

**PAJARO VALLEY UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2010**

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2010

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Pajaro Valley Unified School District  
Watsonville, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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 Pajaro Valley Unified School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

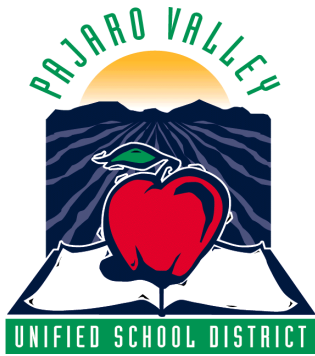
In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison and other postemployment benefit information, is not a required part of the basic financial statements, but is supplementary information required by the 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
December 15, 2010



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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(831) 786-2100

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pajaro Valley Unified School District's (The District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

#### **The Financial Statements**

The financial statements presented herein include all of the activities of the Pajaro Valley Unified School District (the District) using the integrated approach as prescribed by GASB Statement Number 34.

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

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

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

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

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

The Primary unit of the government is the Pajaro Valley Unified School District. The District also has five component unit charter schools, Linscott Elementary, Watsonville School of Arts, Pacific Coast Charter School, Alianza Elementary, and Academic Vocational. The charter schools are included in the special revenue, charter school fund of the District. Separately issued financial statements for the charter schools are not prepared.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### *FINANCIAL HIGHLIGHTS OF THE PAST YEAR*

#### *REPORTING THE DISTRICT AS A WHOLE*

##### *The Statement of Net Assets and the Statement of Activities*

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

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

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

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

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

#### *REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS*

##### *Fund Financial Statements*

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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

***Proprietary funds*** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

### ***THE DISTRICT AS TRUSTEE***

#### ***Reporting the District's Fiduciary Responsibilities***

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



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### *THE DISTRICT AS A WHOLE*

#### *Net Assets*

The District's net assets were \$143.8 million and \$148.6 million for the fiscal years ended June 30, 2010 and 2009, respectively. Of this amount, \$2.9 million and \$.9 million were unrestricted for fiscal years ending June 30, 2010 and 2009, respectively. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

**TABLE 1**

	Governmental Activities 2010	Governmental Activities 2009
Current and other assets	\$ 72,078,044	\$ 66,968,166
Capital assets	174,619,488	183,547,303
<b>Total Assets</b>	<b>246,697,532</b>	<b>250,515,469</b>
Current liabilities	23,686,082	22,684,876
Long-term debt	79,222,113	79,195,939
<b>Total Liabilities</b>	<b>102,908,195</b>	<b>101,880,815</b>
Net assets		
Invested in capital assets, net of related debt	114,246,104	116,654,287
Restricted	26,669,816	31,107,932
Unrestricted	2,873,417	872,435
<b>Total Net Assets</b>	<b>\$ 143,789,337</b>	<b>\$ 148,634,654</b>

The \$2.9 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today including all of our non-capital liabilities (compensated absences as an example), we would need \$2.9 million.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

*Changes in Net Assets*

The results of this year’s operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues and expenses for the year.

**TABLE 2**

	Governmental Activities 2010	Governmental Activities 2009
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,064,228	\$ 1,414,770
Operating grants and contributions	75,269,696	80,906,832
Capital grants and contributions	3,833	11,337
General revenues:		
Federal and state sources	68,138,199	69,972,737
Property taxes	52,044,160	54,413,840
Other general revenues	8,482,717	8,282,299
<b>Total Revenues</b>	<b>205,002,833</b>	<b>215,001,815</b>
<b>Expenses</b>		
Instruction related	159,028,042	166,521,395
Student support services	23,566,244	25,413,037
Administration	5,541,102	2,557,649
Maintenance and operations	16,428,921	18,451,061
Other	5,283,841	4,305,368
<b>Total Expenses</b>	<b>209,848,150</b>	<b>217,248,510</b>
<b>Change in Net Assets</b>	<b>\$ (4,845,317)</b>	<b>\$ (2,246,695)</b>

**Governmental Activities**

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$209.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$52.0 million because \$76.3 million of the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$76.6 million in State and Federal funds and with other revenues, like interest and general entitlements.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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In Table 3, we have presented the net cost of each of the District's largest functions - (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**TABLE 3**

	Net Cost of Services 2010	Net Cost of Services 2009
Instruction and instruction related	\$ 101,790,243	\$ 104,799,869
Pupil services	8,544,028	10,597,278
General administration	3,386,967	(556,933)
Maintenance and operations	15,719,886	17,536,035
Other	4,069,269	2,539,322
<b>Totals</b>	<b>\$ 133,510,393</b>	<b>\$ 134,915,571</b>

### ***THE DISTRICT'S FUNDS***

As the District completed this year, our governmental funds reported a combined fund balance of \$44.7 million, which is an increase of \$6.1 million from last year.

The primary reasons for these changes are:

1. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$6.0 million to \$29.4 million. The primary reason for the increase is due to Federal Stimulus Funds and freezing expenditures to build a larger reserve for the future years. In 09/10, the State of California continues its struggles with balancing the budget. This, in essence, continues to affect our school district; the District has made multi million dollars in expenditure cuts to mitigate the crisis.
2. The Building fund (a non major fund) has a decrease in fund balance of \$2.2 million. This decrease is due to District Bond projects in process. Over the past year the existing bond projects have had some phases completed and others are well underway and expected to be complete in the 10/11 fiscal year. Each year until completion we will show a decrease in fund balance in the fund. At the end of 09/10 fiscal year, the final bond project has just been started. This is the E.A. Hall Gym.

### ***General Fund Budgetary Highlights***

Our original adopted budget projected an ending fund balance of \$23.1 million and our final budget projected an ending balance of \$24.8 million. Our actual ending balance at year-end was \$29.4 million, a positive variance of \$4.6 from our final budget. Actual revenues exceeded final budgeted revenues by \$3.8 million excluding on behalf payments. Actual expenditures were \$1.1 million lower than the final budgeted amounts excluding on behalf payments. Other financing sources (uses) generated a negative variance of approximately \$0.3 million when comparing actual to final budget.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2010**

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Our final budget revenues were \$166.2 million; however, actual revenues were \$170.1 million. The variance, \$3.8 million, is primarily due to the change in the States budget for revenue limit and additional monies received from Federal and State grants. In addition, higher categorical expenditures in grants than anticipated which in turn have the District recognize the revenue in the current year as opposed to deferring it to the subsequent year to be spent as carryover.

### ***CAPITAL ASSET AND DEBT ADMINISTRATION***

#### *Capital Assets*

At June 30, 2010 and 2009, the District had \$174.6 million and \$183.5 million, net of depreciation in a broad range of capital assets including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of just under \$8.9 million, or 4.9 percent, from last year.

**TABLE 4**

	Governmental Activities 2010	Governmental Activities 2009
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	882,849	840,702
Buildings and improvements	256,881,419	253,272,400
Equipment	4,257,893	4,086,270
Accumulated depreciation	(104,457,817)	(91,707,213)
<b>Totals</b>	<b>\$ 174,619,488</b>	<b>\$ 183,547,303</b>

This year's additions to capital assets of \$3.8 million (excluding depreciation) are primarily from the completion of the Aptos High School Bond project and finishing additional Watsonville High School Bond projects.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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### Long-Term Debt

At the end of this year, the District had \$58.2 million in bonds outstanding. The District's long-term debt is summarized below.

**TABLE 5**

<i>Years ending</i>	<u>2010</u>	<u>2009</u>
Certificates of participation	\$ 2,820,000	\$ 2,920,000
General obligation bonds	58,220,592	59,198,722
Bond premium	766,905	828,017
Accumulated vacation - net	1,654,015	1,605,269
Supplemental employees retirement plan	4,244,920	6,004,176
Capital leases	888,279	1,281,437
Other post employment benefits	10,446,222	6,995,958
Other	181,180	362,360
<b>Totals</b>	<b><u>\$ 79,222,113</u></b>	<b><u>\$ 79,195,939</u></b>

The State limits the amount of general obligation debt that District's can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries.

Other obligations include compensated absences payable, certificates of participation, capital leases and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

### ***SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-2010 ARE NOTED BELOW:***

Even with all the turmoil with the State and National budgets, the District was able to meet its financial obligations as well as continue to support the students in the District with their individual educational goals. The District was required to cut expenditures by \$8.5 million in 2009/2010, the task was daunting yet the Board of Trustees were able to identify these reductions and keep the District moving forward.

