

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

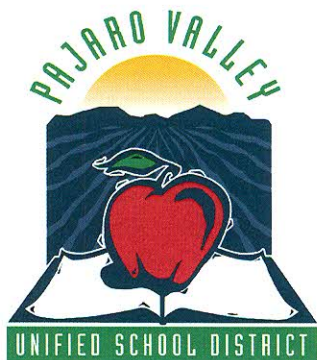
In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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, budgetary comparison and other postemployment information, are not a required part of the basic financial statements, but are 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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 15, 2011



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

294 Green Valley Road, Watsonville, CA 95076
(831) 786-2100

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis section of the 2010/2011 Annual Financial Audit summarizes the District's financial performance during the 2010-11 fiscal year ending June 30, 2011. The District's financial systems and reporting adhere to standards and requirements prescribed under the Governmental Accounting Standards Board (GASB), State Board of Education, federal law, and the California Education Code.

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 major governmental activities in accordance with accrual accounting. 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 inter-fund 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

The Pajaro Valley Unified School District is the primary governmental agency represented in this audit. The District also includes five charter schools established and overseen pursuant to the Education Code. They include Linscott Elementary, Watsonville School of the Arts, Pacific Coast Charter School, Alianza Charter School, and Academic Vocational Charter Institute. Financial information for the charter schools is included in the special revenue, charter school fund of the District. Separately issued financial statements for the charter schools are not prepared.

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 its activities. These statements include all assets and liabilities using the accrual basis of accounting. All current year 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. These statements are one measure of the District's financial health and 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.

Overall, these factors are subject to significant influences from state and federal education funding policies. As a result of current economic conditions, they have undergone dramatic fluctuations over the past five fiscal years. These changes have largely been unforeseen and unprecedented. Projections indicate this condition will continue over the next two fiscal years.

The relationship between revenues and expenses is the District's operating results. Since the Board's responsibility is to provide services to all 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 instructional program, academic achievement among students, and the safety and condition of school facilities are important components in the evaluation of District effectiveness.

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, other student services, and the on-going effort to improve and maintain buildings and sites. Property taxes, state education funding, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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 general obligation bond covenants. In addition, District leadership establishes many other funds to provide appropriate fiscal control and accountability to manage money for particular purposes. Specified funds will also provide legally required reporting demonstrating the District's compliance with state and federal education funding requirements and other legal/statutory guidelines.

Governmental funds - Most of the District's basic services are reported in governmental funds. These focus on how money flows into and out of those funds and the balances left at year-end. Specific 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 District programs. The differences of results in the governmental fund financial statements compared 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. The District uses 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, such as funds for associated student body activities, scholarships, and 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 general 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, 2011

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$137.1 million and \$143.8 million for the fiscal years ended June 30, 2011 and 2010, respectively. Of this amount, \$14.2 million and \$8.1 million were unrestricted for fiscal years ending June 30, 2011 and 2010, 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 2011	Governmental Activities 2010
Current and other assets	\$ 83,559,297	\$ 72,078,044
Capital assets	165,552,354	174,619,488
Total Assets	249,111,651	246,697,532
Current liabilities	31,650,645	23,686,082
Long-term debt	80,358,047	79,222,113
Total Liabilities	112,008,692	102,908,195
Net assets		
Invested in capital assets, net of related debt	103,628,491	114,246,104
Restricted	19,263,020	21,478,200
Unrestricted	14,211,448	8,064,973
Total Net Assets	\$ 137,102,959	\$ 143,789,277

The \$14.2 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if the District had to pay off all of its bills today including all of our non-capital liabilities (compensated absences as an example) we would need \$14.2 million.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Changes in Net Assets

The results of 2010-11 general operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement and rearranges it slightly so total revenues and expenses for the year.

TABLE 2

	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program revenues		
Charges for services	\$ 960,175	\$ 1,064,228
Operating grants and contributions	75,120,938	75,269,696
Capital grants and contributions	(242,904)	3,833
General revenues:		
Federal and state sources	74,473,737	68,138,199
Property taxes	51,125,005	52,044,160
Other general revenues	5,309,580	8,482,717
Total Revenues	206,746,531	205,002,833
Expenses		
Instruction related	165,718,486	159,028,042
Student support services	22,697,696	23,566,244
Administration	5,265,074	5,541,102
Maintenance and operations	15,587,640	16,428,921
Other	4,164,013	5,283,841
Total Expenses	213,432,909	209,848,150
Change in Net Assets	\$ (6,686,378)	\$ (4,845,317)

Governmental Activities

As reported in the Statement of Activities, the cost of all of governmental activities in 2010-11 was \$213.4 million. However, the amount that District taxpayers ultimately financed for related activities through local taxes was only \$51.1 million. This is because \$75.8 million was paid by those benefiting from District programs or by other governments and organizations who subsidized certain programs with grants and contributions. The District paid for the remaining "public benefit" portion of its governmental activities with \$74.5 million in state and federal funds and with other revenues, such as interest and general entitlements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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 members of the public 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 2011	Net Cost of Services 2010
Instruction and instruction related	\$ 107,452,029	\$ 101,790,243
Pupil services	9,065,564	8,544,028
General administration	3,137,554	3,386,967
Maintenance and operations	15,011,895	15,719,886
Other	2,927,658	4,069,269
Totals	\$ 137,594,700	\$ 133,510,393

GENERAL FUND HIGHLIGHTS

As the District ended the 2010-11 fiscal year, governmental funds reported an ending fund balance of \$51.6 million. The unappropriated fund balance was \$29.4 million. This reflected an \$8.4 million increase in the General Fund ending balance as compared to the District's estimated ending balance earlier in the fiscal year. This increase was largely one-time in nature. The District's ongoing funding remained relatively constant throughout the fiscal year. The reasons for the increase include:

- New state deferrals of state education funding
- Lower overall expenditures due to "belt tightening" by school sites and programs
- Decreased utility costs associate with improved energy efficiency
- Decreased legal costs
- One-time state and federal grants targeted to school improvement
- Ongoing adjustment (\$400k) to per student revenue limit
- Use of one-time federal stimulus funding in place of ongoing district funding for specific programs
- Reclassification of fund from 2009-10 into 2010-11 due to state funding deferrals and directive from the county office of education

State economic conditions have created significant challenges to the District's fiscal and programmatic integrity. In 2008-09, the District experienced an approximately 20 percent reduction in ongoing state education funding. This was the result of funding reductions enacted by the state in 2008-09 and 2009-10. This forced the District to implement more than \$17 million in program and personnel reductions since 2008-09. The District has not received a cost of living adjustment since 2007-08. The 2010-11 fiscal year marked the fourth straight year the District was forced to operate with reduced funding while operating expenses continued to increase. The District's average student funding is now at levels lower than it was in 2006-07. Projections indicate the District's General Fund will continue to experience such challenges over the next two fiscal years.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011 and 2010, the District had \$165.6 million and \$174.6 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 \$9.1 million, or 5.2 percent, from last year.

