long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities 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. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

F. Assets, Liabilities, and Net Assets (*continued*)

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.

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. The District has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The district-wide financial statements report \$7,967,500 of restricted net assets.

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

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

G. 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

H. 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.

I. 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 been included as revenue and expenditures as required under generally accepted accounting principles.

J. Changes in Accounting Principle

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash in bank	\$ 43,650	\$ 9,014	\$ 189,123	\$ 241,787
Cash in county	13,432,691	1,076,220	-	14,508,911
Total	\$ 13,476,341	\$ 1,085,234	\$ 189,123	\$ 14,750,698

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; and collateralized mortgage obligations; the San Diego County Investment Pool.

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

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 2 – DEPOSITS 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 examples of the investment types permitted in the investment policy:

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

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 pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type:	Fair Value	Maturity
County Treasury	\$ 14,557,081	425 days

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2011

NOTE 2 – DEPOSITS 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 investment with the San Diego County Investment Pool is rated AAAs/S1 by Standard & 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the District's bank balance of \$241,787 was insured.

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Total Non-Major Governmental Funds	Total Governmental Activities	Child Development Enterprise Fund
Federal Government				
Categorical aid	\$ 1,181,613	\$ 598,585	\$ 1,780,198	\$ -
State Government				
Apportionment	11,801,706	-	11,801,706	-
Categorical aid	2,784,858	121,956	2,906,814	-
Lottery	838,578	-	838,578	-
Local Government				
Interest	24,424	5,576	30,000	1,555
Other Local Sources	2,233,550	39,998	2,273,548	8,360
Total	\$ 18,864,729	\$ 766,115	\$ 19,630,844	\$ 9,915

The sizeable apportionments receivable of \$11,801,706 noted in the schedule above is due to deferrals of state principal apportionment. Subsequent to June 30, 2011 the District received the full amount of outstanding state apportionments receivable. \$3,471,326 of the \$3,966,471 categorical aid receivable has been collected by the District as of 12/14/2011.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 16,201,920	\$ -	\$ -	\$ 16,201,920
Construction in progress	601,102	116,328	601,102	116,328
Total Capital Assets not Being				
Depreciated	16,803,022	116,328	601,102	16,318,248
Capital assets being depreciated				
Land improvements	3,657,140	308,178	-	3,965,318
Buildings & improvements	98,069,582	132,624	-	98,202,206
Furniture & equipment	6,881,545	1,586,173	255,960	8,211,758
Total Capital Assets Being				
Depreciated	108,608,267	2,026,975	255,960	110,379,282
Less accumulated depreciation				
Land improvements	2,358,144	96,389	-	2,454,533
Buildings & improvements	34,755,636	3,521,085	-	38,276,721
Furniture & equipment	5,510,288	294,921	255,432	5,549,777
Total Accumulated Depreciation	42,624,068	3,912,395	255,432	46,281,031
Governmental Activities				
Capital Assets, net	\$ 82,787,221	\$ (1,769,092)	\$ 601,630	\$ 80,416,499

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 5 – INTERFUND TRANSACTIONS

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

Due From Other Funds	Due To Other Funds			
	General Fund	Non-Major Governmental Funds	Child Development Enterprise Fund	Total
General Fund	\$ -	\$ 292,650	\$ 449,031	\$ 741,681
Non-Major Funds	117,970	-	5,146	123,116
Child Development Enterprise Fund	24,081	-	-	24,081
Total Due From Other Funds	\$ 142,051	\$ 292,650	\$ 454,177	\$ 888,878

General Fund due to the Child Development Fund for charges for in-direct cost rate and contribution to Child Development Center Programs	\$	115,776
General Fund due to the Cafeteria Fund for charges for catering and district retirement		2,194
General Fund due to the Other Enterprise Fund to move expenses from ESS to ASES		24,081
Child Development Fund due to the General Fund for GASB 45, short term loan for cash flow, and interdepartment printing and postage		176,235
Cafeteria Fund due to the General Fund for interfund postage, fuel and oil, vehical maintenance, GASB 45 and Payroll PERS Reduction		63,052
Capital Facilities Fund due to the General Fund for playground arson		53,363
Other Enterprise Fund due to the General Fund for space lease, custodial charges, interdepartment charges for postage and study trip, and GASB 45		449,031
Other Enterprise Fund due to the Cafeteria Fund for interfund ESS snacks		5,146
Total	\$	888,878