Other outstanding accomplishments of 2009/2010:

Finance monitored the budget in an ever changing environment where adjustments were the norm due to the State's instability. With Federal Stimulus funds received, came additional reporting requirements, which were completed by the Finance department. Purchasing processed approximately 6000 purchase orders. Accounting paid on all the purchase orders as well as reconciled and paid all credit card statements. Payroll processed pay for 4,500+ individuals equating to approximately 42,000+ checks. They also maintained the staff health and welfare accounts, worker compensation claims, section 125 applicants and retirement accounts including 403B's.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2010**

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Maintenance and Operations maintained all 33 sites. Transportation transported 4000+ students to school each day driving 1.1 million miles and received 12 International School Busses as a result of clean air grants. Food Service served 2.2 million breakfast and lunch meals with salad and garden bars at 8 elementary sites. Technology maintained 5500+ computers connected to the network for use of office work, Student Information system, libraries, technology labs and classroom use. They also installed and maintain 250+ Smartboards in schools to assist teachers in improving the students' learning.

Human Resources hired outstanding employees and monitored all the changes that resulted in the layoffs due to lost funding.

### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

In considering the District Budget for the 2010/2011 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Projections of revenue limit income include a negative COLA of 0.39% with a deficit of 18.355%.
2. In addition to the COLA and deficit, the revenue limit contains a deficit of 3.85% per student.
3. State grants received the negative COLA of 0.39% including Special Education.
4. The sweeping of most State grants in Tier III.
5. The use of remainder of the Federal Stimulus funding.
6. Developer fee collections have been reduced substantially due to a decrease in development in the surrounding area.
7. The District's ADA has been projected 75 less than prior year due to the fact Ceiba College Preparatory Academy (newest Charter School) continues to grow.
8. Employee benefits will be increased by 10%.
9. Step and Column increases are reflected.

### ***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

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

Brett W. McFadden, Chief Business Official  
294 Green Valley Road, Watsonville, CA 95076

Helen Bellonzi, Director of Fiscal Services  
294 Green Valley Road, Watsonville, CA 95076

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 42,201,754
Receivables	29,254,847
Prepaid expenses	176,491
Stores inventories	444,952
Capital assets not depreciated	17,937,993
Capital assets, net of accumulated depreciation	156,681,495
<b>Total Assets</b>	<b><u>246,697,532</u></b>
<b>LIABILITIES</b>	
Accounts payable	5,382,417
Interest payable	918,005
Deferred revenue	3,519,424
Claim liabilities	13,866,236
Current portion of long-term obligations	3,939,788
Noncurrent portion of long-term obligations	75,282,325
<b>Total Liabilities</b>	<b><u>102,908,195</u></b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	114,246,104
Restricted for:	
Debt service	1,911,693
Capital projects	921,429
Special revenues	8,711,549
Self-Insurance	4,504,386
Legally restricted	10,620,759
Unrestricted	2,873,417
<b>Total Net Assets</b>	<b><u>\$ 143,789,337</u></b>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 123,906,632	\$ 39,921	\$ 40,451,588	\$ 3,833	\$ (83,411,290)
Instruction-related activities:					
Supervision of instruction	18,140,982	8,722	14,672,946	-	(3,459,314)
Instructional library, media, and technology	3,436,188	1,028	1,976,451	-	(1,458,709)
School site administration	13,544,240	25	83,285	-	(13,460,930)
Pupil services:					
Home-to-school transportation	6,485,488	58,588	3,319,160	-	(3,107,740)
Food services	7,160,918	906,611	6,334,664	-	80,357
All other pupil services	9,919,838	1,316	4,401,877	-	(5,516,645)
Administration:					
Data processing	1,256,103	-	-	-	(1,256,103)
All other administration	4,284,999	37,452	2,116,683	-	(2,130,864)
Plant services	16,428,921	2,436	706,599	-	(15,719,886)
Ancillary services	490,763	300	85,569	-	(404,894)
Community services	5,432	11	1,603	-	(3,818)
Enterprise services	2,255,350	-	-	-	(2,255,350)
Interest on long-term obligations	2,480,562	-	-	-	(2,480,562)
Other outgo	51,734	7,818	1,119,271	-	1,075,355
<b>Total Governmental Activities</b>	<b>\$ 209,848,150</b>	<b>\$ 1,064,228</b>	<b>\$ 75,269,696</b>	<b>\$ 3,833</b>	<b>(133,510,393)</b>
General revenues and subventions:					
					48,216,438
					3,611,230
					216,492
					68,138,199
					188,220
					8,294,497
					<b>128,665,076</b>
					<b>Change in Net Assets (4,845,317)</b>
					<b>Net Assets - Beginning 148,634,654</b>
					<b>Net Assets - Ending \$ 143,789,337</b>

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



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2010**

	<b>General Fund</b>	<b>Charter School Fund</b>	<b>Child Development Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 6,293,044	\$ 2,845,803	\$ 997,697
Receivables	25,914,826	1,805,224	334,557
Due from other funds	3,819,842	-	-
Prepaid expenses	167,340	1,862	-
Stores inventories	252,747	-	-
<b>Total Assets</b>	<b>\$ 36,447,799</b>	<b>\$ 4,652,889</b>	<b>\$ 1,332,254</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,590,913	\$ 51,893	\$ 433,238
Due to other funds	1,435,096	1,942,040	289,085
Deferred revenue	3,057,115	-	441,717
<b>Total Liabilities</b>	<b>7,083,124</b>	<b>1,993,933</b>	<b>1,164,040</b>
<b>Fund Balances:</b>			
Reserved for:			
Grant reservations	9,755,602	20,500	168,214
Prepaid and inventory reservations	475,087	1,862	-
Unreserved:			
Designated	4,876,795	-	-
Undesignated, reported in:			
General fund	14,257,191	-	-
Special revenue funds	-	2,636,594	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>Total Fund Balance</b>	<b>29,364,675</b>	<b>2,658,956</b>	<b>168,214</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 36,447,799</b>	<b>\$ 4,652,889</b>	<b>\$ 1,332,254</b>

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

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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 11,004,514	\$ 21,141,058
1,070,480	29,125,087
828,916	4,648,758
7,289	176,491
192,205	444,952
<b>\$ 13,103,404</b>	<b>\$ 55,536,346</b>

\$ 379,114	\$ 3,455,158
174,550	3,840,771
20,592	3,519,424
<b>574,256</b>	<b>10,815,353</b>

-	9,944,316
199,494	676,443
-	4,876,795
-	14,257,191
6,074,955	8,711,549
2,829,698	2,829,698
3,425,001	3,425,001
<b>12,529,148</b>	<b>44,720,993</b>
<b>\$ 13,103,404</b>	<b>\$ 55,536,346</b>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

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**Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 44,720,993</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 279,077,305
Accumulated depreciation is	<u>(104,457,817)</u>
Net Capital Assets	174,619,488
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount.	84,588
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(918,005)
An internal service fund is used by the District's management to charge the costs of the self insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	4,504,386
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year end consist of:	
Bonds payable	58,220,592
Unamortized bond premium	766,905
Certificates of participation	2,820,000
Capital leases payable	888,279
Compensated absences (vacations)	1,654,015
Supplemental employee retirement plan	4,244,920
OPEB obligations	10,446,222
Energy service contract	<u>181,180</u>
Total Long-Term Liabilities	<u>(79,222,113)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u>\$ 143,789,337</u></b>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>General Fund</b>	<b>Charter School Fund</b>	<b>Child Development Fund</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 84,955,391	\$ 7,842,228	\$ -
Federal sources	27,756,421	-	5,621,149
Other state sources	55,175,778	1,974,084	3,260,163
Other local sources	5,392,324	54,227	376,247
<b>Total Revenues</b>	<b>173,279,914</b>	<b>9,870,539</b>	<b>9,257,559</b>
<b>EXPENDITURES</b>			
Instruction	101,845,633	5,448,807	5,563,896
Instruction-related activities:			
Supervision of instruction	14,598,191	76,081	1,780,356
Instructional library, media and technology	2,819,692	137,230	155,746
School site administration	8,865,419	2,847,513	75,763
Pupil services:			
Home-to-school transportation	5,969,521	-	-
Food services	18,745	-	19,346
All other pupil services	8,419,106	11,598	699,940
Administration:			
Data processing	1,156,171	-	-
All other administration	5,021,971	4,188	335,746
Plant services	13,452,780	262,834	457,461
Facility acquisition and construction	260,029	55,741	20,313
Ancillary services	451,719	-	-
Community services	5,000	-	-
Other outgo	51,734	-	-
Debt service			
Principal	597,908	11,430	-
Interest and other	73,034	2,893	-
<b>Total Expenditures</b>	<b>163,606,653</b>	<b>8,858,315</b>	<b>9,108,567</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>9,673,261</b>	<b>1,012,224</b>	<b>148,992</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	10,894	235,910	-
Other sources	-	-	-
Transfers out	(3,656,980)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(3,646,086)</b>	<b>235,910</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>6,027,175</b>	<b>1,248,134</b>	<b>148,992</b>
<b>Fund Balance - Beginning</b>	<b>23,337,500</b>	<b>1,410,822</b>	<b>19,222</b>
<b>Fund Balance - Ending</b>	<b>\$ 29,364,675</b>	<b>\$ 2,658,956</b>	<b>\$ 168,214</b>

