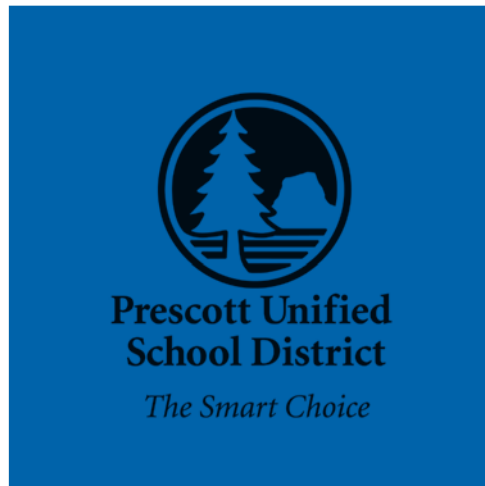


Prescott Unified School District

POPULAR ANNUAL FINANCIAL REPORT • FOR THE FISCAL YEAR ENDED 2012



The Smart Choice: Educating the Future of Prescott

Prescott Unified
School District

THE SMART CHOICE

Prescott Unified School District is excited to share this report with our community for the fiscal year ended June 30, 2012. This report is a reflection of our efforts to keep you informed of the District's financial operations and what we are achieving with our financial resources. Within this report you will find an analysis of where the District's financial resources come from and where the dollars are spent in a format that is easy to understand.

As the State continues to reduce the overall funding to school districts, federal grant funding continues to decline and property values continue to fall, maintaining

a balanced budget is an ongoing challenge. In spite of the continued reductions, Prescott Unified School District has been able to exceed State academic standards, maintain competitive class sizes and retain outstanding staff. PUSD is proud to offer innovative programs that are critical to the future success of the students as adults. These programs incorporate the focus on the ever-changing knowledge base in technology and sciences and the competition on the world stage.

The financial information within this report is derived in large part from the District's independently audited financial statements of our 2012 Comprehensive Annual Financial Report (CAFR), which is prepared in conformance with GAAP (Generally Accepted Accounting Principles). To conform with GAAP, the CAFR must include certain detailed financial information as well as full disclosure of all material events, both financial and non-financial. Information in this report includes statistical data derived from the Arizona Auditor General's reports and the Arizona Department of Education Annual Financial Report.

This report is not an audited document and does not include all details of the audit report; rather, this report is intended to increase awareness of the financial operations of the District. As such, this report is written in a manner that will summarize the financial data in a user-friendly manner. For more in-depth financial information, the District's CAFR is available online at www.prescottschools.com.

This report will help our citizens understand how their tax dollars are being utilized to educate our students, which in turn benefits our entire community with maintenance and improvements to our social and economic structure for the future of Prescott. Our goal is to ensure that you have the best, most easily understandable financial information available and to increase your confidence in the manner our District is operated. Questions and comments are welcome and may be directed to the Business Office at 928-445-5400.

Thank you for helping make Prescott Unified School District
The Smart Choice.

Respectfully,

David C. Smucker, Superintendent

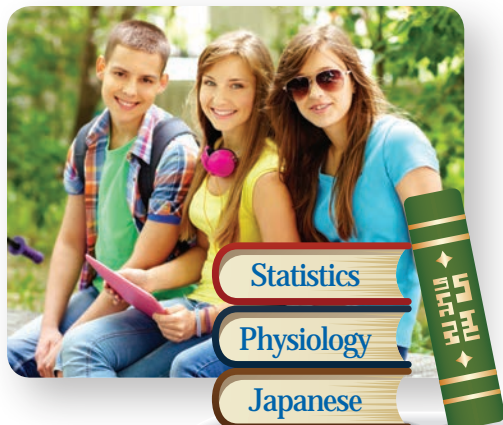


Over 2,275 miles driven daily

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SMART ACADEMICS



Student Assessment. We are proud of our 'A' grade from the Arizona Department of Education. It demonstrates the high student achievement in Prescott Schools. Student assessment is a critical component in examining the quality of our instructional landscape. Each year students at all Prescott schools are administered the AIMS – Arizona's Instrument to Measure Standards. The AIMS measures student performance in writing, reading, mathematics and science. The students at Prescott Unified School District consistently rank among the highest levels of achievement and outperform their peer districts on the Arizona AIMS testing.