TABLE 4

	Governmental Activities 2011	Governmental Activities 2010
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	3,650,529	882,849
Buildings and improvements	257,091,833	256,881,419
Equipment	4,297,666	4,257,893
Accumulated depreciation	(116,542,818)	(104,457,817)
Totals	\$ 165,552,354	\$ 174,619,488

This year's additions to capital assets of \$3.0 million (excluding depreciation) are primarily from the completion of the District's remaining Measure J general obligation bond projects. Measure J was enacted by District voters in 2002. All projects have been completed within the required ten-year timeline and per requirements of the bond language. The District is awaiting final sign off from the state for these remaining projects and will conduct a final performance and financial audit once final approval is received from the state.

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>	2011	2010
Certificates of participation	\$ 2,709,534	\$ 2,820,000
General obligation bonds	58,161,068	58,220,592
Bond premium	705,793	766,905
Accumulated vacation - net	1,795,225	1,654,015
Supplemental employees retirement plan	7,108,859	4,244,920
Capital leases	620,506	888,279
Other post employment benefits	13,895,304	10,446,222
Energy service contract	-	181,180
Totals	\$ 84,996,289	\$ 79,222,113

The State limits the amount of general obligation debt school districts can issue to 2.5 percent of the assessed value of all taxable property within a district's legal boundaries.

Other financial obligations include compensated absences payable, certificates of participation, capital leases and

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

other long-term debt. We present more detailed information regarding the District's long-term liabilities in Note 8 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-2011 ARE NOTED BELOW:

Despite continued uncertainty associated with the state's ongoing fiscal crisis, the District was able to largely meet its financial and program obligations in 2010-11. The District continued to face increased academic performance requirements associated with its *Program Improvement* status under federal No Child Left Behind academic performance requirements. Student performance on state academic performance measurements experienced their highest single year increase in the past four years.

Major accomplishments during 2010-11 included the following:

- Establishment of an ongoing Educational Services unit overseen by a cabinet level education leader
- Implementation of two major federal school improvement grants to six schools with high percentages of at-risk students
- Continued operation and expansion of district-wide After School, Child Development, Pre-school, Migrant Education, and Migrant Head Start programs providing services to students and families across the Pajaro Valley.
- Compliance with major state and federal fiscal, legal, and program requirements
- Successful implementation of district-wide student data teams at all school sites
- Restructuring of the Maintenance, Operations, and Facilities department resulting in increased service levels and response times to all school sites
- Implementation of a new user-friendly work order system
- The award of 8 new, cleaner operating school buses – in addition 18 received the year before
- Completion of the E.A. Hall Middle School Gymnasium
- Completion of the Aptos High School bond projects and performing arts center orchestra platform
- Successful adherence to public purchasing requirements and accounting standards and practices
- Processing and administering payroll and benefit services for over 4,300 full and part-time employees despite reduced staff resources
- Successful transportation of more than 5000 students without injury or significant incident resulting in more than 1.2 million miles driven by District school buses
- Over 2 million breakfasts and lunches served to students with additional nutritional guidelines and practices implemented district-wide

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

- Ongoing technical support for over 5,500 computers, along with the operation and ongoing upgrades to the District's technology infrastructure and instructional technology programs

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2011/2012 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 COLA of 2.24% with a deficit of 19.754%.
2. State grants received no COLA including Special Education.
3. The sweeping of most State grants in Tier III.
4. The use of remainder of the Federal Stimulus funding, with the exception of the Education Jobs Funds.
5. Developer fee collections have been reduced substantially due to a decrease in development in the surrounding area.
6. 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.
7. Employee benefits will be increased by 10%.
8. Step and Column increases are reflected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The annual financial report is designed to provide District citizens, taxpayers, investors and creditors with a general overview of the District's finances and accountability for the public funds it administers under law. For additional information and/or questions about this report or other District financial activities, please contact:

Brett W. McFadden, Chief Business Officer
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, 2011

	Governmental Activities
ASSETS	
Deposits and investments	\$ 50,814,788
Receivables	31,482,423
Prepaid expenses	749,637
Stores inventories	512,449
Capital assets not depreciated	20,705,673
Capital assets, net of accumulated depreciation	144,846,681
Total Assets	249,111,651
LIABILITIES	
Overdrafts	187,982
Accounts payable	4,319,883
Interest payable	874,250
Deferred revenue	7,764,052
Claim liabilities	13,866,236
Current portion of long-term obligations	4,638,242
Noncurrent portion of long-term obligations	80,358,047
Total Liabilities	112,008,692
NET ASSETS	
Invested in capital assets, net of related debt	103,628,401
Restricted for:	
Debt service	1,894,314
Capital projects	332,431
Special revenues	8,059,971
Self-Insurance	5,823,367
Legally restricted	8,378,798
Unrestricted	8,985,677
Total Net Assets	\$ 137,102,959

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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 129,172,959	\$ 49,715	\$ 39,513,771	\$ (242,904)	\$ (89,852,377)
Instruction-related activities:					
Supervision of instruction	19,748,790	18,647	16,272,874	-	(3,457,269)
Instructional library, media, and technology	3,823,637	2,848	2,576,003	-	(1,244,786)
School site administration	12,973,100	197	75,306	-	(12,897,597)
Pupil services:					
Home-to-school transportation	5,954,928	62,914	2,663,402	-	(3,228,612)
Food services	7,551,671	759,119	6,848,251	-	55,699
All other pupil services	9,191,097	2,752	3,295,694	-	(5,892,651)
Administration:					
Data processing	1,448,775	-	-	-	(1,448,775)
All other administration	3,816,296	30,171	2,097,346	-	(1,688,779)
Plant services	15,587,641	3,462	572,284	-	(15,011,895)
Ancillary services	549,968	1,065	102,850	-	(446,053)
Community services	10,580	75	2,804	-	(7,701)
Interest on long-term obligations	3,546,276	-	-	-	(3,546,276)
Other outgo	57,191	29,210	1,100,353	-	1,072,372
Total Governmental Activities	\$ 213,432,909	\$ 960,175	\$ 75,120,938	\$ (242,904)	(137,594,700)
General revenues and subventions:					
Property taxes, levied for general purposes					47,406,774
Property taxes, levied for debt service					3,511,625
Taxes levied for other specific purposes					206,606
Federal and State aid not restricted to specific purposes					74,473,737
Interest and investment earnings					133,504
Miscellaneous					5,176,076
Subtotal, General Revenues					130,908,322
Change in Net Assets					(6,686,378)
Net Assets - Beginning					143,789,337
Net Assets - Ending					\$ 137,102,959

