



ANNUAL FINANCIAL REPORT

JUNE 30, 2002

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
OF SANTA CRUZ COUNTY
WATSONVILLE, CALIFORNIA
JUNE 30, 2002**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Carol Roberts	President	2004
Sandra Nichols	Vice President	2004
Roberto Garcia	Member	2002
Sharon Gray	Member	2002
Dan Hankemeier	Member	2004
Evelyn Volpa	Member	2002
Willie Yahiro	Member	2002

ADMINISTRATION

Dr. John Casey	Superintendent
Mr. Terry McHenry	Associate Superintendent, Business

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2002

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the District-Wide Statement of Activities	14
Statement of Net Assets – Proprietary Fund	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets	19
Notes to Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund	40
--	----

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	41
Schedule of Average Daily Attendance	43
Schedule of Instructional Time	44
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	45
Schedule of Financial Trends and Analysis	46
Note to Supplementary Information	47

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	50
Report on State Compliance	52

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	54
Financial Statement Findings	55
Federal Award Findings and Questioned Costs	57
State Award Findings and Questioned Costs	58
Summary of Schedule of Prior Audit Findings	59

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
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 District, as of and for the year ended June 30, 2002, 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*, prescribed by the State Controller. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2002, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on page 3 through 8 and budgetary comparison information on page 40 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 other 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, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinek Trine Jay & Co. LLP

San Jose, California
November 1, 2002

FINANCIAL SECTION

This page left blank intentionally.



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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

Management Discussion and Analysis

DISTRICT PROFILE

The Pajaro Valley Unified School District (PVUSD) was unified in 1964 under the laws of the State of California. The District operates under a locally-elected board of seven members and provides education to grades K-12 as mandated by state and federal agencies. The District operates 15 elementary, four middle schools, one junior high, two high schools, one adult education school, five charters and one continuation high school. The District serves nearly 19,000 K-12 students plus adult education. The District includes all of Aptos and Watsonville, California, covering portions of both Santa Cruz and North Monterey County.

FINANCIAL HIGHLIGHTS/2002 RESULTS OF OPERATIONS

The District's General Fund revenues exceeded expenditures by \$692,366, resulting in an ending fund balance of \$12,038,377. Of this amount \$4,427,499 is the required 3% reserve with an additional \$1,952,405 in available reserves.

Revenue Limit:

In fiscal year 2001/2002 the District's Revenue Limit increased \$4,889,678 due to:

- A Cost of Living Allowance (COLA) of 3.87% - \$3,294,572
- An increase in ADA, primarily for Watsonville Charter School of the Arts - \$214,006
- Equalization aid - \$170,000
- Community Day School - \$78,620
- Prior year adjustment to 00-01 which had reduced that year's carryover - \$559,389
- Increase in hourly program revenues - \$460,641
- Other - \$112,450

Compensation Costs

In fiscal year 2001/2002, the District had an increase in total compensation paid to employees over the prior year of 5,993,286. This is a result of step and column increases, increases in health and welfare costs, increased grant dollars to help support after-school programs and underachieving schools and an increase in hourly program costs due to increased usage.

Fund Balance and Available Reserves

Available reserves decreased by \$159,000 over fiscal year 2000/2001. The District has specifically designated fund balances for unrestricted monies in fiscal year 2001/2002 that were carried over but not specifically designated in the software package in 2000/2001. It is the current policy of the District to

allow school sites to carryover balances of some unrestricted dollars that were specifically awarded to sites for improved performance such as "Governor's Performance Awards", "School Site Block Grants" and site discretionary amounts. These balances (\$864K) have been specifically designated and are not considered a component of the available reserve amount. In addition, in 2001/2002, all Charter School revenue limit carryover balances (\$908.5K), Class Size Reduction carryovers (\$296K), and Lottery balances (\$87K), have been designated as well.

Outlook for the Future:

School District revenues are largely determined by the number of students attending class, known as average daily attendance (ADA). In addition, revenue limit sources are subject to State of California budget constraints. The much publicized State budget is likely to have a negative impact on funding for public education and, hence, our operating budget. At the time of the writing of this Management Discussion and Analysis, the Governor has proposed possible reductions in education revenues. As a result of this information, the District will be monitoring State budget developments intently over the next several months to adjust its expenditure plan accordingly.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary fund* statements offer financial information about the activities the District operates on a cost reimbursement basis, such as the self-insurance fund.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the District-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's general fund budget, both the adopted and final version, with year-end actual results.