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

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<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 92,797,619
6,251,059	39,628,629
749,947	61,159,972
5,576,420	11,399,218
<u>12,577,426</u>	<u>204,985,438</u>
1,446,855	114,305,191
243,109	16,697,737
50,146	3,162,814
678,003	12,466,698
-	5,969,521
6,553,125	6,591,216
-	9,130,644
-	1,156,171
326,072	5,687,977
858,802	15,031,877
3,584,493	3,920,576
-	451,719
-	5,000
-	51,734
2,865,000	3,474,338
2,109,896	2,185,823
<u>18,715,501</u>	<u>200,289,036</u>
<u>(6,138,075)</u>	<u>4,696,402</u>
3,421,070	3,667,874
1,415,000	1,415,000
-	(3,656,980)
<u>4,836,070</u>	<u>1,425,894</u>
(1,302,005)	6,122,296
<u>13,831,153</u>	<u>38,598,697</u>
<u>\$ 12,529,148</u>	<u>\$ 44,720,993</u>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ 6,122,296**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	\$ (12,750,604)	
Capital outlays	3,822,789	
	3,822,789	
Net Expense Adjustment		(8,927,815)

In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount and does not affect the statement of activities.

(82,775)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$48,746.

(48,746)

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.

61,112

Payment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

393,158

Payment of the principal of certificates of participation is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets and does not affect the statement of activities.

1,515,000

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (continued) FOR THE YEAR ENDED JUNE 30, 2010**

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Payment of the principal of general obligation bonds is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets and does not affect the statement of activities.	1,385,000
Payment of principal on energy service contract is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	181,180
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	51,019
Accreted interest on capital appreciation bonds is not recorded in the governmental funds, but it increases the bond principals in the statement of net assets and increases interest expense in the statement of activities.	(406,870)
Contributions to the retiree benefit trust fund are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the statement of activities as an expense. The actual amount of the contribution was less than the annual required contribution.	(3,450,264)
Supplemental employee retirement plan payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net assets and does not affect the statement of activities.	1,759,256
An internal service fund is used by the District's management to charge the costs of the various insurance programs to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	(1,981,868)
Proceeds from the issuance of Certificate of Participation is recognized as revenues in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	(1,415,000)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ (4,845,317)</u></b>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 21,060,696
Receivables	45,172
<b>Total Current Assets</b>	<u>21,105,868</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	1,321,079
Due to other funds	1,414,167
Claim liabilities	13,866,236
<b>Total Current Liabilities</b>	<u>16,601,482</u>
<b>NET ASSETS</b>	
Unrestricted	4,504,386
<b>Total Net Assets</b>	<u><u>\$ 4,504,386</u></u>

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



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

---

	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
In-district contributions	<u>\$ 34,698,607</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	244,686
Other operating cost	<u>36,525,065</u>
<b>Total Operating Expenses</b>	<b><u>36,769,751</u></b>
<b>Operating Loss</b>	<b><u>(2,071,144)</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest income	100,170
Transfers out	<u>(10,894)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>89,276</u></b>
<b>Change in Net Assets</b>	<u>(1,981,868)</u>
<b>Total Net Assets - Beginning</b>	<u>6,486,254</u>
<b>Total Net Assets - Ending</b>	<b><u>\$ 4,504,386</u></b>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 34,783,887
Cash payments for insurance claims	(32,060,709)
Net Cash provided by Operating Activities	<u>2,723,178</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers out	<u>(10,894)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>100,170</u>
Net increase in Cash and Cash Equivalents	2,812,454
Cash and Cash Equivalents - Beginning	18,248,242
Cash and Cash Equivalents - Ending	<u><u>\$ 21,060,696</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ (2,071,144)
Changes in assets and liabilities:	
Receivables	(45,172)
Due from other funds	130,452
Accrued liabilities	3,326,533
Due to other fund	1,382,509
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 2,723,178</u></u>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	<b>Retiree Benefits Trust</b>	<b>Scholarship Trust</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 2,004,998	\$ 2,052,784	\$ 622,390
Due from other funds	606,180	-	-
<b>Total Assets</b>	<u>2,611,178</u>	<u>2,052,784</u>	<u>\$ 622,390</u>
<b>LIABILITIES</b>			
Accounts payable	-	169,470	\$ -
Due to student groups	-	-	622,390
<b>Total Liabilities</b>	<u>-</u>	<u>169,470</u>	<u>\$ 622,390</u>
<b>NET ASSETS</b>			
Unreserved	<u>2,611,178</u>	<u>1,883,314</u>	
<b>Total Net Assets</b>	<u>\$ 2,611,178</u>	<u>\$ 1,883,314</u>	

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2010**

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	<b>Retiree Benefits Trust</b>	<b>Scholarship Trust</b>
<b>ADDITIONS</b>		
Private donations	\$ -	\$ 162,481
District contributions	2,958,017	-
Investment income	230,553	15,924
<b>Total Additions</b>	<u>3,188,570</u>	<u>178,405</u>
<b>DEDUCTIONS</b>		
Benefit payments	3,050,751	-
Scholarships awarded	-	118,430
<b>Total Deductions</b>	<u>3,050,751</u>	<u>118,430</u>
<b>Change in Net Assets</b>	137,819	59,975
<b>Net Assets - Beginning</b>	<u>2,473,359</u>	<u>1,823,339</u>
<b>Net Assets - Ending</b>	<u>\$ 2,611,178</u>	<u>\$ 1,883,314</u>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Pajaro Valley Unified School District was unified in 1964 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates sixteen elementary, six middle, three high school, one community day schools, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

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

#### **Component Units – Charter Schools**

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. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to operate charter schools authorized by the District.

The District has approved Charters for Academic Vocational, Alianza Elementary, Linscott Elementary, Watsonville School of Arts and Pacific Coast Charter School pursuant to Education Code Section 47605. All Charter Schools are operated by the District and their financial activities are accounted for in the charter school special revenue fund.

**Joint Powers Agencies and Public Entity Risk Pools** The District is associated with Schools Association For Excess Risk (SAFER), School Alliance for Workers' Compensation Excess II (SAWCXII), public entity risk pools Benefit Liability Excess Fund (BeLiEF) that provides insurance coverages to the District. The organization does not meet the criteria for inclusion as component unit of the District. The District also participates in the Henry J. Mello Center for the Performing Arts Administration Agency (the JPA), through a joint powers agreement with the City of Watsonville and the District. Each member's board appoints three directors. The JPA was established for the purpose of administering all functions necessary for the operation and maintenance of the Performing Arts Center (the Center). On August 2, 1994, the JPA entered into a management, operation and maintenance agreement with the Pajaro Valley Performing Arts Association (PVPAA), a tax exempt, nonprofit public benefit corporation. The agreement was for a period of ten years and has been reviewed and continued annually, whereby, PVPAA shall operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation by PVPAA.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### **Basis of Presentation - Fund Accounting**

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

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

### **Major Governmental Funds**

**General Fund** The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

**Charter Schools Fund** This fund may be used by authorizing Districts to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

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

### **Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

**Adult Education Fund** The Adult Education Fund is used to account separately for federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code* sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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**Debt Service Funds** The 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** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* sections 15125-15262).

**Tax Override Fund** The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

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

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

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has only one internal service fund, which is Self-Insurance fund.