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 20,110,066	\$ 10,267,997	\$ 30,378,063
Receivables	27,183,759	4,298,664	31,482,423
Prepaid expenses	748,503	1,134	749,637
Stores inventories	230,652	281,797	512,449
Total Assets	\$ 48,272,980	\$ 14,849,592	\$ 63,122,572
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ 187,982	\$ 187,982
Accounts payable	2,558,314	1,014,447	3,572,761
Deferred revenue	7,368,271	395,781	7,764,052
Total Liabilities	9,926,585	1,598,210	11,524,795
Fund Balances:			
Nonspendable	1,034,155	282,931	1,317,086
Restricted	5,527,265	7,742,590	13,269,855
Committed	-	5,225,861	5,225,861
Assigned	2,290,665	-	2,290,665
Unassigned	29,494,310	-	29,494,310
Total Fund Balances	38,346,395	13,251,382	51,597,777
Total Liabilities and Fund Balances	\$ 48,272,980	\$ 14,849,592	\$ 63,122,572

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2011

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

Total Fund Balance - Governmental Funds		\$ 51,597,777
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	\$ 282,095,172	
Accumulated depreciation is	<u>(116,542,818)</u>	
Net Capital Assets		165,552,354
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.		(874,250)
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.		5,823,367
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	58,161,068	
Unamortized bond premium	705,793	
Certificates of participation	2,709,534	
Capital leases payable	620,506	
Compensated absences (vacations)	1,795,225	
Supplemental employee retirement plan	7,108,859	
OPEB obligations	<u>13,895,304</u>	
Total Long-Term Liabilities		(84,996,289)
Total Net Assets - Governmental Activities		<u>\$ 137,102,959</u>

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, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	\$ 90,141,349	\$ 7,110,430	\$ 97,251,779
Federal sources	28,566,347	12,891,569	41,457,916
Other state sources	51,911,391	7,411,563	59,322,954
Other local sources	2,965,270	5,751,844	8,717,114
Total Revenues	173,584,357	33,165,406	206,749,763
EXPENDITURES			
Instruction	103,573,547	13,417,360	116,990,907
Instruction-related activities:			
Supervision of instruction	16,019,958	2,235,820	18,255,778
Instructional library, media and technology	3,196,565	338,004	3,534,569
School site administration	8,519,654	3,472,677	11,992,331
Pupil services:			
Home-to-school transportation	5,504,734	-	5,504,734
Food services	18,744	6,962,019	6,980,763
All other pupil services	7,688,591	807,658	8,496,249
Administration:			
Data processing	1,339,247	-	1,339,247
All other administration	4,343,874	673,717	5,017,591
Plant services	12,906,507	1,459,703	14,366,210
Facility acquisition and construction	193,704	2,870,683	3,064,387
Ancillary services	502,725	5,665	508,390
Community services	9,780	-	9,780
Other outgo	57,191	-	57,191
Debt service			
Principal	482,096	1,637,323	2,119,419
Interest and other	100,072	2,050,595	2,150,667
Total Expenditures	164,456,989	35,931,224	200,388,213
Excess (Deficiency) of Revenues Over Expenditures	9,127,368	(2,765,818)	6,361,550
Other Financing Sources (Uses)			
Transfers in	546,279	691,927	1,238,206
Transfers out	(691,927)	(31,045)	(722,972)
Net Financing Sources (Uses)	(145,648)	660,882	515,234
NET CHANGE IN FUND BALANCES	8,981,720	(2,104,936)	6,876,784
Fund Balance - Beginning	29,364,675	15,356,318	44,720,993
Fund Balance - Ending	\$ 38,346,395	\$ 13,251,382	\$ 51,597,777

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 FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds \$ 6,876,784

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	\$ (12,085,001)	
Capital outlays	<u>3,017,867</u>	
Net Expense Adjustment		(9,067,134)

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.

(84,588)

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 \$141,210.

(141,210)

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.

267,773

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.

110,466

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.

1,560,000

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, 2011

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.	43,755
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.	(1,500,476)
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.	(3,449,082)
Obligations for supplemental employee retirement plan (SERP) is not recorded in the governmental funds, but it increases the long-term liabilities in the statement of net assets and increases expenses in the statement of activities.	(5,796,928)
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.	2,932,989
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.	1,318,981
Change in Net Assets of Governmental Activities	<u>\$ (6,686,378)</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 20,436,725
Total Current Assets	<u>20,436,725</u>
LIABILITIES	
Current Liabilities	
Accounts payable	747,122
Claim liabilities	13,866,236
Total Current Liabilities	<u>14,613,358</u>
NET ASSETS	
Restricted	5,823,367
Total Net Assets	<u><u>\$ 5,823,367</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, 2011

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-district contributions	<u>\$ 40,182,851</u>
OPERATING EXPENSES	
Payroll costs	256,083
Claims and insurance expense	<u>38,173,909</u>
Total Operating Expenses	<u>38,429,992</u>
Operating Income	<u>1,752,859</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	81,356
Transfers out	<u>(515,234)</u>
Total Nonoperating Revenues (Expenses)	<u>(433,878)</u>
Change in Net Assets	<u>1,318,981</u>
Total Net Assets - Beginning	<u>4,504,386</u>
Total Net Assets - Ending	<u><u>\$ 5,823,367</u></u>

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, 2011**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 40,228,023
Cash payments for insurance claims	(40,418,116)
Net Cash provided by Operating Activities	(190,093)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(515,234)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	81,356
Net decrease in Cash and Cash Equivalents	(623,971)
Cash and Cash Equivalents - Beginning	21,060,696
Cash and Cash Equivalents - Ending	<u>\$ 20,436,725</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,752,859
Changes in assets and liabilities:	
Receivables	45,172
Accrued liabilities	(573,957)
Due to other fund	(1,414,167)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (190,093)</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, 2011**

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 2,247,308	\$ 2,082,343	\$ 582,499
Total Assets	<u>2,247,308</u>	<u>2,082,343</u>	<u>\$ 582,499</u>
LIABILITIES			
Accounts payable	\$ -	\$ 163,625	\$ -
Due to student groups	-	-	582,499
Total Liabilities	<u>-</u>	<u>163,625</u>	<u>\$ 582,499</u>
NET ASSETS			
Restricted	2,247,308	1,918,718	
Total Net Assets	<u>\$ 2,247,308</u>	<u>\$ 1,918,718</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, 2011

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 148,176
District contributions	3,091,660	-
Investment income	289,038	11,728
Total Additions	<u>3,380,698</u>	<u>159,904</u>
DEDUCTIONS		
Benefit payments	3,744,568	-
Scholarships awarded	-	124,500
Total Deductions	<u>3,744,568</u>	<u>124,500</u>
Change in Net Assets	(363,870)	35,404
Net Assets - Beginning	<u>2,611,178</u>	<u>1,883,314</u>
Net Assets - Ending	<u>\$ 2,247,308</u>	<u>\$ 1,918,718</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 school, 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), and public entity risk pools Benefit Liability Excess Fund (BeLiEF) that provides insurance coverage to the District. These organizations do not meet the criteria for inclusion as component units 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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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 and report all financial resources not accounted for and reported in another fund.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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.