District-wide Statements

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

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional factors such as the economy of the State, and, hence, the State's budget, the local economy, which could impact student enrollment and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide reconciliations between the Governmental Funds statements and the District-wide statements that explain the relationships (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements, i.e., using full accrual accounting. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the employee self-insurance fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the private purpose trust and student funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets

belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Our original adopted budget projected an ending fund balance of \$8,395,018 and our final budget projected an ending balance of \$9,284,047. Our actual ending balance at year-end was \$12,038,377, a positive variance of \$2,754,330 from our final budget. Final budgeted revenues exceeded actual revenues by \$3.65 million while actual expenditures were \$5.9 million less than budgeted.

Significant Differences in Revenues:

In our final budget revenues were budgeted at \$151,170,520, however actual revenues were \$147,519,171. The variance, \$3,651,349, is primarily due to the accounting for grant funds. While we actually received \$151,213,923, in accounting for grant funds, revenue not spent is reclassified to deferred revenue for use in the following fiscal year.

In addition, other financing uses was \$671,182 higher than budgeted. This is due to booking the setup for recording the lease purchase of the Special Education buses. In essence, the income and expense cancel each other out in the accounting for the lease set up.

Significant Negative Expenditure Balances:

Transportation: The accounting for the Lease Purchase was recorded into the financial system resulting in an increase in revenue and expense, which offset each other. In addition, the District renegotiated the payment schedule for the new buses with the financing corporation and issued payment for an additional year in fiscal year 01-02, thereby eliminating the payment due in 02-03.

CAPITAL ASSET AND DEBT ADMINISTRATION

The District entered into a capital lease for Special Education buses. The total amount of additional debt is \$751,376, and will be repaid annually at a rate of \$150,275.

In addition, the District finalized the purchase of the land for the new Pajaro Valley High School, at a cost of \$1,875,000. The State funding received for this project, which will span multiple years, is \$45,240,570.

Also, the District filed Notices of Completion to the Office of Public Schools Construction for four modernization projects (Salsipuedes, Bradley, Amesti and Aptos Junior High) and our new Elementary School (Ann Soldo) for the following costs respectively:

- Salsipuedes \$ 483,878
- Bradley \$ 176,329
- Amesti \$ 240,622
- Aptos Jr \$ 518,531
- Ann Soldo \$10,258,111

All of the projects were funded with State funds with the exception of Ann Soldo, which was funded with both State funds and Certificates of Participation.

The District will fund the remainder of the high school project with State funds and plans to complete four additional modernization projects by the end of 2002/2003. These projects are all funded with State construction funds.

Long-term Debt:

The District's long-term debt totals \$17,131,739 at June 30, 2002. Of this amount, \$725,931 is considered to be due in the next fiscal year. This is made up of the following:

	<u>2002</u>	<u>2001</u>
Compensated Absences (vacation)	1,116,299	1,113,266
Certificate of Participation	12,825,000	13,000,000
Capital Leases	1,559,820	1,413,445
Energy Service Contract	1,630,620	1,811,800
Land Purchase Note Payable		21,155

Long-term debt excludes the District's obligation for post-employment benefits to retired employees. See Note 10 to the accompanying financial statements. These costs are currently recorded on a pay as you go basis. The approximate amount of future payments due for existing retired employees at current benefit rates is \$4.5 million. \$611,316 was spent on post-employment benefits for fiscal year 2001-2002.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's enrollment has stabilized and is expected to remain relatively constant over the next five years. The District's revenue limit is expected to only increase or decrease with changes in the State COLA or with the receipt of additional equalization aid.

The District has adopted a three-year agreement with both bargaining units covering the 2001-2002 through 2003-2004 fiscal years. This includes a 2% salary increase in 2002-2003 and a 4% in 2003-2004. Part of this increase is covered by a reduction in health and welfare benefits, with the remainder covered with budget reductions.

