



ANNUAL FINANCIAL REPORT

JUNE 30, 2003

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
OF SANTA CRUZ COUNTY
WATSONVILLE, CALIFORNIA
JUNE 30, 2003**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Sandra Nichols	President	2004
Rhea De Hart	Vice President	2006
Evelyn Volpa	Member	2006
Carol Roberts	Member	2004
Dan Hankemeir	Member	2004
Willie Yahiro	Member	2006
Sharon Gray	Member	2006

ADMINISTRATION

Dr. Mary Anne Mays	Superintendent
Mr. Terry McHenry	Associate Superintendent, Business

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2003

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet Governmental Funds	10
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the District-Wide Statement of Activities	13
Statement of Net Assets – Proprietary Fund	14
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	15
Statement of Cash Flows – Proprietary Fund	16
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund	41
--	----

SUPPLEMENTARY INFORMATION

Non-Major Governmental Funds Balance Sheet	42
Non-Major Funds Statement of Revenues, Expenditures and Changes in Fund Balance	43
Schedule of Expenditures of Federal Awards	44
Schedule of Average Daily Attendance	46
Schedule of Instructional Time	47
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	48
Schedule of Financial Trends and Analysis	49
Note to Supplementary Information	50

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>	51
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	53
Report on State Compliance	55

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	57
Financial Statement Findings	58
Federal Award Findings and Questioned Costs	59
State Award Findings and Questioned Costs	60
Summary of Schedule of Prior Audit Findings	61

FINANCIAL SECTION

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 Pajaro Valley Unified School District (the District), as of and for the year ended June 30, 2003, 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 an opinion 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, 2003, 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 discussed in Note #18 to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2003, 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 7 and budgetary comparison information on page 41 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 an opinion 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, 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.

Varrinck Trine Jay & Co. LLP

San Jose, California
October 30, 2003



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/2003 RESULTS OF OPERATIONS

The District's General Fund revenues exceeded expenditures by \$1,252,431, resulting in an ending fund balance of \$11,975,343. Of this amount \$4,270,444 is the required 3% reserve with an additional \$4,613,497 in available reserves.

Revenue Limit:

In fiscal year 2002/2003 the District's Revenue Limit increased \$2,216,714. The increase is primarily due to the following factors:

- COLA increase offset by lower ADA of \$1,350,000.
- Hourly program revenue increase of \$750,000.

Compensation Costs

In fiscal year 2002/2003, the District had an increase in total employee compensation, including health and welfare benefits, over the prior year of \$4,514,699. The increase is due to a 2% salary increase and significant increases in benefit costs.

Fund Balance and Available Reserves

Available reserves increased by \$2,504,034 over fiscal year 2001/2002. Unrestricted operations contributed approximately \$1,625,000 to this increase. The balance results from the release of prior year designated fund balances. During the fiscal year 2002/2003 we implemented a freeze on spending due to Mid Year cuts from the State and the uncertainty of funding in the future years resulting in larger balances than normal. These balances include Governor's Performance Awards, "School Site Block Grants" and Site Discretionary Funds. The total unspent funds in these categories totaled \$995,697.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

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. Due to the reduction in revenue (no COLA and a 1.5% deficit) in fiscal year 2003/2004 and anticipating the same level of funding in 2004/2005, the District is being very conservative in its spending and has developed a Fiscal Stability Plan to enable it to meet the required 3% reserve and be solvent overall for the coming three years. The Fiscal Stability Plan has been approved by the Board and will be reflected in the Multi Year Projections performed in fiscal year 2003-2004.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

- 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 \$9,055,950 and our final budget projected an ending balance of \$8,637,048. Our actual ending balance at year-end was \$11,975,343, a positive variance of \$3,338,295 from our final budget. Actual revenues exceeded final budgeted revenues by \$3,183,313. Actual expenditures were \$14,451 greater than the final budgeted amounts. Other financing sources (uses) generated a positive variance of \$169,433 when comparing actuals to final budget.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

Significant Differences in Revenues:

Our final budget revenues and other sources were \$140,266,949, however actual revenues and other sources were \$143,600,573. The variance, \$3,333,624, is primarily due to higher categorical expenditures in grants than anticipated. In accounting for grant funds, revenue not spent is reclassified to deferred revenue for use in the following fiscal year. In our situation, more revenue was realized in the current year due to higher expenditures and less was deferred.

CAPITAL ASSET AND DEBT ADMINISTRATION

In 2002/2003 the District entered into a capital lease for Portable Housing at six school sites that in 2002/2003 were Year Round Schools but will be on traditional schedules in 2003/2004. These school sites included three elementary and 3 middle schools. The total amount of additional debt is \$270,973, and will be repaid annually at a rate of approximately \$30,000/year.

In addition, the District finalized the purchase of the land for two new elementary schools, at a cost of \$2.6 million for Radcliff and \$2.7 million for Landmark. The State funding for the construction of the schools will be released in 2003/2004.

Long-term Debt:

The District's long-term debt totals \$45,898,070 at June 30, 2003. Of this amount, \$356,455 is considered to be due in the next fiscal year. Long-term debt is made up of the following:

	2003	2002
Compensated Absences (vacation)	\$ 1,211,085	\$ 1,116,299
Certificate of Participation	1,630,000	12,825,000
Capital Leases	1,612,003	1,559,820
Energy Service Contract	1,449,440	1,630,620
General Obligation Bonds	39,995,542	-
Total	<u>\$45,898,070</u>	<u>\$17,131,739</u>

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 \$4.9 million. \$1,104,282 was spent on post-employment benefits for fiscal year 2002/2003.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's enrollment has stabilized and expected to remain relatively constant over the next five years. Significant housing development is in progress in several parts of the District which is expected to contribute to the stabilization of the elementary population. This is a short term burst of development and will not drive up the District enrollment past the next two to three 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2003

The District 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 offset by a reduction in health and welfare benefits, with the remainder covered with budget reductions. A total of 2% of that increase was not paid with the implementation of 4 furlough days for all employees which resulted in an estimated reduction of compensation of 2%.