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local resources committed for adult education programs and is to be expended for adult education purposes only.

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.

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).

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for resources committed for deferred maintenance purposes.

Debt Service Funds The Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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 used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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).

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 government-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.

Investments

Investments held at June 30, 2011, 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/expenses 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 has 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 are 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 1st 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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Changes in Accounting Principles

In March 2009, the GASB issued 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 30,378,063	
Less: Overdrafts	(187,982)	
Total governmental funds		\$ 30,190,081
Proprietary fund		20,436,725
Fiduciary funds		4,912,150
Total Deposits and Investments		<u>\$ 55,538,956</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks		\$ 2,572,627
Cash in revolving		55,000
Investments	\$ 53,099,311	
Less: Overdrafts	(187,982)	
Total investments		<u>52,911,329</u>
Total Deposits and Investments		<u>\$ 55,538,956</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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011. Pooled investments, such as the county pool and mutual funds were not rated.

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 JUNE 30, 2011

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	Average Maturity in Years
U.S. Government Bonds	\$ 19,900	\$ 27,454	5.88
Mutual Funds	2,132,596	2,132,596	0.00
County Pool	50,758,833	50,878,725	0.57
Total	<u>\$ 52,911,329</u>	<u>\$ 53,038,775</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, 2011, the District's bank balance of \$1,725,379 was exposed to custodial credit risk because it was uninsured but 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, 2011

NOTE 3 - RECEIVABLES

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

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	\$ 5,319,210	\$ 1,596,510	\$ 6,915,720
State Government			
Apportionment	13,994,298	1,819,711	15,814,009
Categorical aid	6,381,078	607,395	6,988,473
Lottery	1,152,889	87,974	1,240,863
Other Local Sources	336,284	187,074	523,358
Total	<u>\$ 27,183,759</u>	<u>\$ 4,298,664</u>	<u>\$ 31,482,423</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	882,849	2,767,680	-	3,650,529
Total Capital Assets Not Being Depreciated	17,937,993	2,767,680	-	20,705,673
Capital Assets Being Depreciated:				
Buildings and Improvements	256,881,419	210,414	-	257,091,833
Furniture and Equipment	4,257,893	39,773	-	4,297,666
Total Capital Assets Being Depreciated	261,139,312	250,187	-	261,389,499
Less Accumulated Depreciation:				
Buildings and Improvements	101,494,900	11,816,516	-	113,311,416
Furniture and Equipment	2,962,917	268,485	-	3,231,402
Total Accumulated Depreciation	104,457,817	12,085,001	-	116,542,818
Capital Assets Being Depreciated, Net	156,681,495	(11,834,814)	-	144,846,681
Governmental Activities Capital Assets, Net	\$ 174,619,488	\$ (9,067,134)	\$ -	\$ 165,552,354

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Governmental Activities

Instruction	\$ 7,249,183
Supervision of Instruction	1,161,514
Instructional Library and Media	224,885
School Site Administration	763,006
Home to School Transportation	350,236
Food Services	444,147
All Other Pupil Services	540,569
Ancillary Services	32,346
Community Services	622
All General Administration	319,242
Data Processing Services	85,209
Plant Services	914,042
Total Depreciation Expense - Governmental Activities	<u>\$ 12,085,001</u>

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer Out	Transfer In		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 691,927	\$ 691,927
Non-Major Governmental Funds	31,045	-	31,045
Internal Service Funds	515,234	-	515,234
Total	<u>\$ 546,279</u>	<u>\$ 691,927</u>	<u>\$ 1,238,206</u>

The General Fund transferred to the Charter Schools for Supplemental School Counseling Programs.

\$ 360,063

The General Fund transferred to the Adult Education Fund for contributions.

331,864

The Tax Override Fund transferred unused funds to the General Fund.

31,045

The Self Insurance Fund transferred to the General Fund for cost reimbursement.

515,234

Total

\$ 1,238,206

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 1,779,769	\$ 574,192	\$ 2,353,961	\$ 747,122	\$ 163,625
Salaries and benefits	778,545	440,255	1,218,800	-	-
Total	<u>\$ 2,558,314</u>	<u>\$ 1,014,447</u>	<u>\$ 3,572,761</u>	<u>\$ 747,122</u>	<u>\$ 163,625</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 5,947,692	\$ 248,123	\$ 6,195,815
State categorical aid	56,497	-	56,497
Other local	1,364,082	147,658	1,511,740
Total	<u>\$ 7,368,271</u>	<u>\$ 395,781</u>	<u>\$ 7,764,052</u>

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, 2010	Accretion/ Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 58,220,592	\$ 1,500,476	\$ 1,560,000	\$ 58,161,068	\$ 1,755,000
Bond premium	766,905	-	61,112	705,793	61,112
Certificates of participation	2,820,000	-	110,466	2,709,534	114,103
Accumulated vacation - net	1,654,015	141,210	-	1,795,225	-
Capital leases	888,279	-	267,773	620,506	280,858
Energy service contract	181,180	-	181,180	-	-
Other postemployment benefits	10,446,222	6,539,254	3,090,172	13,895,304	-
Supplemental employees retirement benefits	4,244,920	5,796,928	2,932,989	7,108,859	2,427,169
Total	<u>\$ 79,222,113</u>	<u>\$ 13,977,868</u>	<u>\$ 8,203,692</u>	<u>\$ 84,996,289</u>	<u>\$ 4,638,242</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Redeemed	Bonds Outstanding June 30, 2011
				Outstanding June 30, 2010	Accreted/ Issued		
2005	2023	3.00%-5.31%	\$ 40,215,000	\$ 36,095,000	\$ -	\$ 1,445,000	\$ 34,650,000
2005	2030	3.00%-5.31%	18,254,288	22,125,592	1,500,476	115,000	23,511,068
				<u>\$ 58,220,592</u>	<u>\$1,500,476</u>	<u>\$ 1,560,000</u>	<u>\$ 58,161,068</u>

Debt Service Requirements to Maturity

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	2,710,000	1,480,000	4,190,000
2017-2021	18,290,000	4,841,552	23,131,552
2022-2026	15,505,634	11,725,579	27,231,213
2027-2030	7,768,653	17,566,347	25,335,000
Sub Total	<u>52,644,287</u>	<u>\$ 42,676,675</u>	<u>\$ 95,320,962</u>
Accretion to date	5,516,781		
Total general obligation bonds	<u>\$ 58,161,068</u>		

Certificates of Participation

In April 5, 2005, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,645,000 to finance construction related to the Adult Education Center. At June 30, 2011, the principal balance outstanding was \$1,340,000. During the current year the District redeemed \$65,000 of the outstanding certificates.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011 the principal balance outstanding was \$1,369,534. 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. During the current year the District redeemed \$45,466 of the outstanding certificates.