**Self-Insurance Fund** Self-Insurance funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates workers' compensations, health, dental and vision programs that are accounted for in the Self-Insurance fund.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The district's fiduciary fund category is split into three classifications: retiree benefit trust funds, private-purpose scholarship trust funds and student body agency funds. Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds are Retiree Benefits Trust and Private Purpose Scholarship Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### **Basis of Accounting - Measurement Focus**

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

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

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



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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

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

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

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

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

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

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### **Investments**

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Prepaid Expenditures**

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

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$25,000 with the exception to federally funded equipment which have a threshold of \$2,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### **Compensated Absences**

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

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

### **Accrued Liabilities and Long-Term Obligations**

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

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

### **Deferred Issuance Costs, Premiums and Discounts**

In the government-wide financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities. 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 Reserves and Designations**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### Net Assets

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

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund insurance premium. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

### Interfund Activity

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

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

### Estimates

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

### Budgetary Data

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

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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### Property Tax

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

### New Accounting Pronouncements

In March 2009, the GASB issued 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. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental funds	\$21,141,058
Proprietary fund	21,060,696
Fiduciary funds	4,680,172
Total Deposits and Investments	<u>\$46,881,926</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 2,623,640
Cash in revolving	55,000
Investments	44,203,286
Total Deposits and Investments	<u>\$46,881,926</u>

### 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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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

### General Authorizations

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

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

### 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 District's investments in the U.S. Government bonds are not required to be rated, nor have they been rated as of June 30, 2010.

### 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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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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 investment by maturity:

Investment Type	Cost	Fair Value	Weighted Average Maturity in Years
U.S. Government	\$ 19,900	\$ 28,152	0.00
Mutual Funds	1,845,400	1,845,400	0.00
County Pool	42,337,986	42,442,984	0.57
Total	<u>\$ 44,203,286</u>	<u>\$ 44,316,536</u>	

### 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, 2010, the District's bank balance of \$1,775,096 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District is exposed to custodial credit risk related to investments in the Santa Cruz County pool and the District's investments in mutual funds related to the trust fund of the retiree benefits because these investments are held by the counter party's name and not registered in the name of the District.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Child Development Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Federal Government						
Categorical aid	\$ 6,932,570	\$ -	\$ 26,189	\$ 1,000,993	\$ 7,959,752	\$ -
State Government						
Apportionment	11,831,441	1,329,879	-	-	13,161,320	-
Categorical aid	4,449,120	107,053	131,446	67,110	4,754,729	-
Lottery	875,252	88,650	-	-	963,902	-
Other Local Sources	1,826,443	279,642	176,922	2,377	2,285,384	45,172
Total	<u>\$25,914,826</u>	<u>\$1,805,224</u>	<u>\$ 334,557</u>	<u>\$ 1,070,480</u>	<u>\$29,125,087</u>	<u>\$ 45,172</u>

Additional long-term receivables include \$84,588 for a special education settlement with the final payment expected to be received in the subsequent year.



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	840,702	3,651,166	3,609,019	882,849
Total Capital Assets Not Being Depreciated	17,895,846	3,651,166	3,609,019	17,937,993
Capital Assets Being Depreciated:				
Buildings and Improvements	253,272,400	3,609,019	-	256,881,419
Furniture and Equipment	4,086,270	171,623	-	4,257,893
Total Capital Assets Being Depreciated	257,358,670	3,780,642	-	261,139,312
Less Accumulated Depreciation:				
Buildings and Improvements	89,047,313	12,447,587	-	101,494,900
Furniture and Equipment	2,659,900	303,017	-	2,962,917
Total Accumulated Depreciation	91,707,213	12,750,604	-	104,457,817
Capital Assets Being Depreciated, Net	165,651,457	(8,969,962)	-	156,681,495
Governmental Activities Capital Assets, Net	\$ 183,547,303	\$ (5,318,796)	\$ 3,609,019	\$ 174,619,488

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

<b>Governmental Activities</b>	
Instruction	\$ 7,556,642
Supervision of Instruction	1,135,880
Instructional Library and Media	215,154
School Site Administration	848,060
Home to School Transportation	406,083
Food Services	448,374
All Other Pupil Services	621,121
Anciliary Services	30,729
Community Services	340
All General Administration	387,014
Data Processing Services	78,650
Plant Services	1,022,557
Total Depreciation Expense - All Activities	<u>\$ 12,750,604</u>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds, proprietary funds and fiduciary funds are as follows:

Due From	Due To					Total
	General Fund	Charter Fund	Child Development Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ -	\$ 1,942,040	\$ 289,085	\$ 174,550	\$ 1,414,167	\$ 3,819,842
Non-Major Governmental Funds	828,916	-	-	-	-	828,916
Fiduciary Funds	606,180	-	-	-	-	606,180
<b>Total</b>	<b>\$ 1,435,096</b>	<b>\$ 1,942,040</b>	<b>\$ 289,085</b>	<b>\$ 174,550</b>	<b>\$ 1,414,167</b>	<b>\$ 5,254,938</b>

The balances are resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer From	Transfer To		Total
	General Fund	Internal Service Fund	
General Fund	\$ -	\$ 10,894	\$ 10,894
Charter Fund	235,910	-	235,910
Non-Major Governmental Funds	3,421,070	-	3,421,070
<b>Total</b>	<b>\$ 3,656,980</b>	<b>\$ 10,894</b>	<b>\$ 3,667,874</b>

The General Fund transferred to the Charter Schools for Supplemental School Counseling Programs.	\$ 235,910
The General Fund transferred to the Adult Education Fund for contributions.	2,798,042
The General Fund transferred to the Cafeteria Fund for contributions.	15,028
The General Fund transferred to the Deferred Maintenance Fund for contributions.	608,000
The Self Insurance Fund transferred to the General Fund for cost reimbursement.	10,894
<b>Total</b>	<b>\$ 3,667,874</b>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Charter Fund	Child Development Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,343,590	\$ 5,244	\$ 68,319	\$ 299,856	\$ 1,717,009
Salaries and benefits	950,410	46,649	364,919	79,258	1,441,236
Other significant payables	296,913	-	-	-	296,913
Total	<u>\$ 2,590,913</u>	<u>\$ 51,893</u>	<u>\$ 433,238</u>	<u>\$ 379,114</u>	<u>\$ 3,455,158</u>

	Proprietary Funds	Fiduciary Funds
Vendor payables	\$ 1,321,079	\$ 169,470
Salaries and benefits	-	-
Other significant payables	-	-
Total	<u>\$ 1,321,079</u>	<u>\$ 169,470</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,674,173	\$ 259,770	\$ -	\$ 1,933,943
State categorical aid	133,399	28,874	-	162,273
Other local	1,249,543	153,073	20,592	1,423,208
Total	<u>\$ 3,057,115</u>	<u>\$ 441,717</u>	<u>\$ 20,592</u>	<u>\$ 3,519,424</u>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 8 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance June 30, 2009	Accretion/ Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$59,198,722	\$ 406,870	\$1,385,000	\$ 58,220,592	\$ 1,560,000
Bond premium	828,017	-	61,112	766,905	61,112
Certificates of participation	2,920,000	1,415,000	1,515,000	2,820,000	110,466
Accumulated vacation - net	1,605,269	48,746	-	1,654,015	-
Capital leases	1,281,437	-	393,158	888,279	267,774
Energy service contract	362,360	-	181,180	181,180	181,180
Other postemployment benefits	6,995,958	3,450,264	-	10,446,222	-
Supplemental employees retirement benefits	6,004,176	-	1,759,256	4,244,920	1,759,256
Total	<u>\$79,195,939</u>	<u>\$ 5,320,880</u>	<u>\$5,294,706</u>	<u>\$ 79,222,113</u>	<u>\$ 3,939,788</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on Certificate of Participation and the capital leases are paid by the General Fund, the Charter School Fund and the Adult Education Fund. The energy service contract payments are made by the general fund. Accumulated vacation and supplemental employees retirement benefits are paid by the funds for which the employees worked.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding June 30, 2009	Accreted/ Issued	Redeemed	Outstanding June 30, 2010
2005	2023	3-5.31%	\$ 40,215,000	\$ 37,395,000	\$ -	\$ 1,300,000	\$ 36,095,000
2005	2030	3-5.31%	18,254,288	21,803,722	406,870	85,000	22,125,592
				<u>\$ 59,198,722</u>	<u>\$ 406,870</u>	<u>\$ 1,385,000</u>	<u>\$ 58,220,592</u>

**Debt Service Requirements to Maturity**

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 1,560,000	\$ 1,990,382	\$ 3,550,382
2012	1,755,000	1,912,976	3,667,976
2013	1,970,000	1,822,251	3,792,251
2014	2,200,000	1,720,626	3,920,626
2015	2,445,000	1,607,344	4,052,344
2016-2020	16,630,000	5,754,814	22,384,814
2021-2025	17,815,873	8,542,078	26,357,951
2026-2030	9,828,414	21,316,586	31,145,000
Sub Total	<u>54,204,287</u>	<u>\$ 44,667,057</u>	<u>\$ 98,871,344</u>
Accretion to date	4,016,305		
Total general obligation bonds	<u>\$ 58,220,592</u>		

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### Certificates of Participation

In October 1, 2000, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$13,000,000 with interest rates ranging from 2.9 to 4.5 percent, of which \$11,000,000 was redeemed in fiscal year ending June 30, 2003. During the current year the District redeemed as ordinary principal payment \$35,000 of the outstanding certificates. On January 10, 2010 the remaining outstanding principal balance of \$1,415,000 was redeemed.