The State is experiencing a severe financial crisis and has significantly reduced educational funding. The initial reduction was a mid-year cut in the middle of the 2002-2003 fiscal year. A major reduction was implemented in the 2003-2004 fiscal year where the equivalent of a 3% deficit was applied to revenue limit income. That low level is expected to continue into the 2004-2005 fiscal year resulting in an estimated 5% deficit in revenue limit income. The District has been financially sound but has been forced to make program and personnel reductions of over \$11.5 million to provide the required reserves over the next two years. This condition will become worse if the State makes further reductions or does not provide a normal COLA by the 2005-2006 fiscal year. The District has continued to maintain fiscal solvency but it has been at the cost of reduced program, staff and services for our students. No improvement is expected until the State gets it's fiscal house in order.

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 JUNE 30, 2003

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,076,018
Investments	77,953,633
Receivables	13,701,227
Prepaid expenses	264,876
Stores inventories	421,743
Capital assets	139,559,743
Less: Accumulated depreciation	(39,851,218)
Total assets	195,126,022
Liabilities	
Accounts payable	6,798,825
Deferred revenue	36,408,254
Claims Liability	2,355,164
Current portion of long-term obligations	356,455
Noncurrent portion of long-term obligations	45,541,615
Total liabilities	91,460,313
Net Assets	83,916,350
Invested in capital assets, net of related debt	
Restricted for:	
Debt service	142,423
Capital projects	3,746,572
Restricted programs	3,382,136
Special revenue	1,592,708
Self insurance	3,212,664
Unrestricted	7,672,856
Total net assets	\$ 103,665,709

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, 2003

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	\$ 90,706,009	\$ 160,668	\$ 33,074,032	\$ 15,271,604	\$ (42,199,705)
Instruction related activities:					
Supervision of instruction	7,877,487	138,012	6,463,990	-	(1,275,485)
Instructional library, media and technology	2,188,819	77	987,517	-	(1,201,225)
School site administration	16,020,403	21,119	5,333,403	-	(10,665,881)
Pupil services:					
Home-to-school transportation	5,091,955	65,539	2,902,868	-	(2,123,548)
Food services	5,564,414	1,636,468	3,810,431	-	(117,515)
All other pupil services	9,469,882	59,412	3,437,318	-	(5,973,152)
General administration:					
Data processing	1,197,896	4,401	33,030	-	(1,160,465)
All other general administration	6,221,482	105,871	2,688,160	-	(3,427,451)
Plant services	13,787,678	5,146	773,552	-	(13,008,980)
Facility acquisition and construction	(1)	54,653	896,666	-	951,320
Ancillary services	1,173,281	61,246	20,517	-	(1,091,518)
Community services	20,934	2,014	131	-	(18,789)
Interest on long-term debt	1,775,135	-	-	-	(1,775,135)
Other outgo	3,128,996	1,678,120	289,508	-	(1,161,368)
Depreciation (unallocated)	4,980,806	-	-	-	(4,980,806)
Total governmental-type activities	169,205,176	3,992,746	60,711,123	15,271,604	(89,229,703)
General revenues and subventions:					
Property taxes, levied for general purposes					49,118,233
Property taxes, levied for debt service					7
Taxes levied for other specific purposes					45,628
Federal and State aid not restricted to specific purposes					48,972,535
Interest and investment earnings					713,462
Transfers					3,046,026
Miscellaneous					4,439,891
Subtotal, general revenues					106,335,782
Total general revenues and transfers					
Changes in net assets					17,106,079
Net assets - beginning					86,559,630
Net assets - ending					\$ 103,665,709

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2003

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Cash and cash equivalents	\$ 344,916	\$ -	\$ 250,000
Investments	4,763,400	29,071,319	35,459,348
Receivables	11,681,874	-	-
Due from other funds	3,271,038	-	-
Prepaid expenses	150,275	-	-
Stores inventories	243,377	-	-
Total assets	<u>\$ 20,454,880</u>	<u>\$ 29,071,319</u>	<u>\$ 35,709,348</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,483,110	\$ 31,335	\$ 750,211
Due to other funds	631,754	145,174	88
Deferred revenue	3,364,673	-	32,711,722
Total liabilities	<u>8,479,537</u>	<u>176,509</u>	<u>33,462,021</u>
Fund Balances:			
Reserved for:			
Stores inventories	243,378	-	-
Other reservations	2,848,024	-	-
Unreserved:			
Undesignated, reported in:			
General fund	8,883,941	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	28,894,810	2,247,327
Total fund balance	<u>11,975,343</u>	<u>28,894,810</u>	<u>2,247,327</u>
Total liabilities and fund balances	<u>\$ 20,454,880</u>	<u>\$ 29,071,319</u>	<u>\$ 35,709,348</u>

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

Non Major Governmental Funds	Total Governmental Funds
\$ 1,072,775	\$ 1,667,691
4,493,215	73,787,282
2,019,353	13,701,227
618,161	3,889,199
92,368	242,643
178,366	421,743
<u>8,474,238</u>	<u>\$ 93,709,785</u>

\$ 1,160,335	\$ 6,424,991
3,084,210	3,861,226
331,859	36,408,254
<u>4,576,404</u>	<u>46,694,471</u>

178,366	421,744
112,368	2,960,392

-	8,883,941
1,592,708	1,592,708
515,147	515,147
1,499,245	32,641,382
<u>3,897,834</u>	<u>47,015,314</u>
<u>\$ 8,474,238</u>	<u>\$ 93,709,785</u>

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH STATEMENT OF NET ASSETS JUNE 30, 2003

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

Total fund balance - governmental funds		\$ 47,015,314
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	\$ 139,559,743	
Accumulated depreciation is	<u>(39,851,218)</u>	99,708,525
The assets and liabilities of the internal service fund are included with governmental activities.		3,212,664
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized as it accrues		(372,724)
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:		
General obligation bonds	39,995,542	
Certificates of participation	1,630,000	
Capital leases payable	3,061,443	
Compensated absences (vacations)	<u>1,211,085</u>	(45,898,070)
Total net assets-governmental activities		<u>\$ 103,665,709</u>