The certificates mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
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	137,623	90,244	227,867
2017-2021	760,365	362,508	1,122,873
2022-2026	942,396	185,327	1,127,723
2027-2030	380,383	35,383	415,766
Total	<u>\$ 2,709,534</u>	<u>\$ 1,084,178</u>	<u>\$ 3,793,712</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$1,795,225.

Capital Leases

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

	Porter Building	Bus and SIS System	Cafeteria Portables	Total
Balance, July 1, 2010	\$ 461,835	\$ 501,792	\$ 28,646	\$ 992,273
Payments	92,365	204,679	14,323	311,367
Balance, July 1, 2011	<u>\$ 369,470</u>	<u>\$ 297,113</u>	<u>\$ 14,323</u>	<u>\$ 680,906</u>

The capital leases have minimum lease payments as follows:

Error! Not a valid link.Energy Service Contract

The remaining balance for the District's long-term energy service contract in the amount of \$181,180 was paid off during the year ended June 30, 2011.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Supplemental Employees Retirement Plan (SERP)

The outstanding balances for the Supplemental Employee Retirement Plans as of June 30, 2011, are as follows:

Year Ending June 30,	2008 Plan	2010 Plan	2011 Plan	Total
2012	\$ 1,253,436	\$ 82,341	\$ 1,091,392	\$ 2,427,169
2013	1,242,832	82,341	1,091,392	2,416,565
2014	-	82,341	1,091,392	1,173,733
2015	-	-	1,091,392	1,091,392
Subtotal	<u>\$ 2,496,268</u>	<u>\$ 247,023</u>	<u>\$ 4,365,568</u>	<u>\$ 7,108,859</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, 2011, the amount of defeased debt outstanding that was removed from the Long Term Debt Obligations amounted to \$36,209,975.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ 55,000	\$ -	\$ 55,000
Stores inventories	230,652	281,797	512,449
Prepaid expenditures	748,503	1,134	749,637
Total Nonspendable	<u>1,034,155</u>	<u>282,931</u>	<u>1,317,086</u>
Restricted			
Legally restricted programs	5,527,265	19,082	5,546,347
Special revenues	-	4,349,475	4,349,475
Capital projects	-	605,469	605,469
Debt services	-	2,768,564	2,768,564
Total Restricted	<u>5,527,265</u>	<u>7,742,590</u>	<u>13,269,855</u>
Committed			
Adult education program	-	1,455,815	1,455,815
Deferred maintenance program	-	3,770,046	3,770,046
Total Committed	<u>-</u>	<u>5,225,861</u>	<u>5,225,861</u>
Assigned			
Other	2,290,665	-	2,290,665
Total Assigned	<u>2,290,665</u>	<u>-</u>	<u>2,290,665</u>
Unassigned			
Reserve for economic uncertainties	4,857,416	-	4,857,416
Remaining unassigned	24,636,894	-	24,636,894
Total Unassigned	<u>29,494,310</u>	<u>-</u>	<u>29,494,310</u>
Total	<u>\$38,346,395</u>	<u>\$ 13,251,382</u>	<u>\$ 51,597,777</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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011, the District contributed \$3,090,172 to the plan, all of which was used for current premiums (approximately 100% percent of total premiums incurred by retirees plus one eligible dependent).

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	\$ 6,093,533
Interest on net OPEB obligation	445,721
Annual OPEB cost (expense)	6,539,254
Contributions made	3,090,172
Increase in net OPEB obligation	3,449,082
Net OPEB obligation, beginning of year	10,446,222
Net OPEB obligation, end of year	\$ 13,895,304

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011, 2010, and 2009, respectively, was as follows:

Year Ended June 30, 2011	OPEB Cost	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2011	\$ 6,539,254	\$ 3,090,172	47.26%	\$ 13,895,304
2010	6,367,435	2,917,171	45.81%	10,446,222
2009	6,277,594	3,441,731	54.83%	6,995,958

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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%	\$ 113,529,631	56.35%

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, 2011, 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 Association for Excess Risk for Property and Liability and the Pajaro Valley Unified School District Worker's Compensation Self-Insurance Program is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
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, 2009 to June 30, 2011:

Liability Balance, July 1, 2009	\$ 11,119,139
Claims and changes in estimates	34,514,402
Claims payments	(31,767,305)
Liability Balance, June 30, 2010	13,866,236
Claims and changes in estimates	38,173,909
Claims payments	(38,173,909)
Liability Balance, June 30, 2011	\$ 13,866,236
Assets available to pay claims at June 30, 2011	\$ 19,689,603

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

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 2010-2011 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, 2011, 2010, and 2009, were \$5,909,444, \$6,238,163, and \$6,424,847, 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$2,812,325, \$2,595,131, and \$2,727,014, respectively, and equal 100 percent of the required contributions for each year.

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 \$3,053,855, \$3,220,581, and \$3,514,843, respectively, for 2011, 2010 and 2009 (4.267 percent of annual payroll for 2011 and 2010, and 4.517 percent for 2009, 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 been recorded in the financial statements. These amounts have not been included in the actual or budgeted amounts reported in the General Fund Budgetary Comparison Schedule. 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, 2011.

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2011.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Construction Commitments

As of June 30, 2011 the only remaining construction commitment is an unfinished capital project at E.A. Hall Middle School totaling \$403,310 which has an expected completion date of August 31, 2011.