B. Operating Transfers

Interfund Transfers Out	Interfund Transfers In		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 93,341	\$ 93,341
Non-Major Fund	400,614	-	400,614
Total Interfund Transfers	\$ 400,614	\$ 93,341	\$ 493,955

Transfer from the Cafeteria Fund to the General Fund for 15% of Vending Machine Proceeds at Ed Center	\$	1,050
Transfer from the Special Reserve Fund for Capital Outlay Projects to the General Fund to reimburse the General Fund for early retirement incentive payments		399,564
Transfer from the General Fund to the Child Development Fund for contribution for deficit in Child Development Center programs		93,341
Total	\$	493,955

**LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011**

NOTE 6 – CURRENT LOANS

During the 2010-11 fiscal year, the District obtained a Treasury Loan in the amount of \$15,769,731 which was repaid in April and July of 2011.

NOTE 7 – ACCRUED LIABILITIES

The accrued liabilities at June 30, 2011 are as follows:

	Child		Non-Major			Total	Child
	Development	Cafeteria	Building	Capital Facilities	Governmental	Governmental	Development
	General Fund	Fund	Fund	Fund	Funds	Funds	Enterprise Fund
Payroll	\$ 537,232	\$ 7,920	\$ 30,729	\$ -	\$ -	\$ 575,881	\$ 152,540
Construction	-	-	-	5,260	3,242	8,502	-
Vendors payable	1,459,664	8,525	25,359	-	-	1,493,548	2,167
Other liabilities	-	-	62,656	-	-	62,656	-
Interest payable	662	-	-	-	-	662	-
Total	\$ 1,997,558	\$ 16,445	\$ 118,744	\$ 5,260	\$ 3,242	\$ 2,141,249	\$ 154,707

NOTE 8 – DEFERRED REVENUES

The deferred revenues at June 30, 2011 are as follows:

	General Fund
Federal sources	\$ 506,399
Total	\$ 506,399

**LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011**

NOTE 9 – LONG-TERM DEBT

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

	Balance July 01, 2010	Accretion/ Additions	Deductions	Balance June 30, 2011	Balance Due In One Year
Governmental Activities					
General obligation (GO) bonds	\$ 43,724,188	\$ 836,154	\$ 1,360,000	\$ 43,200,342	\$ 1,520,000
Capital leases	133,211	-	24,948	108,263	30,888
Compensated absences	782,455	-	42,133	740,322	-
Early retirement incentive	3,663,546	-	881,416	2,782,130	882,648
Other long-term debt	981,410	-	490,555	490,855	490,855
Net OPEB obligations	4,515,209	2,682,980	1,429,785	5,768,404	-
Total	\$ 53,800,019	\$ 3,519,134	\$ 4,228,837	\$ 53,090,316	\$ 2,924,391

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 amount to \$31,885,000 and the 2002 General Obligation Bonds, Series B amount to \$12,669,709, resulting in total bond indebtedness of \$44,554,709, as described:

- 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, 2011 is \$26,445,000.
- 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 principal balance outstanding as of June 30, 2011 is \$12,429,708 plus \$4,325,634 in accreted interest on the capital appreciation bonds.

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 9 – LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

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

Fiscal Year Ending June 30,	Principal*	Interest	Total
2012	\$ 1,520,000	\$ 1,212,525	\$ 2,732,525
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
2017-2021	15,865,000	2,753,562	18,618,562
2022-2026	9,223,717	12,699,596	21,923,313
2027-2028	4,255,991	9,464,008	13,720,000
Total	\$ 38,874,708	\$ 30,344,129	\$ 69,218,838

* Principal excludes accreted interest of \$4,325,634

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2011

NOTE 9 – LONG-TERM DEBT (*continued*)

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, the lease was subsequently sold to De Lage Laden Public Finance. Future minimum lease payments under this agreement are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2012	\$ 30,888
2013	30,888
2014	30,888
2015	<u>26,657</u>
Total	119,321
Less: Amount representing interest	<u>(11,058)</u>
Present value of minimum lease payments	<u>\$ 108,263</u>

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, 2011, the outstanding balance related to the District's early retirement incentive liability was \$2,782,130.

Other Long-term Liabilities

The District is obligated in the amount of \$490,855 as of June 30, 2011 for the remaining payments on the student information system purchase and textbook purchases which were both financed long-term through the vendors. The final payments will be made in fiscal year 2011-12.

LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable			
Revolving cash	\$ 43,650	\$ -	\$ 43,650
Stores inventory	73,546	-	73,546
Restricted			
Educational programs	1,965,544	-	1,965,544
Capital projects	-	3,546,076	3,546,076
Debt service	-	2,455,880	2,455,880
Other programs	-	891,509	891,509
Assigned			
Approved assignments	7,244,314	-	7,244,314
Unassigned			
Reserve for economic uncertainty	2,799,300	-	2,799,300
Additional board reserve	1,866,200	-	1,866,200
Other unassigned	873,977	-	873,977
Total	\$ 14,866,531	\$ 6,893,465	\$ 21,759,996

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011

NOTE 11- POST EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

A. Plan Description

Membership in the plan consisted of the following:

Annual required contribution	\$	2,528,919
Interest on net OPEB obligation		225,760
Adjustment to annual required contribution		(71,699)
<hr/>		
Annual OPEB cost (expense)		2,682,980
Contributions made		(1,429,785)
<hr/>		
Increase in net OPEB obligation		1,253,195
Net OPEB obligation, beginning of the year		4,515,209
<hr/>		
Net OPEB obligation, end of the year	\$	5,768,404

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.

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 2010-11, the District contributed \$1,429,785.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011**

**NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS
 (OPEB) (continued)**

B. Annual OPEB Cost and Net OPEB Obligation

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

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 are as follows:

Fiscal Year Ending June 30	OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	\$ 4,216,294	25%	\$ -
2010	\$ 2,528,919	44%	\$ 4,515,209
2011	\$ 2,528,919	57%	\$ 5,768,404

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011**

**NOTE 11 – POST EMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS
 (OPEB) (continued)**

C. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$19.5 million and the unfunded actuarial accrued liability (UAAL) was \$19.5 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

D. Actuarial Methods and Assumptions

Valuation Date	7/1/2009
Actuarial Cost Method	Project Unit Credit
Amortization Method	Level-Dollar Basis
Remaining Amortization Period	30 years
Asset Valuation	Market Value Basis
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rates:	
Medical/Rx	5.0%
Dental & Vision	4.0%

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011**

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

A. 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 Boulevard; 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 2011 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 3,994,080	100%
2009-10	\$ 4,457,562	100%
2008-09	\$ 4,828,644	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 \$2,044,781 to CalSTRS (4.267% of salaries subject to CalSTRS in 2010-11).

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2011**

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS (continued)

B. 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 2011 was 10.707% 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 1,885,799	100%
2009-10	\$ 1,797,537	100%
2008-09	\$ 1,890,498	100%

C. Social Security

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

**LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2011**

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, 2011.

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, 2011.

NOTE 14 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The La Mesa-Spring Valley School District participates in one joint venture under a joint powers agreement (JPA), the San Diego County Schools Risk Management JPA (RM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and 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.

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, 2011**

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 – EXPENDITURES EXCEEDING APPROPRIATIONS

For the fiscal year ended June 30, 2011, there were no expenditures exceeding appropriations in the General Fund.

NOTE 17 – ADJUSTMENT FOR RESTATEMENT

The District implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, during the fiscal year 2010-11, the effect of which was to reclassify and restate the following funds as General Fund activities:

	General Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay
FUND BALANCE			
Balance June 30, 2010, as originally stated	\$ 8,560,158	\$ 308,761	\$ 1,640,587
Adjustments and reclassifications:			
Reclassification for financial statement presentation*	1,949,348	(308,761)	(1,640,587)
Balance June, 30, 2010, as restated	\$ 10,509,506	\$ -	\$ -

NOTE 18 – SUBSEQUENT EVENTS

A. Tax Revenue Anticipation Notes (TRANS)

The District issued \$8,895,000 of Tax Revenue Anticipation Notes dated July 1, 2011 through a multiple agency agreement with the County of San Diego and San Diego Districts (Series 2011 B-2). The notes mature April 1, 2012 and yield 1% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the San Diego County Treasurer until the District needs to draw funds out. Repayment requirements include payments of \$4,521,378 in January 2012, and \$4,521,378 in April 2012.