The State is experiencing a severe financial crisis and anticipates reducing educational funding. Some of that reduction could come in early 2003 with more in the 2003-2004 fiscal year. The District is

financially sound but may have to make program and personnel reductions, as necessary, to maintain fiscal stability if the State makes any significant reductions in anticipated revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Terry McHenry Associate Superintendent, Business
294 Green Valley Road, Watsonville, CA 95076

Mary Hart, Director of Fiscal Services
294 Green Valley Road, Watsonville, CA 95076

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

Assets	Governmental Activities
Cash and cash equivalents	\$ 1,665,902
Investments	58,042,125
Receivables	11,822,633
Prepaid expenses	95,425
Stores inventories	346,000
Capital assets	121,342,909
Less: Accumulated depreciation	(34,870,412)
Total assets	\$ 158,444,582
Liabilities	
Accounts payable	\$ 7,002,698
Deferred revenue	45,588,485
Claims Liability	2,162,030
Current portion of long-term obligations	725,931
Noncurrent portion of long-term obligations	16,405,808
Total liabilities	71,884,952
Net Assets	
Invested in capital assets, net of related debt	70,457,057
Restricted for:	
Debt service	31,023
Capital projects	2,579,422
Educational programs	3,284,983
Other activities	736,805
Self insurance	1,710,795
Other reservations and designations	2,597,572
Unrestricted	5,161,973
Total net assets	\$ 86,559,630

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, 2002

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:					
Instruction	\$ 90,436,449	\$ 2,473,496	\$ 30,332,747	\$ 8,044,920	\$ (49,585,286)
Instruction related activities:					
Supervision of instruction	6,757,532	247,496	4,998,105	-	(1,511,931)
Instructional library, media and technology	2,132,885	5,433	852,542	-	(1,274,910)
School site administration	15,574,256	182,881	4,427,473	-	(10,963,902)
Pupil services:					
Home-to-school transportation	5,619,944	-	4,579,531	-	(1,040,413)
Food services	5,069,323	809,682	4,130,855	-	(128,786)
All other pupil services	8,772,716	234,658	2,652,684	-	(5,885,374)
General administration:					
Data processing	1,127,981	782	67,073	-	(1,060,126)
All other general administration	8,273,930	151,089	2,967,387	-	(5,155,454)
Plant services	13,235,943	7,027	497,550	-	(12,731,366)
Facility acquisition and construction	796,135	8,596	948,916	-	161,377
Ancillary services	1,197,114	77,530	417,830	-	(701,754)
Community services	420	67	343	-	(10)
Interest on long-term debt	328,392	-	-	-	(328,392)
Other (outgo)	4,684,738	6,598	356,194	-	(4,321,946)
Depreciation (unallocated)	4,518,238	-	-	-	(4,518,238)
Total governmental-type activities	168,525,996	4,205,335	57,229,230	8,044,920	(99,046,511)
General revenues and subventions:					
Property taxes, levied for general purposes					45,194,363
Property taxes, levied for debt service					27
Federal and State aid not restricted to specific purposes					53,703,958
Interest and investment earnings					1,353,639
Miscellaneous					4,331,688
Subtotal, general revenues					104,583,675
Excess (deficiency) of revenues over expenses before transfers					5,537,164
Transfers					2,800,861
Total general revenues and transfers					8,338,025
Changes in net assets					8,338,025
Net assets - beginning					78,221,605
Net assets - ending					<u>\$ 86,559,630</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS AS OF JUNE 30, 2002

	General Fund	County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 419,343	\$ -	\$ 27,429	\$ 446,772
Investments	9,884,202	45,180,794	2,076,584	57,141,580
Receivables	8,675,402	454	1,722,941	10,398,797
Due from other funds	2,199,213	268,004	417,561	2,884,778
Prepaid expenses	-	-	95,425	95,425
Stores inventories	217,343	-	128,657	346,000
Total assets	\$ 21,395,503	\$ 45,449,252	\$ 4,468,597	\$ 71,313,352
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,911,664	\$ 962,761	\$ 945,925	\$ 5,820,350
Due to other funds	1,750,710	672,014	1,872,084	4,294,808
Deferred revenue	3,694,752	41,258,898	634,835	45,588,485
Total liabilities	9,357,126	42,893,673	3,452,844	55,703,643
Fund Balances:				
Reserved for:				
Stores inventories	217,343	-	128,657	346,000
Other reservations	3,284,983	-	95,425	3,380,408
Unreserved:				
Designated	2,156,147	-	-	2,156,147
Undesignated, reported in:				
General fund	6,379,904	-	-	6,379,904
Special revenue funds	-	-	736,805	736,805
Debt service funds	-	-	31,023	31,023
Capital projects funds	-	2,555,579	23,843	2,579,422
Total fund balance	12,038,377	2,555,579	1,015,753	15,609,709
Total liabilities and fund balances	\$ 21,395,503	\$ 45,449,252	\$ 4,468,597	\$ 71,313,352

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH STATEMENT OF NET ASSETS
JUNE 30, 2002**