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 (JPAs). 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 JPAs is such that the JPAs are not component units 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, 2011, the District made payments of \$151,454 to SAWCXII for excess workers' compensation insurance, \$1,702,138 to BeLiEF for excess medical insurance and \$726,523 to SAFER for excess property and liability insurance.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variances- Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 84,044,744	\$ 89,753,755	\$ 90,141,349	\$ 387,594
Federal sources	22,349,922	26,595,564	28,566,347	1,970,783
Other State sources	46,263,790	48,078,713	48,857,536	778,823
Other local sources	1,363,209	2,705,039	2,965,270	260,231
Total Revenues ¹	154,021,665	167,133,071	170,530,502	3,397,431
EXPENDITURES				
Certificated salaries	64,389,071	66,275,681	66,446,004	(170,323)
Classified salaries	24,287,382	23,797,598	23,947,362	(149,764)
Employee benefits	44,188,829	43,393,375	43,567,618	(174,243)
Books and supplies	6,198,168	9,624,357	9,868,393	(244,036)
Services and operating expenditures	15,715,739	17,133,912	16,945,035	188,877
Capital outlay	18,000	44,936	46,554	(1,618)
Debt service - principal	482,868	300,916	482,096	(181,180)
Debt service - interest	100,374	100,072	100,072	-
Total Expenditures ¹	155,380,431	160,670,847	161,403,134	(732,287)
Excess of Revenues Over Expenditures	(1,358,766)	6,462,224	9,127,368	2,665,144
Other Financing Sources (Uses)				
Transfers in	550,000	545,729	546,279	550
Transfers out	(2,253,400)	(2,478,708)	(691,927)	1,786,781
Net Financing Sources (Uses)	(1,703,400)	(1,932,979)	(145,648)	1,787,331
NET CHANGE IN FUND BALANCES	(3,062,166)	4,529,245	8,981,720	4,452,475
Fund Balance - Beginning	29,364,675	29,364,675	29,364,675	-
Fund Balance - Ending	\$ 26,302,509	\$ 33,893,920	\$ 38,346,395	\$ 4,452,475

¹ On behalf payments of 3,053,855 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, 2011**

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%	\$ 113,529,631	56.35%
March 1, 2007	2,208,048	52,884,097	50,676,049	4.18%	114,434,798	44.28%

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education & ESL	84.002A	14508	\$ 159,499
Priority 5, Adult Secondary Education	84.002	13978	9,538
English Literacy & Civics Education	84.002A	14109	22,731
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	4,811,281
Title I- Part A, Program Improvement LEA			
Corrective Action, Extensive Performance Problems	84.010	14955	297,141
Title I - ARRA, Part A, Basic Grants Low Income and Neglected	84.389	15005	1,539,526
Title I - ARRA, Part A, School Site Improvements	84.389	15004	2,772,962
Title I-Migrant Education (Regular and Summer Program)	84.011	14326	4,539,857
Title I-Even Start Migrant Education	84.214	14768	289,722
Title I-School Site Improvements	84.377	14971	7,465
Title I - ARRA, School Site Improvements	84.388	15020	1,190,356
Title II-Teacher Quality	84.367	14341	1,000,343
Title II-Enhancing Education Through Technology			
Formula Grants	84.318	14334	22,559
ARRA - Part D, Formula Grants	84.386	15019	92,210
ARRA - Part D, Competitive Grants	84.386	15126	106,007
Title II-Mathematics and Science Partnerships	84.366	14512	25,619
Title III-Limited English Proficiency Student	84.365	10084	639,150
Title IV-21st Century Community Centers Learning	84.287	14535	2,798,843
Title X-McKinney-Vento Homeless Assistance	84.196	14332	69,336
Title X-ARRA McKinney-Vento Homeless Assistance	84.387	15007	86,888
LEA	84.000	1	382,079
Alcohol Abuse Reduction Grant	84.184A	1	334,472
Individuals with Disability Act:			
Basic Local Assistance Entitlement	84.027	13379	3,421,579
Local Assistance, Part B, Section 611 Private Schools	84.027	10115	20,537
Preschool Grants	84.173	13430	175,802
Preschool Local Entitlement	84.027A	13682	362,998
Preschool Staff Development	84.173A	13431	2,223
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	222,592
California Preschool Instructional Network	84.173	14530	42,000
ARRA: Rehabilitation Grants to States	84.390A	1	27,085

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
ARRA: Basic Local Assistance Entitlement	84.391	15003	1,101,139
Private School ISPs	84.391	10123	3,660
Entitlement	84.391	15002	230,647
ARRA: IDEA Part B, Section 619, Preschool Grants	84.392	15000	72,768
Title III-Bilingual Education Discretionary Grants	84.290	10008	169,964
Vocational Programs (Carl Perkins Act):			
Vocational and Applied Sex Bias	84.048	13923	12,024
Vocational and Applied Tech Secondary	84.048	13924	108,767
ARRA: State Fiscal Stabilization Fund	84.394	25008	4,035,157
Education Jobs Fund	84.410	25152	39,704
Subtotal			<u>31,492,753</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Child Development Act:			
ARRA - Quality Improvement	93.713	15011	34,211
Head Start	93.600	10016	6,171,346
Medi-Cal Billing Option	93.778	10013	451,137
Subtotal			<u>6,656,694</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child Nutrition Act:			
National School Lunch Program	10.555	13396	4,413,262
National School Breakfast	10.553	13390	557
Meal Supplements	10.553	13390	452,936
Especially Needy Breakfast	10.553	13526	1,273,212
Child and Adult Care Food Program	10.558	23165	212,023
Fresh Fruits and Vegetables	10.558	14968	133,012
Commodity grants at fair market value	10.555	13396	281,797
Subtotal			<u>6,766,799</u>
Total Expenditures of Federal Awards			<u>\$ 44,916,246</u>

¹ Pass-Through Entity Identifying Number not available

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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>
Willie Yahiro	President	2014
Doug Keegan	Vice President	2012
Sandra Nichols	Member	2012
Karen Osmundson	Member	2012
Leslie De Rose	Member	2014
Kim De Serpa	Member	2014
Jeff Ursino	Member	2014

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, 2011

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,435	1,436
First through third	4,236	4,237
Fourth through sixth	3,701	3,705
Seventh and eighth	2,401	2,402
Home and hospital	4	4
Special education	370	372
Total Elementary	12,147	12,157
SECONDARY		
Regular classes	4,399	4,355
Continuation education	176	176
Home and hospital	1	1
Community day schools	42	43
Special education	205	204
Total Secondary	4,823	4,779
Total K-12	16,970	16,936
CLASSES FOR ADULTS		
Adults in correctional facilities	43	45
Grand Total	17,012	16,980
CHARTER SCHOOL		
Classroom-Based	1,159	1,159
Non Classroom-Based	245	77
Total Charter School	1,405	1,236

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2010-2011 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,500	30,625	36,000	35,000	36,720	175	In Compliance
Grades 1 - 3							
Grade 1	31,500	30,625	50,400	49,000	49,190	175	In Compliance
Grade 2	31,500	40,833	50,400	49,000	49,375	175	In Compliance
Grade 3	31,500	40,833	50,400	49,000	49,375	175	In Compliance
Grades 4 - 6							
Grade 4	42,000	40,833	54,000	52,500	52,754	175	In Compliance
Grade 5	42,000	51,042	54,000	52,500	52,754	175	In Compliance
Grade 6	42,000	51,042	54,000	52,500	52,754	175	In Compliance
Grades 7 - 8							
Grade 7	52,500	51,042	54,000	52,500	52,811	175	In Compliance
Grade 8	52,500	51,042	54,000	52,500	52,811	175	In Compliance
Grades 9 - 12							
Grade 9	59,500	57,847	64,800	63,000	63,192	175	In Compliance
Grade 10	59,500	57,847	64,800	63,000	63,192	175	In Compliance
Grade 11	59,500	57,847	64,800	63,000	63,192	175	In Compliance
Grade 12	59,500	57,847	64,800	63,000	63,192	175	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, 2011**