**REQUIRED SUPPLEMENTARY
INFORMATION**

LA MESA SPRING VALLEY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive / (Negative) Final to Actual
REVENUES				
Revenue limit sources				
State aid	\$ 36,261,660	\$ 40,004,578	\$ 40,132,896	\$ 128,318
Local sources	19,335,515	20,705,346	20,300,556	(404,790)
Transfers	2,404,242	358,301	629,723	271,422
Federal sources	6,684,297	11,378,976	10,619,980	(758,996)
Other state sources	15,883,304	16,183,564	18,246,215	2,062,651
Other local sources	7,575,010	9,223,617	9,440,500	216,883
Total Revenues	88,144,028	97,854,382	99,369,870	1,515,488
EXPENDITURES				
Certificated salaries	47,708,199	48,517,559	47,995,057	522,502
Classified salaries	16,476,910	16,115,734	16,086,563	29,171
Employee benefits	19,269,999	20,863,633	20,844,456	19,177
Books and supplies	3,364,365	5,976,722	3,904,059	2,072,663
Services and other operating expenditures	6,475,368	7,531,815	6,125,388	1,406,427
Capital outlay	70,590	443,049	337,207	105,842
Other outgo				
Excluding transfers of indirect costs	33,786	33,786	30,888	2,898
Transfers of indirect costs	(233,615)	(279,517)	(3,500)	(276,017)
Total Expenditures	93,165,602	99,202,781	95,320,118	3,882,663
Excess (Deficiency) of Revenues				
Over Expenditures	(5,021,574)	(1,348,399)	4,049,752	5,398,151
Other Financing Sources (Uses):				
Transfers in	1,552,882	1,458,150	400,614	(1,057,536)
Transfers out	-	(3,000)	(93,341)	(90,341)
Net Financing Sources (Uses)	1,552,882	1,455,150	307,273	(1,147,877)
NET CHANGE IN FUND BALANCE	(3,468,692)	106,751	4,357,025	4,250,274
Fund Balance - Beginning, As Originally Stated	8,560,158	8,560,158	8,560,158	-
Fund Balance - Adjustments (See Note 17)	1,949,348	1,949,348	1,949,348	-
Fund Balance - Beginning, As Restated	10,509,506	10,509,506	10,509,506	-
Fund Balance - Ending	\$ 7,040,814	\$ 10,616,257	\$ 14,866,531	\$ 4,250,274

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND
 EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2007	\$ -	\$ 31,282,109	\$ 31,282,109	0%	\$ 82,447,563	38%
7/1/2009	\$ -	\$ 19,541,387	\$ 19,541,387	0%	\$ 82,447,563	24%

**SUPPLEMENTARY
INFORMATION**

**LA MESA SPRING VALLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

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	\$ 2,228,342
ARRA - Title I - Part A	84.389	15005	340,349
Subtotal Title I, Part A Cluster			2,568,691
Title II, Part A, Administrator Training	84.367	14344	1,839
Title II, Part A, Teacher Quality	84.367A	14341	1,206,849
Educational Technology State Grants Cluster			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	7,285
ARRA - Education Technology State Grants	84.386	15019	35,408
Subtotal Education Technology State Grants Cluster			42,693
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	168,939
Title III, Immigration Education	84.365	15146	9,585
Title V, Part A, Innovative Education Strategies	84.298A	14354	9,026
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	2,151,364
Part B, Preschool Grants	84.173	13430	159,933
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	207,450
ARRA - Preschool Local Entitlement, Part B	84.391	15002	195,047
ARRA - Part B, Preschool Grants	84.392	15000	110,961
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	268,006
Preschool Staff Development	84.173A	13431	2,522
Subtotal Special Education Cluster			3,095,283
IDEA Early Intervention Grants	84.181	23761	55,971
Title X, McKinney-Vento Homeless Assistance	84.196	14332	28,398
ARRA - State Fiscal Stabilization Fund	84.394	24997	554,958
ARRA - Education Jobs Fund (SB 847)	84.410	25152	2,240,421
Total U. S. Department of Education			9,982,653
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	23668	27,096
National School Lunch Program	10.555	13391	2,750,298
Especially Needy Breakfast	10.553	13526	554,260
Special Milk Program for Children	10.556	13392	16,163
Meal Supplements	10.556	13392	110,957
Subtotal Child Nutrition Cluster			3,458,774
USDA Commodities	10.558	13389	168,098
Total U. S. Department of Agriculture			3,626,872
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
Quality Improvement Activities	93.575	13979	30,105
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	327,552
Total U. S. Department of Health & Human Services			357,657
Total Federal Expenditures			\$ 13,967,182