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 FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	County School Facilities Fund
Revenues			
Revenue limit sources	\$ 88,039,310	\$ -	\$ -
Federal sources	16,014,285	-	-
Other state sources	36,248,975	-	15,268,117
Other local sources	3,074,100	84,192	804,847
TOTAL REVENUES	<u>143,376,670</u>	<u>84,192</u>	<u>16,072,964</u>
Expenditures			
Current			
Instruction	79,709,059	-	-
Instruction related activities:			
Supervision of instruction	7,169,960	-	-
Instructional library, media and technology	2,044,110	-	-
School site administration	14,131,823	-	-
Pupil Services:			
Home-to school transportation	5,091,955	-	-
Food services	-	-	-
All other pupil services	8,951,058	-	-
General administration:			
Data processing	1,197,896	-	-
All other general administration	5,648,538	-	-
Plant services	11,639,950	-	-
Facility acquisition and construction	408,221	39,750	16,381,216
Ancillary services	1,173,280	-	-
Community services	20,934	-	-
Other outgo	3,128,996	-	-
Debt service			
Principal	632,161	11,000,000	-
Interest and other	591,055	715,486	-
TOTAL EXPENDITURES	<u>141,538,996</u>	<u>11,755,236</u>	<u>16,381,216</u>
Excess (deficiency) of revenues over expenditures	<u>1,837,674</u>	<u>(11,671,044)</u>	<u>(308,252)</u>
Other Financing Sources (Uses):			
Transfers in	197,366	-	-
Other sources	26,537	41,195,145	-
Transfers out	(809,146)	(629,291)	-
NET FINANCING SOURCES (USES)	<u>(585,243)</u>	<u>40,565,854</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>1,252,431</u>	<u>28,894,810</u>	<u>(308,252)</u>
Fund Balance - Beginning	12,038,377	-	2,555,579
Fund Equity - Transfer	(1,315,465)	-	-
Fund Balance - Ending	<u>\$ 11,975,343</u>	<u>\$ 28,894,810</u>	<u>\$ 2,247,327</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,780,780	\$ 92,820,090
9,302,639	25,316,924
3,596,521	55,113,613
7,786,276	11,749,415
<u>25,466,216</u>	<u>185,000,042</u>
10,996,950	90,706,009
707,527	7,877,487
144,709	2,188,819
1,888,580	16,020,403
-	5,091,955
5,564,414	5,564,414
518,824	9,469,882
-	1,197,896
1,909,738	7,558,276
2,192,520	13,832,470
1,342,854	18,172,041
1	1,173,281
-	20,934
-	3,128,996
-	11,632,161
197,502	1,504,043
<u>25,463,619</u>	<u>195,139,067</u>
<u>2,597</u>	<u>(10,139,025)</u>
1,293,263	1,490,629
272,948	41,494,630
(2,192)	(1,440,629)
<u>1,564,019</u>	<u>41,544,630</u>
1,566,616	31,405,605
1,015,753	15,609,709
1,315,465	-
<u>\$ 3,897,834</u>	<u>\$ 47,015,314</u>

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, 2003

Amounts reported for governmental activities in the statement of

activities are different because:

Net changes in fund balances - governmental funds

\$ 31,405,605

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
Depreciation expense

18,216,834
(4,980,806)

13,236,028

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.

(308,164)

Proceeds received from general obligation bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(39,995,542)

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 \$94,786

(94,786)

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.

11,195,000

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.

255,981

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.

181,180

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.

(271,092)

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.

1,501,869

Change in net assets of governmental activities

\$ 17,106,079

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2003**

	Governmental Activities: Internal Service Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,408,327
Investments	4,166,351
Due from other funds	22,030
Prepaid expense	22,233
Total assets	5,618,941
LIABILITIES	
Current liabilities:	
Accounts payable	1,110
Due to other funds	50,003
Claim liabilities	2,355,164
Total current liabilities	2,406,277
NET ASSETS	\$ 3,212,664

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, 2003**

	Governmental Activities: Internal Service Fund
Operating revenues:	
Interfund premiums	\$ 22,404,715
Total operating revenues	<u>22,404,715</u>
Operating expenses:	
Payroll costs	84,251
Professional services and claims payments	20,817,365
Supplies and materials	2,320
Total operating expenses	<u>20,903,936</u>
Operating income	<u>1,500,779</u>
Nonoperating revenues	
Interest income	51,090
Transfers out	(50,000)
Total Nonoperating revenues	<u>1,090</u>
Change in net assets	<u>1,501,869</u>
Total net assets - Beginning	<u>1,710,795</u>
Total net assets - Ending	<u><u>\$ 3,212,664</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, 2003**

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 24,264,676
Cash payments for insurance claims	(20,724,192)
Cash payments to suppliers for goods and services	(2,320)
Cash payments for other operating expenses	(84,251)
Net cash provided by operating activities	<u>3,453,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Transfers out	(50,000)
Interest on investments	51,090
Net cash provided by investing activities	<u>1,090</u>
Net increase in cash and cash equivalents	3,455,003
Cash and cash equivalents - Beginning	2,119,675
Cash and cash equivalents - Ending	<u>\$ 5,574,678</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,500,779
Changes in assets and liabilities:	
Receivables	1,423,836
Due From other Funds	458,358
Prepaid Expenses	(22,233)
Account Payable	(94,469)
Claims Liability	193,134
Due To Other Funds	(5,492)
Net cash provided by operating activities	<u>\$ 3,453,913</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS JUNE 30, 2003

	Retiree Benefits Trust	Other Private- Purpose Trust	Agency Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 601,071
Investments	2,306,911	1,425,456	-
Total assets	<u>\$ 2,306,911</u>	<u>\$ 1,425,456</u>	<u>\$ 601,071</u>
LIABILITIES			
Accounts payable	\$ -	\$ 177,410	\$ -
Due to student groups	-	-	601,071
Total liabilities	<u>-</u>	<u>177,410</u>	<u>\$ 601,071</u>
NET ASSETS			
Reserved for scholarships	-	1,248,046	
Unreserved	2,306,911	-	
Total Net Assets	<u>\$ 2,306,911</u>	<u>\$ 1,248,046</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, 2003**

	Retiree Benefits Trust	Other Private- Purpose Trust
ADDITIONS		
Private donations	\$ -	\$ 136,550
District contributions	1,089,021	-
Interest	31,744	27,151
Total Additions	<u>1,120,765</u>	<u>163,701</u>
DEDUCTIONS		
Other expenditures	1,104,283	-
Scholarships awarded	-	105,674
Total Deductions	<u>1,104,283</u>	<u>105,674</u>
Change in Net Assets	16,482	58,027
Net Assets - Beginning	2,290,429	1,190,019
Net Assets - Ending	<u><u>\$ 2,306,911</u></u>	<u><u>\$ 1,248,046</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 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 accounted for in the charter school fund.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 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.