**Amounts reported for governmental activities in the statement of net-
assets are different because:**

Total fund balance - governmental funds		\$ 15,609,709
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	\$ 121,342,909	
Accumulated depreciation is	(34,870,412)	86,472,497
The assets and liabilities of the internal service fund are included with governmental activities.		1,710,795
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:		
Certificates of Participation	12,825,000	
Accrued interest on the Certificates of Participation	101,632	
Capital leases payable	3,190,440	
Compensated absences (vacations)	1,116,299	(17,233,371)
Total net assets-governmental activities		\$ 86,559,630

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS AS OF JUNE 30, 2002

	General Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Revenue limit sources	\$ 88,545,256	\$ -	\$ 2,058,120	\$ 90,603,376
Federal sources	15,087,589	-	8,916,097	24,003,686
Other state sources	38,437,331	8,027,433	2,899,974	49,364,738
Other local sources	5,448,995	1,065,026	3,380,400	9,894,421
TOTAL REVENUES	147,519,171	9,092,459	17,254,591	173,866,221
Expenditures				
Current				
Instruction	84,197,901	-	6,238,548	90,436,449
Instruction related activities:				
Supervision of instruction	6,050,822	-	706,710	6,757,532
Instructional library, media and technology	2,061,635	-	71,250	2,132,885
School site administration	14,607,875	-	966,381	15,574,256
Pupil Services:				
Home-to school transportation	5,619,944	-	-	5,619,944
Food services	-	-	5,069,323	5,069,323
All other pupil services	8,380,246	-	392,470	8,772,716
General administration:				
Data processing	1,127,981	-	-	1,127,981
All other general administration	6,826,961	-	1,380,248	8,207,209
Plant services	11,833,950	(2)	1,401,995	13,235,943
Facility acquisition and construction	983,637	7,553,542	1,563,782	10,100,961
Ancillary services	1,197,114	-	-	1,197,114
Community services	-	-	420	420
Other outgo	2,843,940	-	-	2,843,940
Debt service				
Principal	809,385	-	81,323	890,708
Interest and other	171,546	-	55,214	226,760
TOTAL EXPENDITURES	146,712,937	7,553,540	17,927,664	172,194,141
Excess (deficiency) of revenues over expenditures	806,234	1,538,919	(673,073)	1,672,080
Other Financing Sources (Uses):				
Transfers in	50,000	-	870,399	920,399
Other sources	706,531	-	-	706,531
Transfers out	(870,399)	-	-	(870,399)
NET FINANCING SOURCES (USES)	(113,868)	-	870,399	756,531
NET CHANGE IN FUND BALANCES	692,366	1,538,919	197,326	2,428,611
Fund Balance - Beginning	11,346,011	1,016,660	818,427	13,181,098
Fund Balance - Ending	\$ 12,038,377	\$ 2,555,579	\$ 1,015,753	\$ 15,609,709

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN IN FUND BALANCE WITH THE DISTRICT – WIDE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2002

Amounts reported for governmental activities in the statement of net-
assets are different because:

Total fund balance - governmental funds		\$ 2,428,611
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities those costs are capitalized in the statement of net assets as property and equipment and this cost is allocated over the estimated useful life of the asset as depreciation expense in the statement of activities. This is the amount by which capitalized capital outlays exceed depreciation in the period.		
Capitalized capital outlays	\$ 9,304,826	
Depreciation expense	<u>(4,518,238)</u>	4,786,588
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		
		(659,748)
In the statement of activities, certain operating expenses - 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 amounts earned by \$3,033		
		(3,033)
Repayment of Certificates of Participation principal 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.		
		175,000
Repayment of Capital Leases is an expenditure in the governmental funds, but reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.		
		513,373
Other long term debt payments are an expenditure in the governmental funds, but reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.		
		202,335
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The additional interest expense accrual reported in the Statement of Activities is the result of this difference.		
		(101,632)
An internal service fund is used by the District's management to charge the costs of the employment insurance program to the individual funds. The net income of the internal service fund is not reported in the governmental funds, but is reported in the statement of activities.		
		<u>996,531</u>
Change in net assets of governmental activities		<u>\$ 8,338,025</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Activities: Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,219,130
Investments	900,545
Receivables	1,423,836
Due from other funds	480,388
Total assets	\$ 4,023,899
 LIABILITIES	
Current liabilities:	
Accounts payable	\$ 95,579
Due to other funds	55,495
Claim Liabilities	2,162,030
Total current liabilities	2,313,104
 NET ASSETS	 \$ 1,710,795