See accompanying note to supplementary information

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2011**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,379	1,403
First through third	3,831	3,831
Fourth through sixth	3,782	3,782
Seventh through eighth	2,511	2,509
Home and hospital	1	2
Community day	20	19
Special day class	350	353
Total Average Daily Attendance	11,874	11,899

See accompanying note to supplementary information

**LA MESA SPRING VALLEY SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 FOR THE YEAR ENDED JUNE 30, 2011**

<u>Grade Level</u>	<u>1982 - 83</u>	<u>1982 - 83</u>	<u>1986 - 87</u>	<u>1986 - 87</u>	<u>2010-11</u>	<u>Number of Days</u>	<u>Status</u>
	<u>Actual Minutes</u>	<u>Actual Minutes Reduced</u>	<u>Minutes Requirement</u>	<u>Minutes Requirement Reduced</u>	<u>Actual Minutes</u>		
Kindergarten	35,100	34,125	36,000	35,000	53,000	175	Complied
Grade 1	42,330	41,154	50,400	49,000	53,000	175	Complied
Grade 2	42,330	41,154	50,400	49,000	53,000	175	Complied
Grade 3	52,200	50,750	50,400	49,000	53,000	175	Complied
Grade 4	52,200	50,750	54,000	52,500	53,000	175	Complied
Grade 5	52,200	50,750	54,000	52,500	53,000	175	Complied
Grade 6	57,060	55,475	54,000	52,500	60,150	175	Complied
Grade 7	57,060	55,475	54,000	52,500	60,150	175	Complied
Grade 8	57,060	55,475	54,000	52,500	60,150	175	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, 2011**

	2012 (Budget)		2011		2010		2009
GENERAL FUND:							
Revenues and other financing sources	\$ 88,453,457	\$	99,770,484	\$	93,716,862	\$	106,897,715
Expenditures	90,426,258		95,320,118		100,054,081		109,053,418
Other uses and transfers out	-		1,150,388		575,660		-
Total	90,426,258		96,470,506		100,629,741		109,053,418
INCREASE/(DECREASE)							
IN FUND BALANCE	\$ (1,972,801)	\$	3,299,978	\$	(6,912,879)	\$	(2,155,703)
ENDING FUND BALANCE							
	\$ 11,836,683	\$	13,809,484	\$	10,509,506	\$	15,473,039
AVAILABLE RESERVES							
	\$ 4,521,314	\$	5,539,477	\$	6,098,914	\$	5,452,671
AVAILABLE RESERVES AS A							
PERCENTAGE OF OUTGO	5.0%		5.7%		6.1%		5.0%
LONG-TERM DEBT							
	\$ 50,165,925	\$	53,090,316	\$	53,800,019	\$	49,593,709
AVERAGE DAILY							
ATTENDANCE AT P-2	11,872		11,874		12,038		12,220

The General Fund balance has decreased by \$1.7 million over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$2.0 million. 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 incurred operating deficits in the two out of the past three fiscal years and anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long term obligations have increased by \$3.5 million over the past two years.

Average daily attendance has decreased by 348 ADA over the past two years. No significant change in ADA is anticipated during the 2011-2012 fiscal year.

¹ Available reserves consist of all unassigned fund balance within the General Fund and the Revenue for Economic Uncertainty.

² As restated, see Note 17 for description and presentation of restatement.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Special Reserve Fund for Other Than Capital Outlay
FUND BALANCE		
Balance June 30, 2011, Unaudited Actuals	\$ 13,992,554	\$ 873,977
Adjustments and reclassifications:		
Reclassification for financial statement presentation*	873,977	(873,977)
Audited financial statement	\$ 14,866,531	\$ -