Building Fund The Building exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

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 three classifications: retiree benefit 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 two trust funds, the Retiree Benefits Trust and 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. 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 function 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 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements prepared on the accrual basis of accounting, using the economic resources measurement focus and the statements for the governmental funds prepared on a modified accrual basis of accounting using 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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, 2003, 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 state investment pools are determined by the program sponsor.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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 cost 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. In the government-wide statements of net assets and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation of capital assets 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/infrastructure, 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 statement of net assets.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported as a liability in the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in the statements but is shown as a component of general long-term debt.

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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner 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. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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, if applicable, on the government-wide 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 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on October 30 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 – 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Cash

Cash at June 30, 2003, 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	\$ 57,361	\$ 1,004,066	\$ 1,061,427
Cash in revolving fund	42,639	-	42,639
Cash with fiscal agent	296,572	209,922	506,494
Total	<u>\$ 396,572</u>	<u>\$ 1,213,988</u>	<u>\$ 1,610,560</u>

	Governmental Carrying Amount	Proprietary Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 62,744	\$ 1,279,125	\$ 601,071	\$ 1,942,940
Cash in revolving fund	75,000	-	-	75,000
Cash with fiscal agent	346,572	129,202	-	475,774
Cash awaiting deposit	1,183,375	-	-	1,183,375
	<u>\$ 1,667,691</u>	<u>\$ 1,408,327</u>	<u>\$ 601,071</u>	<u>\$ 3,677,089</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.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The fair values were provided by the county for their respective pools.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Fair Value	Reported in Governmental Funds	Reported in Proprietary Fund	Reported in Fiduciary Funds
Uncategorized:				
U.S. Treasury	\$ 29,938	\$ -	\$ -	\$ 19,900
Deposits with county treasurer	81,701,871	73,787,282	4,166,351	3,712,467
	<u>\$81,731,809</u>	<u>\$73,787,282</u>	<u>\$4,166,351</u>	<u>\$3,732,367</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements and interest and other local sources. All receivables are considered collectible in full.

	General	Nonmajor Funds	Total
Federal Government			
Categorical aid	\$ 4,195,694	\$1,190,624	\$ 5,386,318
State Government			
Apportionment	2,073,318	456,114	2,529,432
Categorical aid	3,932,998	281,527	4,214,525
Lottery	461,350	35,600	496,950
Other Local Sources	1,018,514	55,488	1,074,002
Total	<u>\$11,681,874</u>	<u>\$2,019,353</u>	<u>\$ 13,701,227</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance June 30, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 9,021,890	\$ -	\$ -	\$ 9,021,890
Construction in Progress	24,461,210	16,472,089	8,048,588	32,884,711
Total Capital Assets not being depreciated	33,483,100	16,472,089	8,048,588	41,906,601
Capital Assets being depreciated:				
Buildings and Improvements	85,541,429	9,514,450	-	95,055,879
Furniture and Equipment	2,318,380	278,883	-	2,597,263
Total Capital Assets being depreciated	87,859,809	9,793,333	-	97,653,142
Total Capital Assets	121,342,909	26,265,422	8,048,588	139,559,743
Less Accumulated Depreciation:				
Buildings and Improvements	34,157,265	4,738,380	-	38,895,645
Furniture and Equipment	713,147	242,426	-	955,573
Total Accumulated Depreciation	34,870,412	4,980,806	-	39,851,218
Governmental Activities Capital Assets, Net	\$ 86,472,497	\$ 21,284,616	\$ 8,048,588	\$ 99,708,525

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds, internal service funds, and fiduciary funds are as follows:

		Due to				
		General	Building	County School Facilities	Nonmajor Governmental	Internal Service
						Total
Due from	General	\$ -	\$ 145,174	\$ 88	\$ 3,075,773	\$ 50,003
	Nonmajor governmental	618,161	-	-	-	618,161
	Internal service	13,593	-	-	8,437	22,030
	Total	\$ 631,754	\$ 145,174	\$ 88	\$ 3,084,210	\$ 50,003

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer Out	Transfer In		
	General	Nonmajor Governmental	Total Governmental
General	\$ -	\$ 809,146	\$ 809,146
Building	145,174	484,117	629,291
Nonmajor Governmental	2,192	-	2,192
Internal Service	50,000	-	50,000
Total	<u>\$ 197,366</u>	<u>\$ 1,293,263</u>	<u>\$ 1,490,629</u>

The General transferred to the Charter School Fund for lottery contributions.	110,436
The General Fund transferred to the Adult Education Fund for lottery contributions.	101,160
The General Fund transferred to the Deferred Maintenance Fund for state match.	597,550
The Child Development Fund transferred to the General Fund to pay expenditures incurred by the General Fund on behalf of the Child Development Fund.	2,192
The Building Fund transferred to the General Fund to pay expenditures incurred by the General Fund on behalf of the Building Fund.	145,174
The Self Insurance Fund transferred to the General Fund to refund last year's contribution.	50,000
The Building Fund transferred to the Bond Interest and Redemption Fund for interest refunding.	484,117
	<u>\$ 1,490,629</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General	Building	County School Facilities	Nonmajor Governmental	Total
Vendor payables	\$ 1,875,710	\$ 31,335	\$ 750,211	\$ 614,705	\$3,271,961
State apportionment	1,840,350	-	-	-	1,840,350
Salaries and benefits	767,050	-	-	459,531	1,226,581
Other significant payables	-	-	-	86,099	86,099
Total	<u>\$ 4,483,110</u>	<u>\$ 31,335</u>	<u>\$ 750,211</u>	<u>\$ 1,160,335</u>	<u>\$ 6,424,991</u>

	Internal Service	Fiduciary
Vendor payables	\$ -	\$ 3,850
Salaries and benefits	1,110	-
Other significant payables	-	173,560
Total	<u>\$ 1,110</u>	<u>\$ 177,410</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	County School Facilities	Nonmajor Governmental	Total
Federal financial assistance	\$ 1,946,144	\$ -	\$ -	\$ 1,946,144
State categorical aid	967,887	32,711,722	331,859	34,011,468
Other local	450,642	-	-	450,642
Total	<u>\$ 3,364,673</u>	<u>\$ 32,711,722</u>	<u>\$ 331,859</u>	<u>\$36,408,254</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 8 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	County School Facilities	Nonmajor Funds	Total	Fiduciary
Reserved						
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 20,000	\$ 75,000	\$ -
Stores inventory	243,378	-	-	178,366	421,744	-
Prepaid expenditures	150,275	-	-	92,368	242,643	-
Restricted programs	2,642,749	-	-	-	2,642,749	-
Total Reserved	3,091,402	-	-	290,734	3,382,136	-
Unreserved						
Undesignated	8,883,941	28,894,810	2,247,327	3,607,100	43,633,178	3,554,957
Total Unreserved	8,883,941	28,894,810	2,247,327	3,607,100	43,633,178	3,554,957
Total	\$ 11,975,343	\$ 28,894,810	\$ 2,247,327	\$ 3,897,834	\$ 47,015,314	\$ 3,554,957