In April 5, 2005, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,415,000 to finance construction related to the Adult Education Center. At June 30, 2010, the principal balance outstanding was \$1,470,000. During the current year the District redeemed \$65,000 of the outstanding certificates.

In January 10, 2010, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,415,000 to redeem existing certificates of participation. Interest on this certificate of participation is set at 1.010%. At June 30, 2010 the principal balance outstanding was \$1,405,000. Principal and interest payments are due twice a year starting July 15, 2010 over the next twenty years and are expected to be complete redeemed by January 15, 2030.

The certificates mature through 2030 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 110,466	\$ 115,192	\$ 225,658
2012	114,103	109,448	223,551
2013	121,107	105,122	226,229
2014	123,193	100,543	223,736
2015	130,364	95,603	225,967
2016-2020	732,608	393,028	1,125,636
2021-2025	901,815	224,371	1,126,186
2026-2030	586,344	56,064	642,408
Total	<u>\$ 2,820,000</u>	<u>\$ 1,199,371</u>	<u>\$ 4,019,371</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$1,654,015.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**Capital Leases**

The District's liabilities on lease agreements with options to purchase are summarized below:

	Porter Building	Bus and SIS System	VoIP	Cafeteria Portables	Total
Balance, July 1, 2009	\$ 554,203	\$ 706,471	\$ 144,150	\$ 42,969	\$ 1,447,793
Payments	92,368	204,679	144,150	14,323	455,520
Balance, July 1, 2010	<u>\$ 461,835</u>	<u>\$ 501,792</u>	<u>\$ -</u>	<u>\$ 28,646</u>	<u>\$ 992,273</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 311,370
2012	311,370
2013	184,802
2014	92,368
2015	92,363
Total	<u>992,273</u>
Less: Amount Representing Interest	103,994
Present Value of Minimum Lease Payments	<u>\$ 888,279</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
<u>2011</u>	<u>\$ 181,180</u>

### Supplemental Employees Retirement Plan (SERP)

The Supplemental Employees Retirement Plan balances outstanding as of June 30, 2010, are as follows:

Year Ending June 30,	2006 Plan	2007 Plan	Total
2011	\$ 516,424	\$ 1,242,832	\$ 1,759,256
2012	-	1,242,832	1,242,832
2013	-	1,242,832	1,242,832
Subtotal	<u>\$ 516,424</u>	<u>\$ 3,728,496</u>	<u>\$ 4,244,920</u>

### Defeased Debt

In 2005, The District defeased the 2002, Series A bond in the amount of \$39,995,542 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long Term Obligations. As of June 30, 2010, the amount on deposit to service the defeased debt outstanding that was removed from the Long Term Debt Obligations for the defeased bonds amounted to \$33,800,000 with available investment balance of \$37,010,348.



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 9 - FUND BALANCES**

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Charter Fund	Child Development Fund	Non-Major Governmental Funds	Total
<b>Reserved</b>					
Revolving cash	\$ 55,000	\$ -	\$ -	\$ -	\$ 55,000
Stores inventory	252,747	-	-	192,205	444,952
Prepaid expenditures	167,340	1,862	-	7,289	176,491
Restricted programs	9,755,602	20,500	168,214	-	9,944,316
Total Reserved	<u>10,230,689</u>	<u>22,362</u>	<u>168,214</u>	<u>199,494</u>	<u>10,620,759</u>
<b>Unreserved</b>					
<b>Designated</b>					
Economic uncertainties	4,291,292	-	-	-	4,291,292
Other designation	585,503	-	-	-	585,503
Total Designated	<u>4,876,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,876,795</u>
Undesignated	14,257,191	2,636,594	-	12,329,654	29,223,439
Total Unreserved	<u>19,133,986</u>	<u>2,636,594</u>	<u>-</u>	<u>12,329,654</u>	<u>34,100,234</u>
Total	<u>\$ 29,364,675</u>	<u>\$ 2,658,956</u>	<u>\$ 168,214</u>	<u>\$ 12,529,148</u>	<u>\$ 44,720,993</u>

**NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION**

**Plan Description**

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pajaro Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 268 retirees and beneficiaries currently receiving benefits and 2,162 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

**Contribution Information**

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (PVFT), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, PVFT, CSEA and the unrepresented groups. For fiscal year 2009-10, the District contributed \$2,917,171 to the plan, all of which was used for current premiums (approximately 100% percent of total premiums incurred by retirees plus one eligible dependent).

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 5,928,004
Interest on net OPEB obligation	439,431
Annual OPEB cost (expense)	<u>6,367,435</u>
Contributions made	<u>2,917,171</u>
Increase in net OPEB obligation	3,450,264
Net OPEB obligation, beginning of year	<u>6,995,958</u>
Net OPEB obligation, end of year	<u><u>\$ 10,446,222</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010, 2009 and 2008, respectively, was as follows:

Year Ended June 30, 2010	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2010	\$ 6,367,435	\$ 2,917,171	45.81%	\$ 10,446,222
2009	6,277,594	3,441,731	54.83%	6,995,958
2008	6,190,633	2,636,407	42.59%	3,554,226

### Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The following shows the funded status for the most recent actuarial valuation:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
March 1, 2009	\$ 1,650,064	\$ 65,626,212	\$ 63,976,148	2.51%	\$ 114,434,798	55.91%

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### **Actuarial Methods and Assumptions**

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

In the March 1, 2009, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 7% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare, dental, and vision cost trend rates were averaged at 4% percent. The UAAL is being amortized at a level percentage of payroll method. The remaining open amortization period at July 1, 2010, was 30 years. The actuarial value of assets as of March 1, 2009 was \$1,650,064.

### **NOTE 11 - RISK MANAGEMENT**

#### **Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Schools Association For Excess Risk for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

#### **Workers' Compensation**

The District's worker's compensation activities are recorded in the Internal Service Fund. The purpose of the fund is to administer workers' compensation on a cost reimbursement basis. The program accounts for the risk financing activities of the District.

Coverage provided by the Schools Excess Liability Fund for Excess Property and Liability and the Pajaro Valley Unified School District Worker's Compensation Self-Insurance Program is as follows:

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation	\$ 500,000
School Alliance Workers' Compensation Excess	Excess Workers' Compensation	State Statutory Limit
Benefit Liability Excess Fund	Excess Medical	\$ 260,000
Schools Association For Excess Risk	Property	\$ 250,000,000
Schools Association For Excess Risk	Liability	\$ 25,000,000
Schools Association For Excess Risk	Excess Liability	\$ 24,000,000

**Claims Liabilities**

The District records an estimated liability for workers' compensation, health care, dental and vision. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

**Unpaid Claims Liabilities**

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2008 to June 30, 2010:

Liability Balance, July 1, 2008	\$ 11,863,031
Claims and changes in estimates	33,604,022
Claims payments	(34,347,914)
Liability Balance, June 30, 2009	<u>11,119,139</u>
Claims and changes in estimates	34,514,402
Claims payments	(31,767,305)
Liability Balance, June 30, 2010	<u>\$ 13,866,236</u>
Assets available to pay claims at June 30, 2010	<u>\$ 18,370,622</u>

**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).

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### 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, 7667 Folsom Blvd., Sacramento, CA 95826.

#### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$6,238,163, \$6,424,847, and \$6,831,967, respectively, and equal 100 percent of the required contributions for each year.

### CalPERS

#### Plan Description

The District contributes to the School Employer Pool under the 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary. At Pajaro Valley Unified School District, the district contributes the 7.0 percent on their behalf. 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 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$2,595,131, \$2,727,014, \$2,694,851, respectively, and equal 100 percent of the required contributions for each year.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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### 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.

### On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,220,581, \$3,514,843, and \$3,737,435, respectively, for 2010, 2009 and 2008 (4.267percent of annual payroll for 2010, and 4.517 percent for 2009 and 2008, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the actual amounts reported in the General Fund Budgetary Comparison Schedule. These amounts have been recorded in the financial statements. On behalf payments have been excluded from the calculation of available reserves.