* This adjustment is to reclassify the Special Reserve Fund for Other Than Capital Outlay Projects for financial statement purposes due to the implementation of GASB Statement 54. The District is permitted under current state law to maintain a separate Special Reserve Fund for Other Than Capital Outlay for interim and budgetary purposes.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Other Than Capital Outlay Fund	Building Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 43,487	\$ 280,835	\$ -	\$ -	\$ 1,493,535	\$ 891,851	\$ 1,217,701	\$ 2,455,880	\$ 6,383,289
Accounts receivable	75,743	685,518	-	-	2,027	1,175	1,652	-	766,115
Due from other funds	115,776	7,340	-	-	-	-	-	-	123,116
Stores inventory	-	57,283	-	-	-	-	-	-	57,286
Total Assets	\$ 235,006	\$ 1,030,976	\$ -	\$ -	\$ 1,495,562	\$ 893,026	\$ 1,219,353	\$ 2,455,880	\$ 7,329,806
LIABILITIES									
Accrued liabilities	\$ 16,445	\$ 118,744	\$ -	\$ -	\$ 5,260	\$ 3,242	\$ -	\$ -	\$ 143,691
Due to other funds	176,235	63,052	-	-	-	53,363	-	-	292,650
Total Liabilities	192,680	181,796	-	-	5,260	56,605	-	-	436,341
FUND BALANCES									
Spendable									
Restricted									
Capital projects	-	-	-	-	1,490,302	836,421	1,219,353	-	3,546,076
Debt service	-	-	-	-	-	-	-	2,455,880	2,455,880
Other restrictions	42,326	849,180	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	891,509
Total Fund Balances	42,326	849,180	-	-	1,490,302	836,421	1,219,353	2,455,880	6,893,465
Total Liabilities and Fund Balance	\$ 235,006	\$ 1,030,976	\$ -	\$ -	\$ 1,495,562	\$ 893,026	\$ 1,219,353	\$ 2,455,880	\$ 7,329,806

See accompanying note to supplementary information

LA MESA SPRING VALLEY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2011

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Other Than Capital Outlay Fund	Building Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES									
Federal sources	\$ 30,104	\$ 3,458,775	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,488,879
Other state sources	508,724	287,771	-	-	-	-	-	42,196	838,691
Other local sources	577	1,211,830	-	-	12,525	234,264	8,227	2,734,877	4,202,300
Total Revenues	539,405	4,958,376	-	-	12,525	234,264	8,227	2,777,073	8,529,870
EXPENDITURES									
Current									
Instruction	598,331	-	-	-	-	-	-	-	598,331
Instruction-related services									
Instructional supervision and administration	103,067	-	-	-	-	-	-	-	103,067
School site administration	55,922	-	-	-	-	-	-	-	55,922
Pupil services									
Food services	-	5,129,937	-	-	-	-	-	-	5,129,937
General administration									
All other general administration	3,500	-	-	-	-	6,927	-	-	10,427
Plant services	72	-	-	-	4,669	-	-	-	4,741
Facilities acquisition and maintenance	-	-	-	-	1,163,593	24,678	-	-	1,188,271
Enterprise activities	-	8,846	-	-	-	-	-	-	8,846
Debt service									
Principal	-	-	-	-	-	-	-	1,360,000	1,360,000
Interest and other	-	-	-	-	-	-	-	1,238,425	1,238,425
Total Expenditures	760,892	5,138,783	-	-	1,168,262	31,605	-	2,598,425	9,697,967
Excess (Deficiency) of Revenues									
Over Expenditures	(221,487)	(180,407)	-	-	(1,155,737)	202,659	8,227	178,648	(1,168,097)
Other Financing Sources (Uses)									
Transfers in	93,341	-	-	-	-	-	-	-	93,341
Transfers out	-	(1,050)	-	-	-	-	(399,564)	-	(400,614)
Net Financing Sources (Uses)	93,341	(1,050)	-	-	-	-	(399,564)	-	(307,273)
NET CHANGE IN FUND BALANCE									
Fund Balance - Beginning, As Originally Stated	170,474	1,030,638	308,761	1,640,587	2,646,040	633,761	1,610,690	2,277,232	10,318,183
Fund Balance - Adjustments (See Note 17)	-	-	(308,761)	(1,640,587)	-	-	-	-	(1,949,348)
Fund Balance - Beginning, As Restated	170,474	1,030,638	-	-	2,646,040	633,761	1,610,690	2,277,232	8,368,835
Fund Balance - Ending	\$ 42,328	\$ 849,181	\$ -	\$ -	\$ 1,490,303	\$ 836,420	\$ 1,219,353	\$ 2,455,880	\$ 6,893,465

See accompanying note to supplementary information

LA MESA SPRING VALLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011

NOTE 1 – PURPOSE OF SCHEDULES

A. 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.

B. 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.

C. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time 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.

D. 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.

E. Schedule 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.

F. Combining Statements – Non-Major Governmental Funds

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

**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**

Board of Trustees
La Mesa-Spring Valley School District
La Mesa, California

We have audited the financial statements of La Mesa-Spring Valley School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying Schedule of Audit Findings and Questioned Costs as findings #2011-1 through #2011-3 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 Audit Findings and Questioned Costs. We did not audit 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, the California Department of Education, the California State Controller's Office, the California Department of Finance, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Chintalata Accountancy Corporation

San Diego, California

December 5, 2011

**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**

Board of Trustees
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, 2011. 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item #2011-4.