NOTE 9 – LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due in one year
Certificates of participation	\$ 12,825,000	\$ -	\$ 11,195,000	\$ 1,630,000	\$ 25,000
General obligation bonds	-	39,995,542	-	39,995,542	-
Accumulated vacation - net	1,116,299	94,786	-	1,211,085	-
Capital leases	1,559,820	308,164	255,981	1,612,003	150,275
Energy Service Contract	1,630,620	-	181,180	1,449,440	181,180
	\$ 17,131,739	\$ 40,398,492	\$ 11,632,161	\$ 45,898,070	\$ 356,455

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Certificates of Participation

In October 1, 2000, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$13,000,000 with initial interest rates ranging from 2.90 to 4.50 percent. At June 30, 2003, the principal balance outstanding was \$1,630,000. During the current year the District redeemed \$11,000,000 of the outstanding certificates by using a like amount of the proceeds from the sale of General Obligation Bonds to fund the redemption. The interest rates vary from year to year. The current rate, as set by the California Financing Corporation, is 1.2%. The maturity table below reflects the interest rate adjustment.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 25,000	\$ 47,540	\$ 72,540
2005	30,000	61,725	91,725
2006	30,000	60,900	90,900
2007	30,000	60,075	90,075
2008	30,000	57,250	87,250
2009-2013	185,000	271,881	456,881
2014-2018	230,000	231,625	461,625
2019-2023	300,000	180,325	480,325
2024-2028	380,000	106,850	486,850
2029-2032	390,000	30,138	420,138
Total	<u>\$ 1,630,000</u>	<u>\$ 1,108,308</u>	<u>\$ 2,738,308</u>

General Obligation Bonds

In April 8, 2003, the Pajaro Valley Unified School District issued general obligation bonds in the amount of \$39,995,542 with initial interest rates ranging from 1.13 to 5.57 percent. At June 30, 2003, the principal balance outstanding was \$39,995,542. The interest rates vary from year to year.

The Bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ -	\$ 1,364,330	\$ 1,364,330
2005	750,000	1,752,926	2,502,926
2006	935,000	1,736,076	2,671,076
2007	1,035,000	1,716,376	2,751,376
2008	550,000	1,700,182	2,250,182
2009-2013	4,085,000	8,182,956	12,267,956
2014-2018	7,050,000	7,096,825	14,146,825
2019-2023	11,415,000	4,881,875	16,296,875
2024-2027	14,175,542	4,713,329	18,888,871
Total	<u>\$ 39,995,542</u>	<u>\$ 33,144,875</u>	<u>\$ 73,140,417</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$1,211,085.

Capital Leases

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 482,571
2005	332,296
2006	182,021
2007	153,846
2008	153,846
2009-2013	500,548
2014-2018	184,735
Total	1,989,863
Less: Amount Representing Interest	377,860
Present Value of Minimum Lease Payments	\$ 1,612,003

Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2004	\$ 181,180
2005	181,180
2006	181,180
2007	181,180
2008	181,180
2009-2013	543,540
Total	\$ 1,449,440

NOTE 10 – POSTEMPLOYEMENTS BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten consecutive years of service. Currently, 150 employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees plus one eligible dependent. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees report claims. During the year, expenditures of \$1,104,282 were recognized for retirees' health care benefits.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$4,894,286. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining. The District established a Retirement Benefit Fund for the fiscal year 1996-1997 in order to start funding the liability.

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, 2003, the District contracted with School Excess Liability Fund for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District's worker's compensation activities are recorded in the Internal Service Fund. The purpose the fund is to administer employee's compensation on a cost reimbursement basis. The program accounts for the risk financing activities of the District, but does not constitute a transfer or risk from the District.

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

Insurance Carrier / Public Entity Risk Pool	Type of Coverage	Limits
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation	State Statutory Limits
Schools Excess Liability Fund	Excess Property and Liability	Limits vary depending on type of loss

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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, 2001, to June 30, 2003 (in thousands):

Liability Balance, June 30, 2001	\$ 2,184
Claims and changes in estimates	21,277
Claims payments	20,744
Liability Balance, June 30, 2002	2,717
Claims and changes in estimates	20,456
Claims payments	20,817
Liability Balance, June 30, 2003	2,356
Assets available to pay claims at June 30, 2003	\$ 5,568

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 State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

STRS

Plan Description The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2002-2003 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2003, 2002, and 2001 were \$5,687,256, \$5,203,982, and \$5,097,026, respectively, and equal 100 percent of the required contributions for each year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

PERS

Plan Description The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy Active plan members are required to contribute 7.0 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 the CalPERS Board of Administration. The required employer contribution rate for fiscal 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2003 were \$623,602 and equal 100 percent of the required contributions for that year. The District was not required to make any contribution to CalPERS for the fiscal years ending June 30, 2002 or 2001.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) 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 STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,083,422 (4.475 percent of salaries subject to STRS) and \$20,186 (.092 percent of salaries subject to PERS). 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 also have not been recorded in these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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, 2003.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2003.

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Aptos High School Modernization	\$ 296,049	06/30/04
Rolling Hills Modernization	151,573	06/30/04
Pajaro Valley High School	31,467,288	01/01/05
Radcliff Elementary	681,301	11/30/03
Watsonville High Modernization	219,946	06/30/04
	<u>\$ 32,816,157</u>	

NOTE 14 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Schools Excess Liability Fund public entity risk pool (JPA). The District pays an annual premium to the Schools Excess Liability Fund for its property and liability coverage. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA has a budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

There were no significant reductions in insurance coverage from the prior year by major categories of risk.