Smart Academics

Prescott Unified School District is *The Smart Choice* for education in Prescott. Academic achievement is a high priority in the District, as evidenced by test scores which exceed state and national averages. We pride ourselves on providing outstanding educational programs at all grade levels. Students at Prescott Unified Schools annually outperform their peers on the state AIMS test. Every grade level scored in the top 25% of Arizona districts on reading and math in 2012. This achievement has the students well prepared for their futures beyond PUSD, with students at Prescott High outscoring their peers nationwide on the national SAT and ACT college board entrance and assessment exams.

16 Prescott High Seniors were Chosen as Flinn Scholars

Unique Course Offerings

Students in grades K-12 are offered a wide variety of instructional opportunities, preparing them for our ever-changing world and the skills needed to be successful—from before and after school enrichment classes and camps for summer and mid-year breaks, to advanced placement courses and online education. We provide a unique comprehensive educational program for all students. Some of the many courses include Exploration of Space and Astronomy, Science of Flight, world languages, including Japanese, as well as military studies and various career and technical education classes. Of the 2012 graduating class, 83% entered a two or four year college upon graduation.

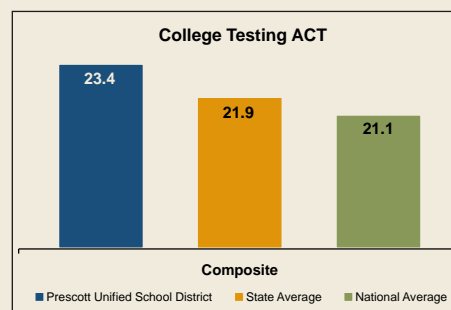
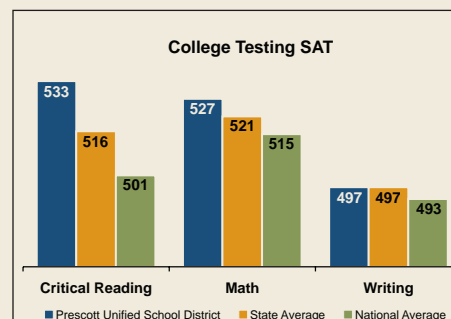
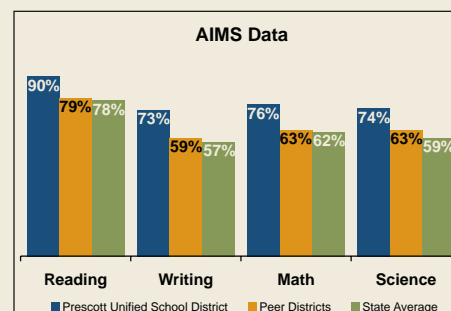
Successful Students

In 2012, Prescott High graduating seniors were awarded \$4.5M in scholarships to both state and out-of-state colleges and universities. Prescott High School is one of the leading producers of Flinn scholars since the program selected its first scholars in 1986. Flinn scholars are the most competitive merit-based scholarships for Arizona students. PHS has had 16 students awarded the Flinn Scholarship, one of the highest counts across all Arizona high schools.



2012 REPORT CARD Prescott Unified Schools

Subject	State	PUSD
Math	62%	76%
Reading	78%	90%
Writing	57%	73%
Science	59%	74%
Overall Performance		A



SMART STUDENT PROGRAMS

Dual Enrollment

Dual Enrollment courses are taught during the school day on the PHS campus and allow students the opportunity to simultaneously earn both high school and college credits. In 2011-12, 65% of the senior class was enrolled in dual enrollment classes.

Air Force JROTC

Our Air Force JROTC program is the only one in Arizona. The Prescott High School AFJROTC AZ-20063 has been recognized as a "Distinguished Unit," one of the top 10% in the world, every year since its inception, recently winning this prestigious award for the 6th straight year. In May 2012, both instructors, Col (Ret.) Denny Peeples and Lt Col (Ret.) Bill DeKemper were designated "Outstanding Instructors with Merit" by HQ AFJROTC.