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

#### Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

#### 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, 2010.

#### Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
E.A. Hall Middle	\$ 2,226,378	6/30/2011
Aptos High	253,938	6/30/2011
Watsonville High	23,256	6/30/2011
	\$ 2,503,572	

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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### NOTE 14 PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Association For Excess Risk (SAFER), School Alliance for Workers' Compensation Excess II (SAWCXII), Benefit Liability Excess Fund (BeLiEF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage, excess workers' compensation and excess medical insurance. 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 has a budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. During the year ended June 30, 2010, the District made payments of \$201,986 to SAWCXII for excess workers' compensation insurance, \$1,469,142 to BeLiEF for excess medical insurance and \$739,498 to SAFER for excess property and liability insurance.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Budgeted Amounts</b>			<b>Variances- Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final to Actual</b>
	<b>REVENUES</b>			
Revenue limit sources	\$88,551,501	\$84,213,673	\$84,955,391	\$ 741,718
Federal sources	25,627,368	26,014,764	27,756,421	1,741,657
Other State sources	46,151,977	50,352,605	51,955,197	1,602,592
Other local sources	1,547,940	5,664,921	5,392,324	(272,597)
<b>Total Revenues <sup>1</sup></b>	<b>161,878,786</b>	<b>166,245,963</b>	<b>170,059,333</b>	<b>3,813,370</b>
<b>EXPENDITURES</b>				
Certificated salaries	68,816,458	69,677,818	70,509,826	(832,008)
Classified salaries	24,488,768	24,470,444	24,387,106	83,338
Employee benefits	42,399,503	41,263,240	40,205,876	1,057,364
Books and supplies	8,307,039	7,350,709	7,313,926	36,783
Services and operating expenditures	15,248,375	18,707,215	17,895,272	811,943
Other outgo	(793,853)	(919,529)	(614,270)	(305,259)
Capital outlay	18,000	20,420	18,618	1,802
Debt service - principal	597,019	663,813	596,684	67,129
Debt service - interest	146,834	203,982	73,034	130,948
<b>Total Expenditures <sup>1</sup></b>	<b>159,228,143</b>	<b>161,438,112</b>	<b>160,386,072</b>	<b>1,052,040</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,650,643</b>	<b>4,807,851</b>	<b>9,673,261</b>	<b>4,865,410</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,551,154	24,735	10,894	(13,841)
Transfers out	(7,392,017)	(3,389,498)	(3,656,980)	(267,482)
<b>Net Financing Sources (Uses)</b>	<b>(2,840,863)</b>	<b>(3,364,763)</b>	<b>(3,646,086)</b>	<b>(281,323)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(190,220)</b>	<b>1,443,088</b>	<b>6,027,175</b>	<b>4,584,087</b>
<b>Fund Balance - Beginning</b>	<b>23,337,500</b>	<b>23,337,500</b>	<b>23,337,500</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$23,147,280</b>	<b>\$24,780,588</b>	<b>\$29,364,675</b>	<b>\$ 4,584,087</b>

<sup>1</sup> On behalf payments of \$3,220,581 in the General Fund are excluded from the actual revenues and expenditures, but have been included in the basic financial statements.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2010**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
March 1, 2009	\$ 1,650,064	\$ 65,626,212	\$ 63,976,148	2.51%	\$ 114,434,798	55.91%
March 1, 2007	2,208,048	52,884,097	50,676,049	4.18%	114,434,798	44.28%

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***SUPPLEMENTARY INFORMATION***

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**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education & ESL	84.002A	14508	\$ 127,222
Priority 5, Adult Secondary Education	84.002	13978	18,000
English Literacy & Civics Education	84.002A	14109	32,780
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	4,502,341
Title I- Part A, Program Improvement LEA			
Corrective Action, Extensive Performance Problems	84.010	14955	1,286,910
Title I - ARRA, Part A, Basic Grants Low Income and Neglected	84.389	15005	1,067,708
Title I-Reading First Program	84.357	14328	654,393
Title I-Migrant Ed (Regular and Summer Program)	84.011	14326	4,491,323
Title I-Even Start Migrant Ed	84.214	14768	303,525
Title I-School Site Improvements	84.377	14971	29,838
Title II-Teacher Quality	84.367	14341	914,734
Title II-Enhancing Education Through Technology			
Formula Grants	84.318	14334	70,147
Competitive Grants	84.318	14368	58,479
Title II-Mathematics and Science Partnerships	84.366	14512	345,002
Title III-Limited English Proficiency Student	84.365	10084	670,416
Title IV-Drug-Free Schools	84.186	14347	85,811
Title IV-21st Century Community Centers Learning	84.287	14535	3,635,230
Title X-McKinney-Vento Homeless Assistance	84.196	14332	113,511
Title X-ARRA McKinney-Vento Homeless Assistance	84.387	15007	24,696
Safe and Drug Free Schools	84.186	14378	1,323,584
LEA	84.000	1	250,688
Individuals with Disability Act:			
Basic Local Assistance Entitlement	84.027	13379	3,427,520
Local Assistance, Part B, Section 611 Private Schools	84.027	10115	26,175
Preschool Grants	84.173	13430	175,808
Preschool Local Entitlement	84.027A	13682	363,629
Preschool Staff Development	84.173A	13431	1,000
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	208,194
California Preschool Instructional Network	84.173	14530	65,133
Rehabilitation Services-Vocational Rehabilitation Grants	84.390A	1	30,880

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
ARRA: Basic Local Assistance Entitlement	84.391	15003	1,698,613
ARRA IDEA Part B, Section 611, Local Assistance	84.391	10123	36,060
ARRA IDEA Part B, Section 611, Preschool Local	84.391	15002	102,740
ARRA IDEA Part B, Section 619, Preschool Grants	84.392	15000	39,017
Title III-Bilingual Education Discretionary Grants	84.290	10008	113,478
Vocational Programs (Carl Perkins Act)			
Vocational and Applied Tech Secondary	84.048	13924	118,685
ARRA State Fiscal Stabilization Fund	84.394	25008	5,492,821
Subtotal			<u>32,152,614</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Education:			
Head Start	93.600	10016	5,611,601
Medi-Cal Billing Option	93.778	10013	406,016
Subtotal			<u>6,017,617</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education:			
Child Nutrition Act:			
National School Lunch Program	10.555	13396	4,449,699
National School Breakfast	10.553	13390	6,406
Meal Supplements	10.553	13390	417,791
Especially Needy Breakfast	10.553	13526	805,731
Child and Adult Care Food Program	10.558	23165	207,996
Child and Adult Care Food Program	10.558	23165	114,978
Fresh Fruits and Vegetables	10.558	14968	70,455
Commodity grants at fair market value	10.555	13396	291,695
Subtotal			<u>6,364,751</u>
Total Expenditures of Federal Awards			<u>\$44,534,982</u>

<sup>1</sup> Pass-Through Entity Identifying Number not available

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

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### ORGANIZATION

The Pajaro Valley Unified School District was established in 1964 and consists of an area comprising approximately 150 square miles. The District operates sixteen elementary, six middle, three high schools, one community day school, one continuation high school, an adult education school, twelve childcare centers, a migrant center and five charter schools.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Libby Wilson	President	2010
Karen Osmundson	Vice President	2012
Doug Keegan	Member	2012
Sandra Nichols	Member	2012
Willie Yahiro	Member	2010
Kim Turley	Member	2010
Leslie De Rose	Member	2010

### ADMINISTRATION

Dorma Baker	Superintendent
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See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	1,409	1,414
First through third	4,112	4,128
Fourth through sixth	3,714	3,723
Seventh and eighth	2,398	2,401
Home and hospital	3	3
Special education	290	300
Total Elementary	11,926	11,969
<b>SECONDARY</b>		
Regular classes	4,524	4,478
Continuation education	178	181
Home and hospital	2	3
Community day schools	51	50
Special education	160	157
Total Secondary	4,915	4,869
Total K-12	16,841	16,838
<b>CHARTER SCHOOL</b>		
Classroom based	1,589	1,585
Non-classroom based	71	73
Total Charter Schools	1,660	1,658
Grand Total	18,522	18,516

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2009-2010 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	31,500	30,625	36,000	35,000	36,000	180	In Compliance
Grades 1 - 3							
Grade 1	31,500	30,625	50,400	49,000	50,475	180	In Compliance
Grade 2	31,500	40,833	50,400	49,000	50,475	180	In Compliance
Grade 3	31,500	40,833	50,400	49,000	50,475	180	In Compliance
Grades 4 - 6							
Grade 4	42,000	40,833	54,000	52,500	54,175	180	In Compliance
Grade 5	42,000	51,042	54,000	52,500	54,175	180	In Compliance
Grade 6	42,000	51,042	54,000	52,500	54,188	180	In Compliance
Grades 7 - 8							
Grade 7	52,500	51,042	54,000	52,500	56,460	180	In Compliance
Grade 8	52,500	51,042	54,000	52,500	56,460	180	In Compliance
Grades 9 - 12							
Grade 9	59,500	57,847	64,800	63,000	65,314	180	In Compliance
Grade 10	59,500	57,847	64,800	63,000	65,314	180	In Compliance
Grade 11	59,500	57,847	64,800	63,000	65,314	180	In Compliance
Grade 12	59,500	57,847	64,800	63,000	65,314	180	In Compliance

See accompanying note to supplementary information.