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Activities: Internal Service Fund
Operating revenues:	
Interfund premiums	\$ 21,259,492
Operating expenses:	
Payroll costs	63,688
Professional services and claims payments	20,188,826
Total operating expenses	<u>20,252,514</u>
Operating income	1,006,978
Nonoperating revenues	
Interest income	39,553
Transfers out	(50,000)
Total Nonoperating revenues	<u>(10,447)</u>
Change in net assets	996,531
Total net assets - Beginning	<u>714,264</u>
Total net assets - Ending	<u><u>\$ 1,710,795</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

**Governmental
Activities:
Internal
Service Fund**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from user charges	\$ 20,255,268
Cash payments to employees for services	(63,688)
Cash payments for insurance claims	(20,061,694)
Net cash provided by operating activities	<u>129,886</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	39,553
Transfers out	(50,000)
Net cash used for investing activities	<u>(10,447)</u>
Net increase in cash and cash equivalents	119,439
Cash and cash equivalents - Beginning	2,000,236
Cash and cash equivalents - Ending	<u>\$ 2,119,675</u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 1,006,978
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	(523,836)
Due from other fund	(480,388)
Accrued liabilities	74,100
Due to other fund	53,032
Net cash provided by operating activities	<u>\$ 129,886</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2002**

	Private- Purpose Trust	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 581,835
Investments	2,710,226	-
Due from other funds	985,137	-
Total assets	<u>3,695,363</u>	<u>\$ 581,835</u>
LIABILITIES		
Accounts payable	\$ 214,915	\$ -
Due to student groups	-	581,835
Total liabilities	<u>214,915</u>	<u>\$ 581,835</u>
NET ASSETS		
Unreserved	3,480,448	
Total Net Assets	<u>\$ 3,480,448</u>	

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002**

	Private- Purpose Trust
ADDITIONS	
Private donations	\$ 87,268
District contributions	996,495
Interest	106,583
Total additions	<u>1,190,346</u>
DEDUCTIONS	
Other expenditures	900,427
Scholarships awarded	145,441
Total deductions	<u>1,045,868</u>
Change in net assets	144,478
Net Assets - Beginning	3,335,970
Net Assets - Ending	<u><u>\$ 3,480,448</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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 fifteen elementary, four middle, one junior high, two high schools, an adult education school, three 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.

Charter Schools 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 blended in the general fund. The District receives revenue on behalf of all Charter Schools which it then passes on to them.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with the School Excess Liability Fund public entity risk pool. The organization do not meet the criteria for inclusion as component unit of the District. Summarized audited financial information is presented in Note 14 to the financial statements.

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 is for a period of ten years whereby PVPAA shall operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation by PVPAA.

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

County School Facilities Fund The county school facilities fund is a capital projects fund that received state funding to be used for the acquisition, construction, or improvement of major capital facilities.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund The internal service 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 a self insurance program that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and 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 has one trust fund, the private purpose Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting--Measurement Focus

Government-Wide Financial Statements The government-wide 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 segment of the business-type activities of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. 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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

or business segment is self-financing or draws from the general revenues of the District.

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 purposes 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 enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented as a separate financial statement.

Governmental Funds All governmental funds are accounted for using a 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 statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a 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.

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. For the District, available means expected to be received within 90 days of fiscal year-end.

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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Under the modified accrual basis, 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.

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

Certain grants received 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. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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, 2002 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.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. 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. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$25,000. 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.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 years; improvements/infrastructure, 20 years; equipment, 10 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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the entire amount of compensated absences is not reported as a fund liability.

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 school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the enterprise fund are reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

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

Fund Balance Reserves and Designations

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

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

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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

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

Interfund Activity

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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 on the financial statements.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 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.

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 Santa Cruz bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2002, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures". As a result, the financial statements for the first time include 1) A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and, results of operations, 2) Financial Statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized 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.