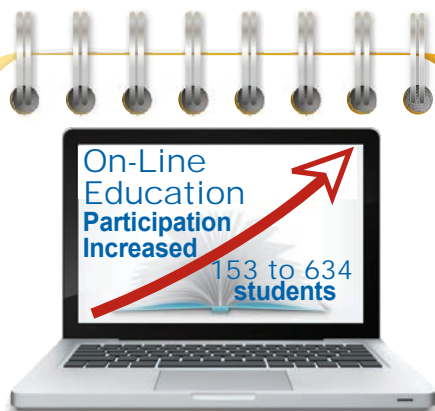
Kids & Company

Kids & Company is an extended learning program designed to highlight children's self-awareness, cognitive expansion, physical development, creative expression and recreational pursuit while in a progressive learning environment.

Discovery Garden Early Childhood

Our developmentally appropriate preschool is a warm and nurturing place where each child develops intellectual, physical, self help, social-emotional, and language skills according to individual readiness.

*Each year more than 105 students
begin their learning at Discovery
Garden Early Learning Center*



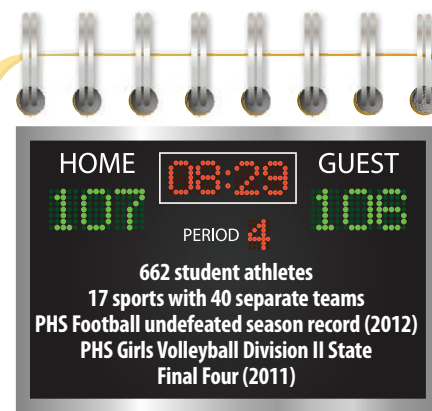
On-line Education

In 2011-12, Prescott Schools launched a full on-line education program. The on-line opportunities have evolved from a program for students to retake classes to a full academic program which now offers an alternative education opportunity for students. This program has grown from 153 students during its pilot year in 2008 to 634 students in 2012.



Pride of Prescott

Pride of Prescott marching band was invited to London, England, to march in the London 2010 New Year's Day Parade. Prescott Unified prides itself on the stellar fine arts programs provided to students of all grades. Pride of Prescott has a distinguished reputation both locally and internationally.



Athletics

Athletics is an integral program at Granite Mountain Middle School, Mile High Middle School and Prescott High School. All three schools compete on an interscholastic level, and students experience the teamwork and pride in accomplishment through sports. Since 1977, Prescott High School has inducted 21 teams and nearly 200 athletes to the Prescott High School Hall of Fame.

SMART FINANCIAL PLANNING

Understanding School Funding

Arizona school districts receive the majority of their funding on a per student basis. The formula is adjusted for various student populations such as preschool, special education, primary and high school grades. PUSD's finances are legally required to be tracked separately with funding provided for each of those separate sections of the budget. The main portion of the budget, Maintenance and Operations (M&O), is where most of the day-to-day expenditures take place. The Unrestricted Capital Outlay portion of the budget covers long-term capital items, such as major building renovation or improvement projects. The Soft Capital budget is used for items like technology, textbooks, library books, science equipment and school buses. Districts are also able to sell bonds which are paid back over several years. These debt payments are accounted for in the Debt Service portion of the budget. Finally, the District receives several grants through the state and federal government that are also tracked separately.

Building Improvements and Renovations

Like any home or office building, the amount that a school district must spend on buildings depends not only on the number and size of the schools, but also their age. We have a high level of responsibility to keep our children safe. As buildings age, they need new roofs, new heating and air conditioning systems, new plumbing and new electrical systems. Some schools in the District were built in the early 1900s and lack many things most districts take for granted from their schools or that are required by law, including computer and internet wiring, an environment free from asbestos and fire hazards and doors and ramps for disabled students and visitors.

The average age of a PUSD school building is 67 years.