A. Entity

School Excess Liability Fund

B. Purpose

To establish and operate cooperative programs of risk pooling, insurance, and risk management for excess liability and noneriv

C. Participants

School district/county school offices

D. Governing Board

One representative from each member district

E. Condensed Audited Financial Information Follows

		June 30, 2002*
Assets		\$ 112,124,000
Liabilities		64,484,000
	Fund Equity	\$ 47,640,000
Revenues		\$ 25,829,000
Expenses		11,023,000
	Net Increase in Fund Equity	\$ 14,806,000
		\$ 466,057

F. Payments for the Current Year

* Most recent information available

NOTE 15 – TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2002, the District issued \$24,000,000 Tax and Revenue Anticipation Notes bearing interest at 3.0 percent. Interest and principal were due and payable by April 30, 2003. By May 1, 2003, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has, in substance, defeased this debt, the liability and related asset have been removed from the governmental funds combined balance sheet.

NOTE 16 – SUBSEQUENT EVENT

The District issued \$26,500,000 of Tax And Revenue Anticipation Notes dated July 1, 2003. The notes mature on June 29, 2003, and yield 1.75 percent interest. The notes were sold to supplement cash flow.

Repayment requirements are that 50 percent of principal and interest be deposited with the fiscal agent by December 31, 2003, and the remaining 50 percent of principal and interest due on account by April 30, 2004.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 17 – FUND EQUITY TRANSFER

During the fiscal year 2002-2003, the District transferred the designated fund balance of the charter schools accounted for and blended within the General Fund, to a separate Charter Schools Fund. The amount of the fund equity transferred was \$1,315,465.

NOTE 18 – DEFERRED STATE APPORTIONMENTS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California Local Education agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of the current-year costs as receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to School Transportation, School improvement, Targeted Instructional Improvement, and Supplemental Grant Programs in the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves in the General Fund of \$1,574,151.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances -
	Original	Final		Favorable (unfavorable) Final to Actual
Revenues:				
Revenue limit sources	\$ 90,210,928	\$ 87,793,160	\$ 88,039,310	\$ 246,150
Federal sources	15,099,566	14,152,417	16,014,285	1,861,868
Other state sources	38,918,602	35,644,909	36,248,975	604,066
Other local sources	5,154,472	2,602,871	3,074,100	471,229
Total revenues:	<u>149,383,568</u>	<u>140,193,357</u>	<u>143,376,670</u>	<u>3,183,313</u>
Expenditures				
Current				
Instruction	86,641,604	79,776,165	79,709,059	67,106
Instruction related activities:				
Supervision of instruction	6,679,414	7,098,083	7,169,960	(71,877)
Instructional library, media and technology	1,252,346	1,865,248	2,044,110	(178,862)
School site administration	15,233,088	14,026,110	14,131,823	(105,713)
Pupil services:				
Home-to-school transportation	5,006,727	5,099,757	5,091,955	7,802
Food services	9,948	-	-	-
All other pupil services	8,957,647	8,930,615	8,951,058	(20,443)
General Administration:				
Data processing	1,722,371	1,573,952	1,197,896	376,056
All other general administration	6,731,636	5,877,044	5,648,538	228,506
Plant services	12,432,449	11,554,742	11,639,950	(85,208)
Facility acquisition and construction	643,839	887,675	408,221	479,454
Ancillary services	1,186,497	1,146,763	1,173,280	(26,517)
Community services	-	6,834	20,934	(14,100)
Other outgo	2,840,458	3,080,662	3,128,996	(48,334)
Debt Service				
Principal	-	-	632,161	(632,161)
Interest	1,084,837	600,895	591,055	9,840
TOTAL EXPENDITURES	<u>150,422,861</u>	<u>141,524,545</u>	<u>141,538,996</u>	<u>(14,451)</u>
Excess (deficiency) of revenues over expenditures	(1,039,293)	(1,331,188)	1,837,674	3,168,862
Other Financing Sources (Uses):				
Transfers in	50,000	50,000	197,366	147,366
Other sources	32,401	23,592	26,537	2,945
Transfers out	(710,070)	(828,268)	(809,146)	19,122
NET FINANCING SOURCES (USES)	<u>(627,669)</u>	<u>(754,676)</u>	<u>(585,243)</u>	<u>169,433</u>
NET CHANGE IN FUND BALANCES	<u>(1,666,962)</u>	<u>(2,085,864)</u>	<u>1,252,431</u>	<u>3,338,295</u>
Fund balance - Beginning	12,038,377	12,038,377	12,038,377	-
Fund Equity - Transfer	(1,315,465)	(1,315,465)	(1,315,465)	-
Fund balance - Ending	<u>\$ 9,055,950</u>	<u>\$ 8,637,048</u>	<u>\$ 11,975,343</u>	<u>\$ 3,338,295</u>

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

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2003

	Charter Schools Fund	Adult Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Cash and cash equivalents	\$ 20,000	\$ 3,700	\$ 1,009,718	\$ 17,148
Investments	1,476,204	291,443	-	269,003
Receivables	266,661	485,999	232,123	981,336
Due from other funds	439,714	111,121	-	-
Prepaid expenses	-	92,368	-	-
Stores inventories	-	-	-	178,366
Total assets	<u>2,202,579</u>	<u>984,631</u>	<u>1,241,841</u>	<u>1,445,853</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	199,763	177,119	598,658	123,697
Due to other funds	985,307	185,759	472,367	1,140,698
Deferred revenue	-	131,500	170,815	-
Total liabilities	<u>1,185,070</u>	<u>494,378</u>	<u>1,241,840</u>	<u>1,264,395</u>
Fund Balances:				
Reserved for:				
Stores inventories	-	-	-	178,366
Other reservations	20,000	92,368	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	997,509	397,885	1	3,092
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	<u>1,017,509</u>	<u>490,253</u>	<u>1</u>	<u>181,458</u>
Total liabilities and fund balances	<u>\$ 2,202,579</u>	<u>\$ 984,631</u>	<u>\$ 1,241,841</u>	<u>\$ 1,445,853</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Non Major Governmental Funds
\$ -	\$ 22,209	\$ -	\$ -	\$ -	\$ 1,072,775
446,224	1,486,169	9,025	484,117	31,030	4,493,215
-	-	53,234	-	-	2,019,353
67,326	-	-	-	-	618,161
-	-	-	-	-	92,368
-	-	-	-	-	178,366
513,550	1,508,378	62,259	484,117	31,030	8,474,238
19,329	41,769	-	-	-	1,160,335
300,000	79	-	-	-	3,084,210
-	-	29,544	-	-	331,859
319,329	41,848	29,544	-	-	4,576,404
-	-	-	-	-	178,366
-	-	-	-	-	112,368
194,221	-	-	-	-	1,592,708
-	-	-	484,117	31,030	515,147
-	1,466,530	32,715	-	-	1,499,245
194,221	1,466,530	32,715	484,117	31,030	3,897,834
\$ 513,550	\$ 1,508,378	\$ 62,259	\$ 484,117	\$ 31,030	\$ 8,474,238