Cash

Cash at June 30, 2002, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 465,272	\$ 1,227,862	\$ 1,693,134
Cash in revolving fund	57,569	-	57,569
Total	<u>\$ 522,841</u>	<u>\$ 1,227,862</u>	<u>\$ 1,750,703</u>

	Governmental Carrying Amount	Proprietary Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 43,742	\$ 1,127,986	\$ 581,835	\$ 1,753,563
Cash in revolving fund	85,000	-	-	85,000
Cash awaiting deposit	318,030	91,144	-	409,174
	<u>\$ 446,772</u>	<u>\$ 1,219,130</u>	<u>\$ 581,835</u>	<u>\$ 2,247,737</u>

*These categories are as follows:

Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances -
	Original	Final		Favorable (unfavorable) Final to Actual
Revenues:				
Revenue limit sources	\$ 88,695,459	\$ 88,431,599	\$ 88,545,256	\$ 113,657
Federal sources	13,575,041	17,719,132	15,087,589	(2,631,543)
Other state sources	34,318,730	39,065,678	38,437,331	(628,347)
Other local sources	4,754,246	5,954,111	5,448,995	(505,116)
Total revenues:	<u>141,343,476</u>	<u>151,170,520</u>	<u>147,519,171</u>	<u>(3,651,349)</u>
Expenditures				
Current				
Instruction	82,284,815	85,593,104	84,197,901	1,395,203
Instruction related activities:				
Supervision of instruction	5,442,302	7,729,136	6,050,822	1,678,314
Instructional library, media and technology	2,467,315	2,859,963	2,061,635	798,328
School site administration	15,072,385	15,596,085	14,607,875	988,210
Pupil services:				
Home-to-school transportation	4,687,047	4,879,226	5,619,944	(740,718)
All other pupil services	8,267,743	9,265,305	8,380,246	885,059
General Administration:				
Data processing	1,243,575	1,212,564	1,127,981	84,583
All other general administration	6,314,372	6,817,947	6,826,961	(9,014)
Plant services	12,180,249	12,235,156	11,833,950	401,206
Facility acquisition and construction	913,925	1,415,980	983,637	432,343
Ancillary services	1,348,967	1,176,694	1,197,114	(20,420)
Other outgo	2,426,626	2,856,176	2,843,940	12,236
Debt Service				
Interest	981,787	981,787	809,385	172,402
Capital outlay	-	-	171,546	(171,546)
TOTAL EXPENDITURES	<u>143,631,108</u>	<u>152,619,123</u>	<u>146,712,937</u>	<u>5,906,186</u>
Excess (deficiency) of revenues over expenditures	<u>(2,287,632)</u>	<u>(1,448,603)</u>	<u>806,234</u>	<u>2,254,837</u>
Other Financing Sources (Uses):				
Transfers in	-	50,000	50,000	-
Other sources	35,349	35,349	706,531	671,182
Transfers out	(698,710)	(698,710)	(870,399)	(171,689)
NET FINANCING SOURCES (USES)	<u>(663,361)</u>	<u>(613,361)</u>	<u>(113,868)</u>	<u>499,493</u>
NET CHANGE IN FUND BALANCES	<u>(2,950,993)</u>	<u>(2,061,964)</u>	<u>692,366</u>	<u>2,754,330</u>
Fund balance - Beginning	11,346,011	11,346,011	11,346,011	-
Fund balance - Ending	<u>\$ 8,395,018</u>	<u>\$ 9,284,047</u>	<u>\$ 12,038,377</u>	<u>\$ 2,754,330</u>

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

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/Program	Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Basic Education			
Base Grant	84.002	03055	65,233
Public Charter Schools	84.282	03150	284,535
Education Technology Literacy Grant	84.318x	03285	96,704
Elementary and Secondary Education Act			
Title I Part A - Grants to Local Educational Agencies			
Title I Comprehensive School Reform Demonstration (CSRD)	84.010	03797	3,927,965
Migrant Education Regular & Summer [1]	84.011	03966	470,797
Title II - Eisenhower Math and Science	84.011	03628	4,223,163
Title IV - Safe and Drug-Free Schools	84.281a	03207	208,736
Title VI - Class Size Reduction (CSR) [1]	84.186	03453	90,000
Title VI - Innovative Education Strategies	84.340	03966	631,034
Title VII - Bilingual Education Cluster: [1]	84.298	03340	179,425
Program Enhancement Grants	84.288	10008	173,346
Development & Implementation	84.291	10008	713,676
Comprehensive School Grants	84.290	10008	591,291
Emergency Immigrant Education	84.162	03159	234,000
21st Century Community Learning	84.287a	0000	434,766
Individuals with Disabilities Education Act			
Special Education Cluster : [1]			
Local Assistance	84.027	03379	1,914,497
Infant Discretionary	84.027a	03612	9,685
Personnel Development	84.027a	03613	11,553
Preschool Entitlement	84.027a	03682	193,535
Low Incidence	84.027	03459	10,659
Federal Preschool	84.173a	03430	184,692
Preschool - Staff Development	84.173a	03431	2,660
IDEA Preschool Capacity Building	84.173a	03839	12,395