Washington Traditional Elementary: 1903

Lincoln Elementary: 1909

Miller Valley Elementary: 1916

Prescott Mile High Middle School: 1938

Taylor Hicks Elementary: 1963

Prescott High School: 1965

Granite Mountain Middle School: 1976

Abia Judd Elementary: 1987

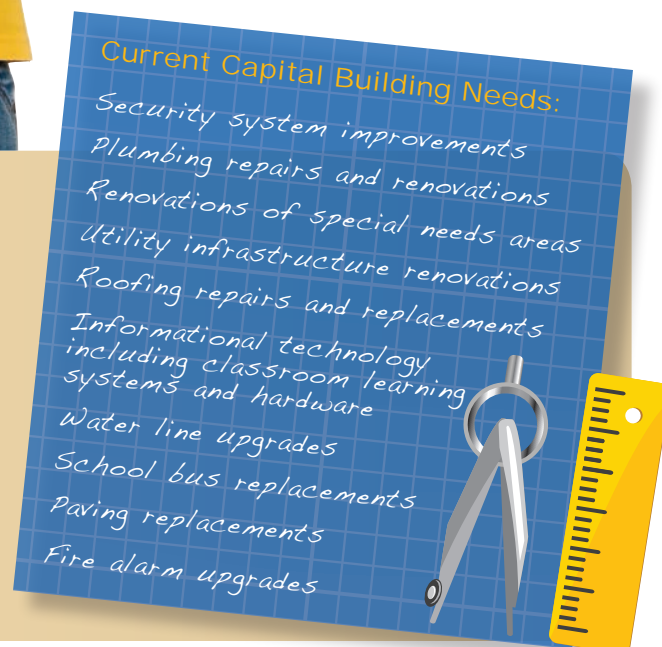
The School Facilities Board

In 1994, Arizona's system of school capital finance was declared unconstitutional because it failed to conform to the State constitution's "general and uniform" clause. In 1996, the Arizona Superior Court imposed on the State a deadline of June 30, 1998, to develop a constitutional system of school capital finance, or risk closure of many K-12 public schools. Students' FIRST (Fair and Immediate Resources for Students Today) is a capital finance program funded by appropriations from the State General Fund. The Students FIRST law established a Building Renewal Fund for the purpose of maintaining the adequacy of existing school facilities. Funding for the Building Renewal Fund began in 2002.

Where Does Building Repair Money Come From?

In the past, districts received Building Renewal money from the School Facilities Board based on the district's square footage. The money was used for major renovation and repairs of buildings, upgrading systems and areas that extended the buildings' useful lives and infrastructure costs. Districts across the State have been underfunded based on the State legislative formula for Building Renewal, and PUSD has not received Building Renewal money since 2007-08, due to a state-wide budget deficit.

The District currently has \$12.0 million in outstanding debt, with \$2.4 million due in 2013. While many districts in Arizona have exceeded their debt limit, PUSD is only utilizing approximately 3.5% of the available debt limit authorized by the State legislature.



SMART FINANCIAL PLANNING



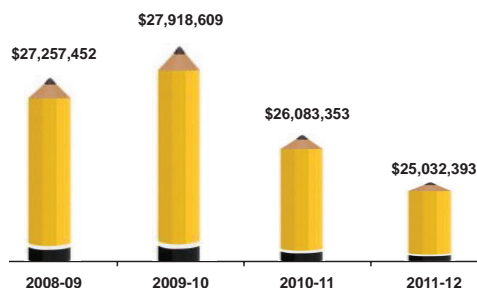
Major Initiatives and Long-Term Financial Planning

School district budgets can be very complex. A budget is not just a document full of numbers prepared by the business office to limit expenditures within the school district; rather, it is a working tool central to the successful operation of a school district. Budgeting represents an opportunity to plan a district's mission, improve its operations and achieve a district's educational objectives. The District separates its resources into different accounts called funds. It is somewhat similar to the way individuals split their resources into separate checking and savings accounts, except the District must follow many legal requirements regarding this separation of resources.