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2003

	Charter Schools Fund	Adult Fund	Child Development Fund	Cafeteria Fund
Revenues				
Revenue limit sources	\$ 2,513,264	\$ 2,267,516	\$ -	\$ -
Federal sources	-	435,495	5,081,671	3,785,473
Other state sources	1,145,945	471,298	1,590,889	236,143
Other local sources	3,095,424	174,028	58,692	1,751,355
TOTAL REVENUES	<u>6,754,633</u>	<u>3,348,337</u>	<u>6,731,252</u>	<u>5,772,971</u>
Expenditures				
Current				
Instruction	4,310,377	2,125,668	4,560,905	-
Instruction related activities:				
Supervision of instruction	110,937	117,874	478,716	-
Instructional library, media and technology	125,554	1,644	17,511	-
School site administration	882,085	729,298	277,197	-
Pupil services:				
Food services	-	-	35,619	5,528,795
All other pupil services	76,360	19,104	423,360	-
General administration:				
All other general administration	1,136,726	96,940	347,098	328,974
Plant services	261,296	65,599	588,653	-
Facility acquisition and construction	271,581	-	-	-
Ancillary services	1	-	-	-
Interest and other	22,553	95,125	-	41,113
TOTAL EXPENDITURES	<u>7,197,470</u>	<u>3,251,252</u>	<u>6,729,059</u>	<u>5,898,882</u>
Excess (deficiency) of revenues over expenditures	<u>(442,837)</u>	<u>97,085</u>	<u>2,193</u>	<u>(125,911)</u>
Other Financing Sources (Uses):				
Transfers in	110,436	101,160	-	-
Other sources	34,445	-	-	-
Transfers out	-	-	(2,192)	-
NET FINANCING SOURCES (USES)	<u>144,881</u>	<u>101,160</u>	<u>(2,192)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(297,956)</u>	<u>198,245</u>	<u>1</u>	<u>(125,911)</u>
Fund Balance - Beginning	-	292,008	-	307,369
Fund Equity - Transfer	1,315,465	-	-	-
Fund Balance - Ending	<u>\$ 1,017,509</u>	<u>\$ 490,253</u>	<u>\$ 1</u>	<u>\$ 181,458</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,780,780
-	-	-	-	-	9,302,639
148,759	-	3,487	-	-	3,596,521
7,218	2,694,167	5,385	-	7	7,786,276
155,977	2,694,167	8,872	-	7	25,466,216
-	-	-	-	-	10,996,950
-	-	-	-	-	707,527
-	-	-	-	-	144,709
-	-	-	-	-	1,888,580
-	-	-	-	-	5,564,414
-	-	-	-	-	518,824
-	-	-	-	-	1,909,738
399,725	877,247	-	-	-	2,192,520
521,091	550,182	-	-	-	1,342,854
-	-	-	-	-	1
-	38,711	-	-	-	197,502
920,816	1,466,140	-	-	-	25,463,619
(764,839)	1,228,027	8,872	-	7	2,597
597,550	-	-	484,117	-	1,293,263
-	238,503	-	-	-	272,948
-	-	-	-	-	(2,192)
597,550	238,503	-	484,117	-	1,564,019
(167,289)	1,466,530	8,872	484,117	7	1,566,616
361,510	-	23,843	-	31,023	1,015,753
-	-	-	-	-	1,315,465
\$ 194,221	\$ 1,466,530	\$ 32,715	\$ 484,117	\$ 31,030	\$ 3,897,834

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-Through Grantor/Program	Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through CDE:			
Elementary and Secondary Education Act			
Title I, Part A Grants ^[1]	84.010	03797	\$ 4,274,192
Title I, Migrant Education ^[1]	84.011	03628	4,682,728
Title I, Comprehensive School Reform Demonstration	84.010	03966	2,328
Title I, Program Improvement & School Choice	84.348	04106	67,298
Title II Eisenhower (01/02)	84.281A	03207	8,429
Title II, Part D, Enhancing Education Technology	84.318	04335	16,167
Title II, Part A, Teacher Quality	84.367	04341	793,904
Title III, Limited English Proficiency	84.365	00084	533,869
Title III, Bilingual Education: Discretionary Grants	84.291	00008	1,255,666
Title IV, Part A, Drug-Free Schools	84.186	03453	158,227
Title IV, Part B, 21st Century Community Centers	84.287	04349	112,231
Title V, Part A, Innovative Education Strategies	84.298A	03340	115,325
Title VI Class Size Reduction (01/02)	84.340	03073	9,393
Title X McKinney-Vento Homeless Assistance Grants	84.196	03697	75,000
Individuals with Disabilities Education Act			
IDEA Basic Local Assistance Entitlement	84.027	03379	2,291,472
IDEA Preschool Grants	84.173	03430	200,071
IDEA Preschool Local Entitlement	84.027A	03682	260,068
IDEA Infant Discretionary	84.027A	03612	7,638
IDEA Local Staff Development Grant	84.027A	03613	13,258
IDEA Preschool Staff Development	84.173A	03431	1,211
IDEA Low-Incidence Entitlement	84.027A	03459	10,716
IDEA State/Staff Development	84.027A	03615	144
IDEA Early Intervention Grants	84.181	03761	263,306
Vocational and Applied Technology Education Act			
Voc & Applied Sex Bias/Equity II B	84.048	03570	9,874
Voc & Applied Technology Secondary II C	84.048	03924	176,007
Goals 2000: K-12 Reading/Language Arts	84.276A	04379	78,750