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/Program	Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Vocational and Applied Technology Education			
Act - Carl D. Perkins			
Secondary Education	84.048	03923	\$ 176,802
Subtotal			<u>14,841,148</u>
U.S. DEPARTMENT OF REHABILITATION			
Environmental Justice Grants	84.158	00006	<u>142,027</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster: [1]			
National School Lunch Program	10.555	03396	3,067,452
Basic School Breakfast Program	10.553	03390	23,910
Especially Needy Breakfast	10.553	03390	507,576
Child Care Food Program	10.558	03393	206,364
Commodity Fair Market Value [2]	10.550	03389	28,195
Subtotal			<u>3,833,497</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medical Administrative Assistance	93.778	10013	25,816
LEA Medi-Cal Billing Option	93.778	10013	143,830
Migrant Head Start	93.600	10016	5,045,562
Subtotal			<u>5,215,209</u>
Total Federal Programs			<u>\$24,031,881</u>

[1] Tested as a major program

[2] Excluded from the district's financial statements.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2002

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,359	1,353
First through third	4,106	4,082
Fourth through sixth	4,047	4,064
Seventh and eighth	2,582	2,603
Opportunity schools	27	26
Home and hospital	5	6
Special education	222	222
Community Education	11	12
Total Elementary	12,359	12,368
SECONDARY		
Regular classes	4,608	4,568
Continuation education	171	169
Home and hospital	8	9
Special education	130	130
Community Education	35	35
Total Secondary	4,952	4,911
Total K-12	17,311	17,279
CLASSES FOR ADULTS		
Concurrently enrolled	25	27
Not concurrently enrolled	857	918
Adults in correctional facilities	27	29
Total Classes for Adults	909	974
CHARTER SCHOOLS		
Elementary	1,029	1,030
Secondary	128	128
Total Charter Schools	1,157	1,158
Grand Total	19,377	19,411
		Hours of Attendance
SUMMER SCHOOL		
Elementary		498,055
High School		264,564
Total Hours		762,619

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2002

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	2001-02 Actual Minutes	Status
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 - 3	50,400	42,000	50,400	In Compliance
Grades 4 - 6	54,000	52,500	54,000	In Compliance
Grades 7 - 8	54,000	52,500	54,000	In Compliance
Grades 9 - 12	64,800	59,500	65,646	In Compliance

Grade Level	Number of Days		Status
	Traditional Calendar	Multitrack Calendar	
Kindergarten	180	174	In Compliance
Grades 1 - 3	180	174	In Compliance
Grades 4 - 6	180	174	In Compliance
Grades 7 - 8	180	174	In Compliance
Grades 9 - 12	180	174	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, 2002**

There were no adjustments to the Annual Financial and Budget Report Unaudited Actuals, which required reconciliation to the audited financial statements at June 30, 2002.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2002

	(Budget) 2003 ⁽¹⁾	2002	2001	2000
GENERAL FUND				
Revenues	\$ 149,383,568	\$ 147,519,171	\$ 141,565,041	\$ 121,653,329
Other sources	82,401	756,531	888,398	-
Total Revenues and Other Sources	149,465,969	148,275,702	142,453,439	121,653,329
Expenditures	150,422,861	146,712,937	139,251,209	122,889,830
Other uses and transfers out	710,070	870,399	604,675	1,719,913
Total Expenditures and Other Uses	151,132,931	147,583,336	139,855,884	124,609,743
INCREASE/(DECREASE) IN FUND BALANCE	\$ (1,666,962)	\$ 692,366	\$ 2,597,555	\$ (2,956,414)
ENDING FUND BALANCE	\$ 11,346,011	\$ 12,038,377	\$ 11,346,011	\$ 8,748,456
AVAILABLE RESERVES ⁽²⁾	\$ 7,394,250 ⁽⁴⁾	\$ 6,379,904	\$ 6,538,123	\$ 4,732,924
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.9%	4.3%	4.7%	3.8%
LONG-TERM DEBT	\$ 16,405,808	\$ 17,131,739	\$ 21,234,427	\$ 17,548,336
AVERAGE DAILY ATTENDANCE AT P-2 ⁽³⁾	18,457	18,468	18,411	18,181

The general fund balance has increased by \$3,289,921 over the past two years. The fiscal year 2002-03 budget projects a decrease of \$1,666,962. 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 one operating deficit in one of the past three years, and anticipates incurring an operating deficit during the 2002-03 fiscal year. Total long-term debt has decreased by \$416,597 over the past two years.