There were no adjustments to the Unaudited Financial Report, which require reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND ⁶				
Revenues	\$ 167,661,720	\$ 170,530,502	\$ 170,059,333	\$ 181,730,519
Other sources and transfers in	550,000	546,279	10,894	526,801
Total Revenues and Other Sources	168,211,720	171,076,781	170,070,227	182,257,320
Expenditures	167,773,774	161,403,134	160,386,072	174,879,932
Other uses and transfers out	628,823	691,927	3,656,980	693,088
Total Expenditures and Other Uses	168,402,597	162,095,061	164,043,052	175,573,020
INCREASE (DECREASE) IN FUND BALANCE	\$ (190,877)	\$ 8,981,720	\$ 6,027,175	\$ 6,684,300
ENDING FUND BALANCE	\$ 38,155,518	\$ 38,346,395	\$ 29,364,675	\$ 23,337,500
AVAILABLE RESERVES ^{2,5}	\$ 29,632,774	\$ 29,494,310	\$ 18,548,483	\$ 10,897,095
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	17.60%	18.20%	11.31%	6.33%
LONG-TERM DEBT	\$ 80,358,047	\$ 84,996,289	\$ 79,222,113	\$ 79,195,939
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	16,964	16,970	16,841	17,063

The General Fund balance has increased by \$15,008,895 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$190,877. 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 three operating surpluses in the past three years, but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have increased by \$5,800,350 over the past two years.

Average daily attendance has decreased by 93 over the past two years. Decline of 6 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On-behalf payments of \$3,053,855, \$3,220,581, and \$3,514,843, in the General Fund have been excluded from the revenues and expenditures for fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ Excludes Adult Education and Charter Schools ADA.

⁵ 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 2010 fiscal year.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2011

<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, 2011

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund balance, beginning	\$ 345,693	\$ 78,270	\$ 748,993	\$ 1,550,904	\$ (64,904)	\$ 2,658,956
Revenues	1,483,149	1,674,907	1,654,178	3,951,992	609,969	9,374,195
Expenditures	(1,383,174)	(1,463,379)	(1,568,067)	(4,144,436)	(620,903)	(9,179,959)
Fund balance, ending	<u>\$ 445,668</u>	<u>\$ 289,798</u>	<u>\$ 835,104</u>	<u>\$ 1,358,460</u>	<u>\$ (75,838)</u>	<u>\$ 2,853,192</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, 2011**

Grantor/Program	Revenue	Expenditures
First 5 Monterey	\$ 112,006	\$ 112,006

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2011

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 940,784	\$ 1,535,899	\$ 512,059	\$ -
Receivables	2,130,042	25,876	428,892	1,713,854
Prepaid expenses	-	-	-	1,134
Stores inventories	-	-	-	281,797
Total Assets	\$ 3,070,826	\$ 1,561,775	\$ 940,951	\$ 1,996,785
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ -	\$ 187,982
Accounts payable	217,634	54,554	547,430	59,653
Deferred revenue	-	51,406	344,375	-
Total Liabilities	217,634	105,960	891,805	247,635
Fund Balances:				
Nonspendable	-	-	-	282,931
Restricted	2,853,192	-	49,146	1,466,219
Committed	-	1,455,815	-	-
Total Fund Balances	2,853,192	1,455,815	49,146	1,749,150
Total Liabilities and Fund Balances	\$ 3,070,826	\$ 1,561,775	\$ 940,951	\$ 1,996,785

See accompanying note to supplementary information

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 3,777,466	\$ 383,530	\$ 273,363	\$ 76,332	\$ 2,768,564	\$ -	\$ 10,267,997
-	-	-	-	-	-	4,298,664
-	-	-	-	-	-	1,134
-	-	-	-	-	-	281,797
<u>\$ 3,777,466</u>	<u>\$ 383,530</u>	<u>\$ 273,363</u>	<u>\$ 76,332</u>	<u>\$ 2,768,564</u>	<u>\$ -</u>	<u>\$ 14,849,592</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 187,982
7,420	110,492	13,551	3,713	-	-	1,014,447
-	-	-	-	-	-	395,781
<u>7,420</u>	<u>110,492</u>	<u>13,551</u>	<u>3,713</u>	<u>-</u>	<u>-</u>	<u>1,598,210</u>
-	-	-	-	-	-	282,931
-	273,038	259,812	72,619	2,768,564	-	7,742,590
3,770,046	-	-	-	-	-	5,225,861
<u>3,770,046</u>	<u>273,038</u>	<u>259,812</u>	<u>72,619</u>	<u>2,768,564</u>	<u>-</u>	<u>13,251,382</u>
<u>\$ 3,777,466</u>	<u>\$ 383,530</u>	<u>\$ 273,363</u>	<u>\$ 76,332</u>	<u>\$ 2,768,564</u>	<u>\$ -</u>	<u>\$ 14,849,592</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, 2011

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 7,110,430	\$ -	\$ -	\$ -
Federal sources	-	191,768	6,214,799	6,485,002
Other State sources	1,853,653	1,889,722	3,294,678	587,722
Other local sources	50,050	277,658	490,255	798,082
Total Revenues	<u>9,014,133</u>	<u>2,359,148</u>	<u>9,999,732</u>	<u>7,870,806</u>
EXPENDITURES				
Current				
Instruction	5,818,020	1,347,798	6,251,542	-
Instruction-related activities:				
Supervision of instruction	68,808	249,909	1,917,103	-
Instructional library, media, and technology	154,621	45,965	137,418	-
School site administration	2,865,231	531,786	75,660	-
Pupil services:				
Food services	-	-	16,644	6,945,375
All other pupil services	2,275	3,346	802,037	-
Administration:				
All other administration	4,162	67,409	354,019	248,127
Plant services	246,855	67,025	522,682	-
Facility acquisition and construction	-	-	41,695	3,758
Ancillary services	5,665	-	-	-
Debt service				
Principal	12,323	65,000	-	-
Interest and other	2,000	56,714	-	-
Total Expenditures	<u>9,179,960</u>	<u>2,434,952</u>	<u>10,118,800</u>	<u>7,197,260</u>
Excess (Deficiency) of				
Revenues Over Expenditures	<u>(165,827)</u>	<u>(75,804)</u>	<u>(119,068)</u>	<u>673,546</u>
Other Financing Sources (Uses)				
Transfers in	360,063	331,864	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	<u>360,063</u>	<u>331,864</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>194,236</u>	<u>256,060</u>	<u>(119,068)</u>	<u>673,546</u>
Fund Balance - Beginning	<u>2,658,956</u>	<u>1,199,755</u>	<u>168,214</u>	<u>1,075,604</u>
Fund Balance - Ending	<u>\$ 2,853,192</u>	<u>\$ 1,455,815</u>	<u>\$ 49,146</u>	<u>\$ 1,749,150</u>