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003

Adult Basic Education Act			
Adult Education: Adult Basic Education	84.002A	03973	\$ 113,592
Adult Education: English as a Second Language (ESL)	84.002A	04302	198,428
Adult Education: Adult Secondary Education	84.002A	03978	10,350
Adult Education: ESL Citizenship	84.002A	03974	2,925
Adult Education: English Literacy & Civics Education	84.002A	04109	110,200
Technology Literacy Challenge Grant	84.318X	03285	1,753
Federal School Renovation Classroom Technology	84.352A	04318	156,985
Subtotal			<u>16,011,505</u>
U.S. DEPARTMENT OF REHABILITATION			
Passed though CDE:			
Workability II, Transition Partnership	84.158	00006	<u>180,908</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed though CDE:			
Child Development: Quality Improvement Activities	93.575	03979	19,890
Child Development: Child Care Resource Contracts	93.575	03979	5,416
Head Start	93.600	00016	5,056,365
Medi-Cal Billing Option	93.778	00013	102,280
LEA Medi-Cal Billing Option	93.778	00013	155,087
Subtotal			<u>5,339,038</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed though CDE:			
Child Nutrition Act ^[1]			
Child Nutrition: School Programs	10.555	03396	3,785,473
Commodity Fair Market Value ^[2]	10.550	03389	103,800
Subtotal			<u>3,889,273</u>
Total Federal Prorams			<u>\$25,420,724</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, 2003

	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,343	1,345
First through third	4,016	4,014
Fourth through sixth	3,994	4,000
Seventh and eighth	2,563	2,565
Opportunity schools	16	17
Home and hospital	6	5
Special education	227	232
Community Education	4	4
Total Elementary	12,169	12,182
SECONDARY		
Regular classes	4,605	4,558
Continuation education	171	168
Home and hospital	6	7
Special education	150	147
Community Education	41	40
Total Secondary	4,973	4,920
Total K-12	17,142	17,102
REGIONAL OCCUPATIONAL CENTERS	24	24
CLASSES FOR ADULTS		
Concurrently enrolled	24	24
Not concurrently enrolled	938	982
Adults in correctional facilities	25	34
Total Classes for Adults	987	1,040
CHARTER SCHOOLS		
Elementary	998	998
Secondary	148	148
Total Charter Schools	1,146	1,146
Grand Total	19,275	19,288
		Hours of Attendance
SUMMER SCHOOL		
Elementary		587,666
High School		354,530
Charter Schools		7,581
Total Hours		942,196

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2003

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	2002-03 Actual Minutes	Status
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 - 3	50,400	42,000	50,418	In Compliance
Grades 4 - 6	54,000	52,500	54,005	In Compliance
Grades 7 - 8	54,000	52,500	54,005	In Compliance
Grades 9 - 12	64,800	59,500	64,800	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, 2003

Summarized below is the fund balance reconciliation between the annual financial and budget report unaudited actuals and the audited financial statements.

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2003, Unaudited Actuals	\$ 11,692,248
Decrease in accounts payable	<u>283,095</u>
Balance, June 30, 2003, Audited Financial Statements.	<u><u>\$ 11,975,343</u></u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2003

	(Budget) 2004 ⁽¹⁾	2003	2002	2001
GENERAL FUND				
Revenues	\$ 142,053,781	143,376,670	\$ 147,519,171	\$ 141,565,041
Other sources and transfers in	75,000	223,903	756,531	888,398
Total Revenues	<u>142,128,781</u>	<u>143,600,573</u>	<u>148,275,702</u>	<u>142,453,439</u>
Expenditures	144,947,165	141,538,996	146,712,937	139,251,209
Other uses and transfers out	698,660	809,146	870,399	604,675
Total Expenditures	<u>145,645,825</u>	<u>142,348,142</u>	<u>147,583,336</u>	<u>139,855,884</u>
INCREASE/(DECREASE)				
IN FUND BALANCE	\$ (3,517,044)	\$ 1,252,431	\$ 692,366	\$ 2,597,555
FUND EQUITY TRANSFER	\$ -	\$ (1,315,465)	\$ -	\$ -
ENDING FUND BALANCE	<u>\$ 8,458,299</u>	<u>\$ 11,975,343</u>	<u>\$ 12,038,377</u>	<u>\$ 11,346,011</u>
AVAILABLE RESERVES ⁽²⁾	<u>\$ 7,394,250</u>	<u>\$ 8,883,941</u>	<u>\$ 6,379,904</u>	<u>\$ 6,538,123</u>
AVAILABLE RESERVES AS A				
PERCENTAGE OF TOTAL OUTGO	5.1%	6.2%	4.3%	4.7%
LONG-TERM DEBT	<u>\$ 45,541,615</u>	<u>\$ 45,898,070</u>	<u>\$ 17,131,739</u>	<u>\$ 21,234,427</u>
AVERAGE DAILY				
ATTENDANCE AT P-2 ⁽³⁾	<u>18,365</u>	<u>18,312</u>	<u>18,468</u>	<u>18,411</u>

The general fund balance has increased by \$1,944,797 over the past two years. The fiscal year 2003-04 budget projects a decrease of \$3,517,044. 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 operating surpluses in the past three years, and anticipates incurring an operating deficit during the 2003-04 fiscal year. Total long-term debt has decreased by \$1,944,797 over the past two years.

Average daily attendance has decreased by 99 over the past two years. Additional growth of 53 in ADA is anticipated during fiscal year 2003-04.

1 Budget 2004 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.

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

Vasinek Time Jay & Co. LLP

San Jose, California
October 30, 2003



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, 2003. 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, 2003.

	Procedures in Controller's Audit Guide	Procedures Performed
Community day schools	8	No
Class size reduction program:		
Option one classes	10	Yes
Option two classes	9	Not Applicable
Option one and two classes	14	Not Applicable
Reduce class size in two courses in grade 9	8	Yes
State Instructional Materials (K-8)	9	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
Ratios of Administrative Employees to Teachers	3	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform testing for Community Day Schools or Regional Occupational Program 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 Board of Trustees, 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 Time Jay & Co. LLP

San Jose, California
October 30, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2003

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

No

Reporting conditions identified not considered to be material weaknesses?

None reported

Noncompliance material to financial statements noted?

No

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified?

No

Reporting conditions identified not considered to be material weaknesses?

None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)

No

Identification of major programs: A4

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I

84.011

Migrant Education Regular & Summer

10.555, 10.550

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

759,508

Auditee qualified as low-risk auditee?

No

STATE AWARDS

Internal control over state programs:

Material weaknesses identified?

No

Reporting conditions identified not considered to be material weaknesses?

None reported

Type of auditors' report issued on compliance for state programs:

Unqualified

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

There were no findings that 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

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

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

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

ASSOCIATE STUDENT BODY-APTOS HIGH

2003-1 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.

Current Status

Implemented