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<b>General Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Building Fund</b>	<b>Internal Service Fund</b>
FUND BALANCE: Major Funds				
Balance, June 30, 2010, Unaudited Actuals	\$28,572,763	\$ 4,116,059	\$ 2,591,753	\$ 6,015,753
Increase in:				
Accounts Receivable	494,999			
Accounts Payable	-	(116,969)	(88,181)	-
Claims Liability	-	-	-	(1,511,367)
Decrease in:				
Accounts Payable	296,913	-	-	-
Balance, June 30, 2010, Audited Financial Statement	<u>\$29,364,675</u>	<u>\$ 3,999,090</u>	<u>\$ 2,503,572</u>	<u>\$ 4,504,386</u>

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

	(Budget)			
	2011 <sup>1</sup>	2010	2009	2008
GENERAL FUND				
Revenues	\$ 155,894,010	\$ 170,059,333	\$ 181,730,519	\$ 185,110,526
Other sources and transfers in	550,000	10,894	526,801	30,000
Total Revenues and Other Sources	156,444,010	170,070,227	182,257,320	185,140,526
Expenditures	158,478,098	160,386,072	174,879,932	184,871,556
Other uses and transfers out	2,253,400	3,656,980	693,088	894,929
Total Expenditures and Other Uses	160,731,498	164,043,052	175,573,020	185,766,485
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,287,488)	\$ 6,027,175	\$ 6,684,300	\$ (625,959)
ENDING FUND BALANCE	\$ 25,077,187	\$ 29,364,675	\$ 23,337,500	\$ 16,653,200
AVAILABLE RESERVES <sup>2,5</sup>	\$ 15,939,633	\$ 18,548,483	\$ 10,897,095	\$ 6,977,985
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	9.92%	11.31%	6.33%	3.83%
LONG-TERM DEBT	\$ 75,273,702	\$ 79,222,113	\$ 79,195,939	\$ 79,109,996
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	16,833	16,841	17,063	17,011

The General Fund balance has increased by \$12,711,475 over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$4,287,488. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred two operating surpluses and one operating deficit in the past three years, but anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations have increased by \$112,117 over the past two years.

Average daily attendance has decreased by 170 over the past two years. Decline of 8 ADA is anticipated during fiscal year 2010-2011.

<sup>1</sup> Budget 2011 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

<sup>3</sup> On-behalf payments of \$3,220,581, \$3,514,843, and \$3,344,622 in the General Fund have been excluded from the calculation of available reserves percentage for fiscal years ending June 30, 2010, 2009, and 2008, respectively.

<sup>4</sup> Excludes Adult Education and Charter Schools ADA.

<sup>5</sup> Included in available reserves of the 2009 fiscal year, as allowed by State Guidelines, were \$4,341,745 for categorical receivables that were adjusted out in the current year.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2010**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Academic Vocational	Yes
Alianza Elementary	Yes
Linscott Elementary	Yes
Pacific Coast Charter School	Yes
Watsonville School of Arts	Yes
Ceiba Charter School	No

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**CHARTER SCHOOLS  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2010**

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	<u>Linscott Elementary</u>	<u>Watsonville School of Arts</u>	<u>Pacific Coast Charter School</u>	<u>Alianza Elementary</u>	<u>Academic Vocational</u>	<u>Total</u>
Fund balance, beginning	\$ 181,016	\$ (163,100)	\$ 538,980	\$ 1,006,149	\$ (152,223)	\$ 1,410,822
Revenues	1,563,123	1,979,940	1,671,200	4,180,660	711,526	10,106,449
Expenditures	(1,398,446)	(1,738,570)	(1,461,187)	(3,635,905)	(624,207)	(8,858,315)
Fund balance, ending	<u>\$ 345,693</u>	<u>\$ 78,270</u>	<u>\$ 748,993</u>	<u>\$ 1,550,904</u>	<u>\$ (64,904)</u>	<u>\$ 2,658,956</u>

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**FIRST 5 MONTEREY GRANT  
SCHEDULE OF GRANT REVENUES AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2010**

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Grantor/Program	Revenue	Expenditures
First 5 Monterey	\$ 101,144	\$ 101,144

See accompanying note to supplementary information.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2010**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Retiree Benefits Special Reserve Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 892,454	\$ 128,817	\$ 3,525,388	\$ 45
Receivables	153,210	917,270	-	-
Due from other funds	235,683	-	593,233	-
Prepaid expenses	7,289	-	-	-
Stores inventories	-	192,205	-	-
<b>Total Assets</b>	<b>\$ 1,288,636</b>	<b>\$ 1,238,292</b>	<b>\$ 4,118,621</b>	<b>\$ 45</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 68,289	\$ 95,104	\$ 119,531	\$ -
Due to other funds	-	67,584	-	45
Deferred revenue	20,592	-	-	-
<b>Total Liabilities</b>	<b>88,881</b>	<b>162,688</b>	<b>119,531</b>	<b>45</b>
<b>Fund Balances:</b>				
Reserved for:				
Prepaid and inventory reservations	7,289	192,205	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	1,192,466	883,399	3,999,090	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
<b>Total Fund Balance</b>	<b>1,199,755</b>	<b>1,075,604</b>	<b>3,999,090</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,288,636</b>	<b>\$ 1,238,292</b>	<b>\$ 4,118,621</b>	<b>\$ 45</b>

See accompanying note to supplementary information

<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 2,603,931	\$ 649,828	\$ 374,353	\$ 2,798,653	\$ 31,045	\$ 11,004,514
-	-	-	-	-	1,070,480
-	-	-	-	-	828,916
-	-	-	-	-	7,289
-	-	-	-	-	192,205
<u>\$ 2,603,931</u>	<u>\$ 649,828</u>	<u>\$ 374,353</u>	<u>\$ 2,798,653</u>	<u>\$ 31,045</u>	<u>\$ 13,103,404</u>
\$ 93,196	\$ 2,994	\$ -	\$ -	\$ -	\$ 379,114
7,163	49,666	50,092	-	-	174,550
-	-	-	-	-	20,592
<u>100,359</u>	<u>52,660</u>	<u>50,092</u>	<u>-</u>	<u>-</u>	<u>574,256</u>
-	-	-	-	-	199,494
-	-	-	-	-	6,074,955
-	-	-	2,798,653	31,045	2,829,698
2,503,572	597,168	324,261	-	-	3,425,001
<u>2,503,572</u>	<u>597,168</u>	<u>324,261</u>	<u>2,798,653</u>	<u>31,045</u>	<u>12,529,148</u>
<u>\$ 2,603,931</u>	<u>\$ 649,828</u>	<u>\$ 374,353</u>	<u>\$ 2,798,653</u>	<u>\$ 31,045</u>	<u>\$ 13,103,404</u>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

	<b>Adult Education Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Retiree Benefits Special Reserve Fund</b>
<b>REVENUES</b>				
Federal sources	\$ 178,002	\$ 6,073,057	\$ -	\$ -
Other State sources	236,344	482,137	-	-
Other local sources	313,963	947,730	32,631	-
<b>Total Revenues</b>	<b>728,309</b>	<b>7,502,924</b>	<b>32,631</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current				
Instruction	1,446,855	-	-	-
Instruction-related activities:				
Supervision of instruction	243,109	-	-	-
Instructional library, media, and technology	50,146	-	-	-
School site administration	678,003	-	-	-
Pupil services:				
Food services	-	6,553,125	-	-
Administration:				
All other administration	76,752	249,320	-	-
Plant services	64,110	-	370,636	-
Facility acquisition and construction	-	-	1,084,138	-
Debt service				
Principal	65,000	-	-	-
Interest and other	58,696	-	-	-
<b>Total Expenditures</b>	<b>2,682,671</b>	<b>6,802,445</b>	<b>1,454,774</b>	<b>-</b>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over Expenditures</b>	<b>(1,954,362)</b>	<b>700,479</b>	<b>(1,422,143)</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,798,042	15,028	608,000	-
Other sources	-	-	-	-
Transfers out	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>2,798,042</b>	<b>15,028</b>	<b>608,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>843,680</b>	<b>715,507</b>	<b>(814,143)</b>	<b>-</b>
<b>Fund Balance - Beginning</b>	<b>356,075</b>	<b>360,097</b>	<b>4,813,233</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,199,755</b>	<b>\$ 1,075,604</b>	<b>\$ 3,999,090</b>	<b>\$ -</b>