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 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.

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

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

Christine White Accountancy Corporation

San Diego, California

December 5, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 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 Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, 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:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Accounting:		
Attendance Reporting	8	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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<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
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
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	4	Yes
Before school	5	Yes
Contemporaneous Records of Attendance; for charter schools	1	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	3	Not Applicable

As described in items #2011-5 through #2011-7 in the accompanying schedule of audit findings and questioned costs, we noted instances of non-compliance related to Attendance and School Accountability Report Card. Compliance with such requirements is necessary, in our opinion, for La Mesa-Spring Valley School District to comply with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

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

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

Christ White Accountancy Corporation
San Diego, California
December 5, 2011

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

**LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>10.553, 10.555, 10.556</u>	<u>Child Nutrition Cluster</u>
<u>84.367</u>	<u>Title II, Improving Teacher Quality</u>
<u>84.394</u>	<u>ARRA - State Fiscal Stabilization Fund</u>
<u>84.410</u>	<u>ARRA - Education Jobs Fund (SB 847)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 419,015</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

LA MESA SPRING VALLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Five Digit Code

20000

30000

60000

AB 3627 Finding Type

Inventory of Equipment

Internal Control

Miscellaneous

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2011

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2011

Finding #2011-3: Associated Students 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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Five Digit Code
50000

AB 3627 Finding Type
Federal Compliance

Finding #2011-4: Return of Interest Earned on Federal Funds (50000)

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2011

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2011

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.

LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Prior Year Audit Finding #2010-1: Expenditures Internal Controls (30000)

Criteria: Purchase requisitions and purchase orders should support all expenditure payments in order to demonstrate proper authorization prior to the purchase.

Condition: One (1) expenditure out of seventy six (76) tested was made without purchase order being in place. The \$2,376 expenditure had a purchase order dated after the invoice.

Cause: An internal control weakness exists with regard to the implementation of purchasing internal controls. Not all purchases went through the purchasing channel of the District.

Effect: Funds might not be encumbered in the District budgeting process against all expenditures made and proper authorization of purchases and verification of budget for such expenditures is being bypassed. The normal purchasing and cash disbursement approval process is not always followed, and questionable expenditures could inadvertently be processed for payment without advance approval.

Recommendation: We recommend that the District continue to require purchase orders are put into place prior to ordering goods or services. We noted no exceptions in testing the period of September 2009 through June 30, 2010.

Current Status: Implemented – there were no exceptions noted during testing in this area during 2010-11.

LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS , Continued
FOR THE YEAR ENDED JUNE 30, 2011

Prior Year Audit Finding #2010-2: Cafeteria Internal Controls (30000)

Criteria: In our testing of cafeteria meals served, it was noted that not all eligible meals were claimed for reimbursement. The non-claimed meals were identified through a reconciliation of the Horizon cafeteria system and the child nutrition information and payment system (CNIPS).

Condition: 3,081 eligible meals were determined to be unclaimed at the time of our testing in April 2010.

Cause: Lack of sound internal controls including a formal reconciliation process from the Horizon system to the final CNIPS claims.

Questioned Costs: There are no current questioned costs as the 3,081 meals were claimed for reimbursement and payment has been received by the District as noted in our subsequent testing in this area during October 2010.

Recommendation: We recommend the District continue to monitor the current reconciliation procedures developed as a result of the comments noted above.

Current Status: Implemented – we noted new procedures put into place as a result of this comment were in place and operating effectively during our testing in 2010-11.

Prior Year Audit Finding #2010-3: Child Care Program Internal Controls (30000)

Criteria: During our testing of cash accounts, it was determined that the ESS program accounts receivable/bank reconciliation process was inaccurate at June 30, 2010. The accounts receivable balance included \$15,374.58 that were deposited prior to June 30, 2010, thereby overstating accounts receivable and understating the cash balance.

Cause: Clerical oversight while recording year-end accrual adjustments.

Recommendation: We recommend that the monthly reconciliation process be revised to ensure the balances are properly stated and accurately reconciled. This should include an analysis of the ending balance at June 30 each year to the supporting detail of ESS balances. The reconciliations should also be signed by the preparer indicating the date completed, and also by a reviewer to document the timeliness of this process.