See accompanying note to supplementary information

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,110,430
-	-	-	-	-	-	12,891,569
-	-	-	(244,419)	30,207	-	7,411,563
19,060	10,459	613,180	1,515	3,491,585	-	5,751,844
19,060	10,459	613,180	(242,904)	3,521,792	-	33,165,406
-	-	-	-	-	-	13,417,360
-	-	-	-	-	-	2,235,820
-	-	-	-	-	-	338,004
-	-	-	-	-	-	3,472,677
-	-	-	-	-	-	6,962,019
-	-	-	-	-	-	807,658
-	-	-	-	-	-	673,717
199,422	-	423,718	-	-	-	1,459,702
48,682	2,240,993	526,818	8,738	-	-	2,870,684
-	-	-	-	-	-	5,665
-	-	-	-	1,560,000	-	1,637,323
-	-	-	-	1,991,881	-	2,050,595
248,104	2,240,993	950,536	8,738	3,551,881	-	35,931,224
(229,044)	(2,230,534)	(337,356)	(251,642)	(30,089)	-	(2,765,818)
-	-	-	-	-	-	691,927
-	-	-	-	-	(31,045)	(31,045)
-	-	-	-	-	(31,045)	660,882
(229,044)	(2,230,534)	(337,356)	(251,642)	(30,089)	(31,045)	(2,104,936)
3,999,090	2,503,572	597,168	324,261	2,798,653	31,045	15,356,318
\$ 3,770,046	\$ 273,038	\$ 259,812	\$ 72,619	\$ 2,768,564	\$ -	\$ 13,251,382

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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 as of June 30, 2011. The unspent balances are reported as legally restricted ending fund balances within the General Fund.

Description	CFDA	
	Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 41,457,916
Add: Expenditures for State Fiscal Stabilization Funds in excess of amounts received	84.394	3,006,925
Add: Expenditures for Medi-Cal Billing in excess of amounts received	93.778	169,608
Add: Fair Market Value of Commodities not recorded in the financial statements	10.555	281,797
Total Schedule of Expenditures of Federal Awards		<u>\$ 44,916,246</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, 2011

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.

INDEPENDENT AUDITORS' REPORTS



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

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, 2011, which collectively comprise Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective 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 control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 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 finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Pajaro Valley Unified School District's response and, accordingly, express no opinion on the response.

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.

Vavrinch, Trine, Day & Co. LLP

Palo Alto, California
December 15, 2011



**INDEPENDENT AUDITORS' 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 Pajaro Valley Unified School District's compliance 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 Pajaro Valley Unified School District's major Federal programs for the year ended June 30, 2011. Pajaro Valley Unified School District's major Federal programs are identified in the summary of auditors' 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, 2011.

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 the 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 was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, 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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 15, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited Pajaro Valley Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Pajaro Valley Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. 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 are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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:

	Procedures in Audit Guide	Procedures Performed
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

	Procedures in Audit Guide	Procedures Performed
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

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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 15, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

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)	
Identification of major programs:	<u>No</u>

<u>84.010, 84.389-ARRA</u>	<u>Title I - Basic Grants (Includes ARRA)</u>
<u>84.394 - ARRA</u>	<u>State Fiscal Stabilization Funds-ARRA</u>
<u>84.027, 84.173, 84.391- ARRA, 84.392 - ARRA</u>	<u>Special Education (Includes ARRA)</u>
<u>84.287</u>	<u>Title IV-21st Century Community Centers Learning</u>
<u>93.600</u>	<u>Head Start</u>
<u>10.555, 10.553</u>	<u>National School Lunch Program</u>
<u>84.318, 84.386 - ARRA</u>	<u>Title II Enhanced Education Through Technology</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,347,487</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unqualified</u>
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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiencies that is 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

2011-1 Code - 30000

Criteria or Specific Requirements

Under GASB 10, "A liability for unpaid claims costs, including estimates of costs relating to incurred but not reported (IBNR) claims, should be accrued when insured events occur or, for claims-made policies, in the period in which the event that triggers coverage under the policy or participation contract occurs."

Condition

An estimate for the costs related to IBNR claims was not generated for the fiscal year ended June 30, 2011.

Effect

Although the District calculated a best guess estimate of the self-insurance liabilities, it is prudent to have the calculation done on a yearly basis to ensure that the amounts are reflective of the current claims liability.

Cause

The District did not contract an actuarial to perform the calculation.

Recommendation

The District needs to estimate the claims liability themselves on at least an annual basis, or contract out to an actuary to prepare the estimate at the end of the fiscal year, every year.

District Response

To provide a more accurate estimate, the District will work with an actuary on an annual basis to prepare the estimate for every fiscal year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

2011-2 Code - 30000

Criteria or Specific Requirements

The District is required to accrue sick and vacation time based on accurate information. In this case actual hours worked.

Condition

It was noted that a significant number of employees' time off for vacation was not properly reflected in the time accounting system of the District. In addition, the District has no cap on the number of vacation hours that can be accrued.

Effect

In general, this condition creates a significant out-year financial liability to the district. In addition, it allows employees to potentially receive more vacation and sick time than was actually earned, thereby damaging the integrity of the District's payroll and benefits system.

Cause

Some of the employees did not file their vacation requests with District Office and their supervisors did not ensure that these requests are properly filed with the District.

Recommendation

The District should consider the establishment of maximum caps for vacation accrual. Employees that hit the cap would be encouraged to use vacation to lower overall vacation liabilities throughout the District. This policy is in place in other school districts and public agencies. Finally, supervisors and managers must ensure that all employees reporting to them are filing their vacation request forms on time with the District. District leadership should establish appropriate controls and/or systems to make sure this is occurring.

District Response

The District will work with managers and principals to ensure that sufficient protocols are in place to properly track and record vacation and sick time. The District will analyze the possibility of establishing accrual maximums for District employees. However, this item is subject to collective bargaining agreements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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

2010-1 Code 30000

Internal Control

Finding

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.

Recommendation

We recommend that the District take the following actions:

- The ASB prepare revenue potential/sale analysis for fund raising events.
- 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.

Current Status

Implemented.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Awards Findings

None reported.

State Awards Findings

None reported.