See accompanying note to supplementary information



<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,251,059
-	-	-	31,466	-	749,947
29,348	656,421	3,833	3,592,494	-	5,576,420
<u>29,348</u>	<u>656,421</u>	<u>3,833</u>	<u>3,623,960</u>	<u>-</u>	<u>12,577,426</u>
-	-	-	-	-	1,446,855
-	-	-	-	-	243,109
-	-	-	-	-	50,146
-	-	-	-	-	678,003
-	-	-	-	-	6,553,125
-	-	-	-	-	326,072
-	424,056	-	-	-	858,802
2,219,254	126,323	154,778	-	-	3,584,493
1,415,000	-	-	1,385,000	-	2,865,000
-	-	-	2,051,200	-	2,109,896
<u>3,634,254</u>	<u>550,379</u>	<u>154,778</u>	<u>3,436,200</u>	<u>-</u>	<u>18,715,501</u>
<u>(3,604,906)</u>	<u>106,042</u>	<u>(150,945)</u>	<u>187,760</u>	<u>-</u>	<u>(6,138,075)</u>
-	-	-	-	-	3,421,070
1,415,000	-	-	-	-	1,415,000
-	-	-	-	-	-
<u>1,415,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,836,070</u>
<u>(2,189,906)</u>	<u>106,042</u>	<u>(150,945)</u>	<u>187,760</u>	<u>-</u>	<u>(1,302,005)</u>
<u>4,693,478</u>	<u>491,126</u>	<u>475,206</u>	<u>2,610,893</u>	<u>31,045</u>	<u>13,831,153</u>
<u>\$ 2,503,572</u>	<u>\$ 597,168</u>	<u>\$ 324,261</u>	<u>\$ 2,798,653</u>	<u>\$ 31,045</u>	<u>\$ 12,529,148</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 39,628,629
Add: Expenditures for State Fiscal Stabilization Funds in excess of amounts received	84.394	4,484,567
Add: Expenditures for Medi-Cal Billing in excess of amounts received	93.778	14,077
Add: Expenditures for Natinal School Lunch Programs in excess of amounts received	10.555	116,014
Add: Fair Market Value of Commodities not recorded in the financial statements	10.555	291,695
Total Schedule of Expenditures of Federal Awards		<u>\$ 44,534,982</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010**

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### **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 requirement, whichever is greater, as required by Education Code Section 46201.

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

### **Charter School Statement of Changes in Fund Balances**

The charter school schedule of changes in fund balances provides information about the changes in fund balance in each of the five charter schools operated by the District.

### **First 5 Monterey Grant Schedule of Revenues and Expenditures**

The First 5 Monterey grant schedule of revenues and expenditures provides information about the current year revenues and expenses of the grant program operated by the District.

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Pajaro Valley Unified School District  
Watsonville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2010, which collectively comprise Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pajaro Valley Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pajaro Valley Unified School District's internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pajaro Valley Unified School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs 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 Pajaro Valley Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pajaro Valley Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Pajaro Valley Unified 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 State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinek, Trine, Day & Co. LLP*

Palo Alto, California  
December 15, 2010



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

Governing Board  
Pajaro Valley Unified School District  
Watsonville, California

**Compliance**

We have audited the compliance of Pajaro Valley Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. Pajaro Valley Unified 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 Pajaro Valley Unified School District's management. Our responsibility is to express an opinion on Pajaro Valley Unified School District's compliance based on our audit.

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

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

The management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Pajaro Valley Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine 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 Pajaro Valley Unified School District's internal control over compliance.

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

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

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
December 15, 2010





**INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE**

Governing Board  
 Pajaro Valley Unified School District  
 Watsonville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Pajaro Valley Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Pajaro Valley Unified School District's compliance with the State laws and regulations applicable to the following items:

	<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	Yes
Instructional Time:		
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
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 Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District 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	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Yes
Determination of funding for non classroom-based instruction	3	Yes
Annual instruction minutes classroom based	3	Yes

Based on our audit, we found that for the items tested, the Pajaro Valley Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Pajaro Valley Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Pajaro Valley Unified School District's compliance with the State laws and regulations referred to above.

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

*Vavrinck, Trine, Day & Co. LLP*

Palo Alto, California  
December 15, 2010

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR’S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>84.010, 84.389-ARRA</u>	<u>Title I - Basic Grants (Includes ARRA)</u>
<u>84.394 - ARRA</u>	<u>State Fiscal Stablization Funds-ARRA</u>
<u>84.027, 84.173, 84.391-ARRA</u>	<u>Special Education (Includes ARRA)</u>
<u>84.186</u>	<u>Safe and Drug Free Schools</u>
<u>84.196, 84.387-ARRA</u>	<u>Title X McKinnley - Vento Homeless Assistance (Includes ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,336,049</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)?	<u>None reported</u>
Type of auditor's report issued on compliance for State programs:	<u>Unqualified</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

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The following findings represent instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

### 2010-1 Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the activities of the associated student body accounts (ASB).

#### Condition

During our visit at Pajaro Middle School, we noted weaknesses in internal control.

- No revenue potential forms were prepared.
- Instances of disbursements were noted without having the proper purchase orders.
- Approvals were missing on some of the disbursements.
- Instances of disbursements were noted without having the proper number of signatures on the checks.
- Bank deposits are not made timely.
- Bank reconciliations were not properly prepared for the months tested.

During our visit at Aptos High School, we noted weaknesses in internal control.

- No revenue potential forms were prepared.
- Approvals were missing on some of the disbursements
- There were instances of pass-through activities occurring in the ASB bank account.
- Instances of disbursements were noted without having proper supporting documentation.
- Not all ASB-related organizations take part in the ASB meeting process.
- There are no formal accounting procedures or inventory taken of ASB operated vending machines.

#### Questioned costs

None.

#### Context

All cash collections made through fund raising activities and all purchases made using the Pajaro Middle School and Aptos High School student body funds.

#### Effect

Revenue potentials enable the ASB to control their cash collections insuring that all items sold have been collected in cash or returned back to the ASB's inventory. If those calculations were not performed, sales and related cash collections could be misstated. In addition, having disbursements supported by proper purchase orders and authorization from the student minutes is necessary to ensure that all disbursements were properly approved by the student council.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

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Disbursements being paid without proper approval from the student body could lead to potential fraud risks and misappropriation of funds to unapproved vendors or non-ASB related expenditures.

### **Recommendation**

We recommend that the ASB prepare revenue potential/sale analysis for fund raising events. We also recommend that all purchases are supported by the proper document.

No disbursements should be made unless all the supporting documents (Invoices, PO's, and payment requisitions) have been collected and files, with all required signatures being present. In addition, include a copy of the ASB minutes where the expense has been approved by the ASB.

No unrelated ASB transactions should be processed through the ASB bank accounts.

For vending machines, there should be a sales log and inventory kept, where inventory is maintained on a periodic basis. Or the ASB can choose to use a third party vendor to operate the vending machines, and the ASB obtains a portion of the proceeds.

### **District Response**

The District has notified the sites of the findings and will follow up to ensure the proper forms are completed in a timely manner. An outline has been provided to every school site that has an ASB. This outline informs the ASB staff and advisors of the proper procedures to follow. Also sample forms have been provided to make compliance easier. The District will meet with all sites to verify that the sites are in compliance. Training sessions are also provided to the sites.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**None Reported.**

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

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**None Reported.**



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statement Findings*

#### **2009-1 Code 30000**

##### *Title Internal Control*

##### **Finding**

During our visit at Aptos Junior High School, we noted that weaknesses in internal control.

- No revenue potential forms were prepared.
- Instances of disbursements were noted without having the proper purchase orders.
- Approvals were missing on some of the disbursements.

Revenue potentials enable the ASB to control their cash collections insuring that all items sold have been collected in cash or returned back to the ASB's inventory. If those calculations were not performed, sales and related cash collections could be misstated. In addition, having disbursements supported by proper purchase orders and authorization from the student minutes is necessary to ensure that all disbursements were properly approved by the student council.

##### **Recommendation**

We recommend that the ASB prepare revenue potential/sale analysis for fund raising events. We also recommend that all purchases are supported by the proper documents.

##### **Current Status**

See current years findings related to the student body.

### *Federal Award Findings*

None reported.

### *State Award Findings*

None reported.