Average daily attendance has increased by 287 over the past two years. An additional growth of 11 in ADA is anticipated during fiscal year 2002-03.

1 Budget 2003 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund.

3 Excludes Adult Education ADA.

4 Excludes designations for school site carryovers

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2002

NOTE #1 - PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. Schedule of Average Daily Attendance (ADA)

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

C. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The 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 46201 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 46200 through 46206.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

E. 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.

This page left blank intentionally.

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



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

Board of Trustees
Pajaro Valley Unified School District
Watsonville, California

We have audited the financial statements of Pajaro Valley Unified School District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pajaro Valley Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pajaro Valley Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as item 2002-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information and use of the Board of Education, 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.

Varinek Time Day & Co. LLP

San Jose, California
November 1, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Pajaro Valley Unified School District
Watsonville, California

Compliance

We have audited the compliance of Pajaro Valley Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. 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 on 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

Vannick Time Day & Co. LLP

San Jose, California
November 1, 2002



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Pajaro Valley Unified School District
 Watsonville, California

We have audited the financial statements of the Pajaro Valley Unified School District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 opinion.

The management of Pajaro Valley Unified School District is responsible for compliance with laws and regulations. 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 laws and regulations of the following items.

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	Yes
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational centers/programs	4	Not Applicable
Staff development days	3	Yes
Incentives for longer instructional day:		
School districts	3	Yes
County offices of education	3	Not Applicable
GANN limit calculation	2	Yes
Early retirement incentive program	5	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Community day schools	8	No
Class size reduction program:		
Option one classes	11	Yes
Option two classes	10	Not Applicable
Option one and two classes	16	Not Applicable
Reduce class size in two courses in grade 9	8	Yes
State Instructional Materials		
K-8	10	Yes
9-12	7	Yes
Schiff-Bustamante standards-based instructional materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public School Library Act of 1998	4	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform testing for Community Day Schools because the reported ADA is below the minimum threshold.

Based on our audit, we found that, for the items tested, the Pajaro Valley Unified School District complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Pajaro Valley Unified School District had not complied with the laws and regulations.

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

Vannink Trine Day & Co. LLP

San Jose, California
November 1, 2002

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:A4	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.011</u>	<u>Migrant Education Regular & Summer</u>
<u>84.340</u>	<u>Class Size Reduction</u>
<u>84.288, 84.290, 84.291</u>	<u>Bilingual Education Cluster</u>
<u>84.027, 84.173</u>	<u>Special Education Cluster</u>
<u>10.555, 10.553, 10.558</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 720,956</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2002

FINANCIAL STATEMENT FINDINGS

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government audit standards. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

ASSOCIATE STUDENT BODY-APTOS HIGH

2002-1 Finding (30000)

The Associated Student Body minutes could not be located for our review. Minutes of Associated Student body provide evidence of approvals of fund raising activities and major expenditures. Accordingly, we could not verify that all transactions had been properly approved. We did note that receipts for use of school sites were recorded as revenues to student organizations. These revenues should have been recorded in District accounts. Internal controls designed to prevent erroneous recording of transactions were not effective, either due to misunderstanding, carelessness, error, or management override.

We have also been informed by management that allegations have been made that revenues or expenditures may have been improperly recorded to student organizations rather than to the general associated student body account.

Recommendation

Associated Student Body minutes of meetings should record all major fund raising activities and expenditures and be maintained to support transactions for the audit. The site calendar of facilities use should be reconciled to fees collected to insure all fees are properly recorded to District accounts. Alternatively, the District should consider invoicing all facility use fees and reconciling to the site calendar centrally.

We concur with management's intention of investigating the allegations and modifying internal control procedures if necessary based on the investigation findings. Site personnel should be provided with additional training on the internal controls and compliance monitored by the Business Office throughout the year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

District Response

We agree with the findings and will contract with the auditors to investigate the allegations and recommend any changes in the system of internal controls that maybe necessary. The Business Office will provide training to all site personnel responsible for implementing the system of internal controls and will monitor compliance periodically during the year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL FINDINGS AND QUESTIONED COSTS

There were no findings that represent reportable conditions, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

STATE AWARDS FINDINGS AND QUESTIONED COSTS

There were no findings that represent instances of noncompliance and questioned costs relating to state program laws and regulations.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002**

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

All prior year recommendations have been implemented.