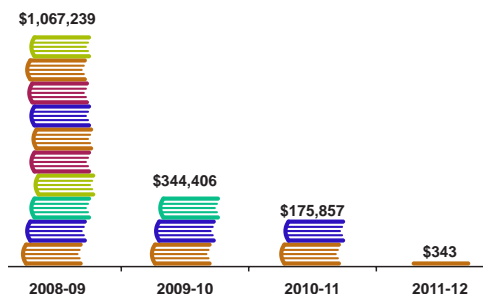
Prescott Unified School District must continue to align the financial resources to the instructional goals and identify ways that will enable the District to adequately fund its mission of providing quality education to all students. The primary objective of a budget is to ensure fair and reasonable allocation of available resources to schools and departments. The budgets for many of the District funds are limited based on legally required formulas, thus the various fund budgets have legal restrictions the District must follow. These restrictions and the reduction in funding in recent years make funding the day-to-day operations challenging. While many Arizona school districts have the support from their community with voter approved overrides for the M&O or capital budgets, Prescott Unified School District has not sought this option since 1996. However, State funding has continued to decline in recent years, and PUSD is facing significant financial dilemmas.

In 2011-12, PUSD reduced its M&O budget by \$830,000. This included the elimination of 12 teaching positions and 13 support staff positions. Additionally, the soft capital budget was reduced by \$1,125,000.

Maintenance and Operations Fund



Soft Capital Fund



Financial Awards

The Association of School Business Officials (ASBO) awarded a Certificate of Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2011.

In addition, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2011.

\$1,447,485

2012 Tax Credits Received

\$291

Average per Student

Five + times

Higher than the State Average

**Thank You
Prescott
Community!**



SMART FINANCIAL DECISIONS

Where the Money Goes

The Arizona Auditor General's office issues a report each year that compares individual school districts to state and national spending levels and spending trends in instruction and six nonclassroom categories.

Below is a summary of the expenditures of the M&O, capital projects and grant budgets for the fiscal year ended June 30, 2012.

Instruction: salaries, payroll taxes and benefits for teachers and instructional aides, classroom supplies

Administration: expenses associated with the superintendent's office, business office, human resources and administrative technology

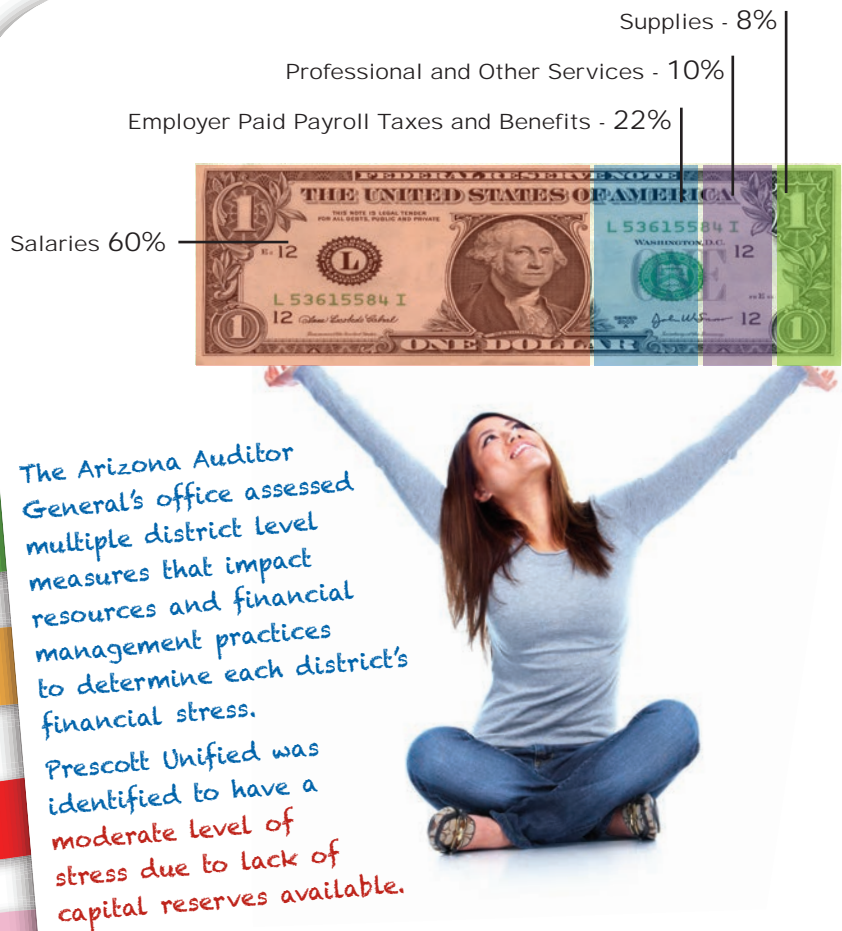
Plant Operations: utilities, equipment repair, groundskeeping, security