Current Status: Implemented – we did not note any discrepancies during our testing of year end balances and supporting reconciliations.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS , Continued
FOR THE YEAR ENDED JUNE 30, 2011**

Prior Year Audit Finding #2010-4: Federal Payroll Documentation (50000)

Federal Program Information:

- Child Nutrition Cluster (CFDA 10.553, 10.555, 10.556)

Criteria: LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified in OMB Circular A-87, Attachment B, Section 11(h).

Condition: In 2009-10, the District was unable to provide documentation of time and effort by use of Personnel Activity Reports or semi-annual time certifications for employees charged to the child nutrition cluster.

Questioned Costs: No questioned costs as the proper documentation to support all salaries charged to the program was provided for the 2009-10 fiscal year.

Context: Semi-annual time certifications were not prepared for any employees in the child nutrition cluster program as of April 2010. However, all certifications were provided during our year end testing during October 2010.

Cause: The District was unaware of the federal documentation requirement for the child nutrition program.

Effect: The District was not in full compliance with the federal regulations as they pertain to the operation of the child nutrition cluster program as of April 2010. The District was in full compliance with the documentation provided during October 2010 to support all salaries charged during the 2009-10 fiscal year.

Recommendation: We recommend the District document time certifications for all employees charged to federal programs.

Current Status: Implemented – there were no federal programs tested that did not have proper time certifications on file.

LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS , Continued
FOR THE YEAR ENDED JUNE 30, 2011

Prior Year Audit Finding #2010-5: Short-Term Independent Study (40000)

Criteria: Independent study contracts should be properly signed by the student, parent, and certificated personnel prior to the commencement of independent study per Education Code Section 51747(c)(8).

Condition: Short-term independent study contracts did not contain all necessary signatures prior to the commencement of independent study. Two invalid contracts were noted at Rolando Elementary School for a total of 15 days of attendance credit.

Cause: Clerical oversight by the school administrator responsible for oversight of independent study.

Effect: The District did not comply with the requirements of Education Code Section 51747(c)(8), and therefore, the ADA was unallowable with respect to the contracts noted above.

Questioned Costs: No questioned costs were noted as the District excluded the unallowable days of attendance with respect to the contracts noted above prior to completing its P-2 report. In addition to the contracts identified during the external audit, the District's internal audit also reviewed an additional sample to ensure only allowable contracts were claimed for apportionment credit.

Recommendation: We recommend the District remind the staff Rolando Elementary and other sites of the District policies and procedures regarding short-term independent study contracts.

Current Status: In progress – see finding #2011-6.

**LA MESA SPRING VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS , Continued
FOR THE YEAR ENDED JUNE 30, 2011**

Prior Year Audit Finding #2010-6: After School Education and Safety (ASES) (40000)

Criteria: The District must record and semi-annually report the actual pupil attendance for the After School Education and Safety (ASES) program as defined in Education Code Sections 8482.3-8484. Education Code Section 8484(a)(1)(B) requires the semi-annual attendance reports to reconcile to the underlying records of attendance.

Condition: We found that the attendance reports for Kempton Elementary and La Presa Middle the underlying attendance records did not agree without exception to the semi-annual attendance reported to CDE. Kempton Elementary after school program students served was overstated on 1st half 2009-10 by 4 student days and understated by 90 student days. La Presa Middle before school was understated on 1st half 2009-10 by 56 student days, and overstated by 1 day. La Presa Middle after school program was understated by 106 student days. Additional tests were performed on the 2nd half 2009-10 report for Bancroft Elementary and Spring Valley Middle School. One day was noted as an exception in the testing at Spring Valley Middle, no exceptions notes at Bancroft.

Questioned Costs: There is no potential ASES program funding related to the exceptions noted above as the District's ASES program attendance was greater than 85% of the ASES program's estimated students served.

Context: The attendance discrepancy described herein appears to be a systematic error for the 1st half of 2009-10 reporting, the exception noted during the 2nd half 2009-10 appears to be an isolated incident at Spring Valley Middle.

Cause: The summary reports from the electronic County of San Diego system did not reconcile to the underlying written attendance reports. A formal reconciliation was not performed.

Recommendation: In order to augment compliance efforts we recommend that a monthly reconciliation be performed to ensure the records maintained by the electronic system used to report attendance to CDE agree without exception to the original written data.

Current Status: Implemented – we noted no variances during our testing of the ASES program during 2010-11.