Food Service: costs of preparing and serving student meals

Transportation: costs of transporting to and from school and school activities

Student Support: salaries, payroll taxes and benefits of counselors, speech pathologists, nurses, attendance staff and social workers

Instructional Support: expenses associated with school libraries, teacher training, curriculum development and instructional technology

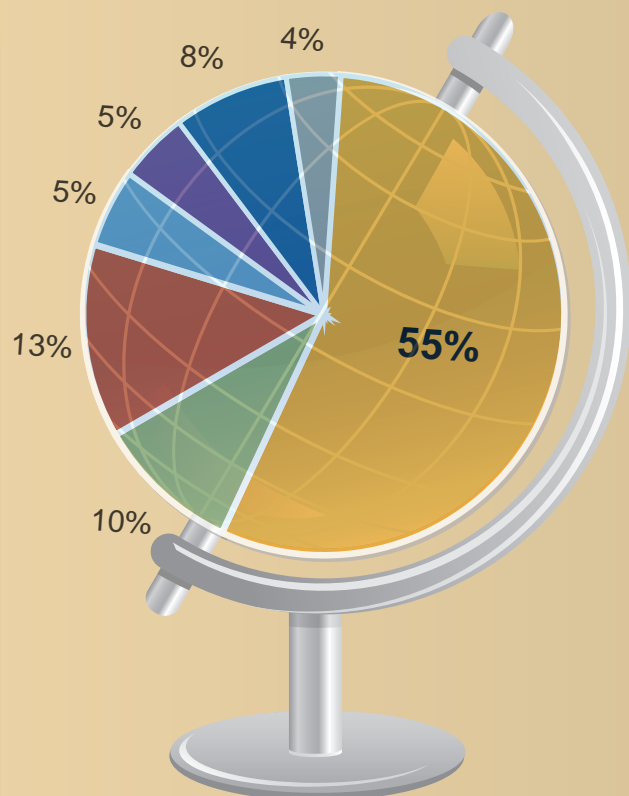


Prescott Unified spends more in the classroom and less on administration:

4.3% more than its peers or 2.8% more than the state average in the classroom

7.1% less than its peers and 1.3% less than the state average on administrative functions

- Classroom Dollars – 55%
- Administration - 10%
- Plant Operations – 13%
- Food Service – 5%
- Transportation – 5%
- Student Support – 8%
- Instructional Support – 4%



Smart Staffing.

Prescott Unified School District employees are the best and the brightest. Each employee provides a critical role in educating our students.

Here are a few personnel highlights:

- 277 Certified Teachers
- 100% of teachers meet the federal criteria for Highly Qualified
- 73 teachers have taught at PUSD more than 10 years, 16 have taught at PUSD more than 25 years
- Over the last 10 years, 4 PUSD teachers have been named Yavapai County Teacher of the Year
- PUSD participates in the Americorp Volunteer program

Smart Leadership.

The Governing Board is comprised of five individuals elected by the voters of the Prescott Public Schools. Each Board member represents the community.

Board members serve four-year terms, and terms are staggered so that not more than three members are elected in any one election.



Smart Future.

New assessments and curriculum requirements – PUSD is actively implementing the newly enacted Common Core Standards curriculum requirements and is preparing for the new state-wide assessment.

New budget challenges – With the limited financial resources available at the state level, PUSD will continue to dedicate its efforts to maximize the dollars spent in the classroom.

Building improvements needed – PUSD's aging facilities are in need of serious renovations and repairs. A capital improvement plan is being developed to identify the greatest needs across all campuses and the options for financing them.

New programs for students – Each year we look at the ever-changing needs of our students and the future of our society and identify programs to meet these needs. Launching in 2013-14, students at Prescott High School will have the opportunity to participate in new medical profession classes, including foundational learning in nursing, medical and sports medicine.



The Smart Choice: Educating the Future of Prescott