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**PAJARO VALLEY  
UNIFIED SCHOOL DISTRICT**



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT  
OF SANTA CRUZ COUNTY  
WATSONVILLE, CALIFORNIA  
JUNE 30, 2004**

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**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, 2004

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### *FINANCIAL SECTION*

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet with the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the District-Wide Statement of Activities	20
Statement of Net Assets -- Proprietary Fund	21
Statement of Revenues, Expenses and Changes in Fund Net Assets -- Proprietary Fund	22
Statement of Cash Flows -- Proprietary Fund	23
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
Notes to Financial Statements	26

### *REQUIRED SUPPLEMENTARY INFORMATION*

Budgetary Comparison Schedule for the General Fund	50
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### *SUPPLEMENTARY INFORMATION*

Non-Major Governmental Funds Balance Sheet (Unaudited)	51
Non-Major Funds Statement of Revenues, Expenditures and Changes in Fund Balance (Unaudited)	53
Schedule of Expenditures of Federal Awards	55
Schedule of Average Daily Attendance	57
Schedule of Instructional Time	58
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	59
Schedule of Financial Trends and Analysis	60
Schedule of Charter Schools	61
Charter Schools Statement of Changes in Fund Balance (Unaudited)	62
Note to Supplementary Information	63

### *INDEPENDENT AUDITORS' REPORTS*

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	67
Report on State Compliance	69

### *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Summary of Auditors' Results	71
Financial Statement Findings	72
Federal Award Findings and Questioned Costs	74
State Award Findings and Questioned Costs	74
Summary of Schedule of Prior Audit Findings	76



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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Pajaro Valley Unified School District  
Watsonville, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2004, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004, 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The required supplementary information, such as management's discussion and analysis on pages 3 through 11, and budgetary comparison information on page 50, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The non-major governmental balance sheet and statement of revenues, expenditures and changes in fund balance and the charter school statement of changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Vavinsk, Tine, Day & Co LLP*  
Pleasanton, California  
November 12, 2004





*PAJARO VALLEY UNIFIED SCHOOL DISTRICT*

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

**MANAGEMENT DISCUSSION AND ANALYSIS**

This section of Pajaro Valley Unified School District's (The District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

**The Financial Statements**

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

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

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

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

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

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

### ***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

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

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

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

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

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

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

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

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

##### ***Fund Financial Statements***

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

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

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

### **THE DISTRICT AS TRUSTEE**

#### Reporting the District's Fiduciary Responsibilities

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

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

#### *Net Assets*

The District's net assets were \$138.6 million and \$103.7 million for the fiscal years ended June 30, 2004 and 2003, respectively. Of this amount, \$10.2 million and \$7.7 million were unrestricted for fiscal years ending June 30, 2004 and 2003, respectively. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Table 1

	Governmental Activities 2004	Governmental Activities 2003
Current and other assets	\$ 94,787,648	\$ 95,417,498
Capital assets	126,878,537	99,708,525
<b>Total Assets</b>	<b>221,666,185</b>	<b>195,126,023</b>
Current liabilities	40,183,075	45,562,243
Long-term debt	42,854,236	45,898,070
<b>Total Liabilities</b>	<b>83,037,311</b>	<b>91,460,313</b>
Net assets		
Invested in capital assets, net of related debt	110,056,770	83,916,350
Restricted	18,331,105	12,076,503
Unrestricted	10,240,624	7,672,857
<b>Total Net Assets</b>	<b>\$ 138,628,499</b>	<b>\$ 103,665,710</b>

The \$10.2 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today including all of our non-capital liabilities (compensated absences as an example), we would have that amount left. We will need to closely monitor our expenditures in the future and adhere strictly to the budget.

### *Changes in Net Assets*

The results of this year's operations for the District as a whole are reported in the Statement of Activities on pages 13-14. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues for the year.



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

**Table 2**

	Governmental Activities 2004	Governmental Activities 2003
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,992,388	\$ 3,992,746
Operating grants and contributions	60,045,159	60,711,123
Capital grants and contributions	30,139,250	15,271,604
General revenues:		
Federal and state sources	46,348,899	48,972,535
Property taxes	52,170,708	49,163,868
Other general revenues	16,767,342	8,199,378
<b>Total Revenues</b>	<b>207,463,746</b>	<b>186,311,254</b>
<b>Expenses</b>		
Instruction related	122,361,270	116,792,718
Student support services	21,210,885	20,126,251
Administration	9,137,280	7,419,378
Maintenance and operations	13,117,062	13,787,677
Other	6,674,460	11,079,152
<b>Total Expenses</b>	<b>172,500,957</b>	<b>169,205,176</b>
<b>Change in Net Assets</b>	<b>\$ 34,962,789</b>	<b>\$ 17,106,078</b>

### Governmental Activities

As reported in the Statement of Activities on pages 13-14, the cost of all of our governmental activities this year was \$172.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$80.3 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$52.1 million in taxes, \$46.3 million in State and Federal funds and with other revenues, like interest and general entitlements.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

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

**Table 3**

	Net Cost of Services 2004	Net Cost of Services 2003
Instruction and instruction related	\$ 47,114,706	\$ 55,342,296
Pupil services	8,466,821	8,214,215
General Administration	6,354,184	4,587,916
Maintenance and operations	12,232,706	12,057,660
Other	6,155,743	9,027,616
<b>Totals</b>	<b>\$ 80,324,160</b>	<b>\$ 89,229,703</b>

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

As the District completed this year, our governmental funds reported a combined fund balance of \$54.0 million, which is an increase of \$7.0 million from last year.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$1.5 million to \$13.5 million. This change is due to a combination of the following:
  1. The district reduced expenditures in areas identified by the district budget committee and approved by the District Board in order to maintain a positive fund balance in the current and subsequent two years.
- b. Our special revenue funds increased \$1.4 million from the prior year due to
  1. Deferred maintenance fund increase of approximately \$800,000 due to the district finished ongoing modernization projects and plans to use the deferred maintenance funds in 04-05 as planned in the five-year plan.
  2. Post employment benefit fund increased of approximately \$400,000 due to transfer of funds for future retiree benefit payments. This is the first year of implementation of this fund.
- c. Our capital project funds increased \$2.8 million from the prior year mainly due to the net effect of an increase in the developer fee rates and new development in the community and completion of capital projects.
- d. The debt service funds showed an increase of approximately \$1,180,000 due to initiation of the property tax collections from the community within the District's boundary for general obligation bond repayments.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

### General Fund Budgetary Highlights

Our original adopted budget projected an ending fund balance of \$8,458,299 and our final budget projected an ending balance of \$9,950,338. Our actual ending balance at year-end was \$13,531,865, a positive variance of \$3,581,527 from our final budget. Actual revenues exceeded final budgeted revenues by \$2,943,961. Actual expenditures were \$504,899 less than the final budgeted amounts. Other financing sources (uses) generated a positive variance of \$132,667 when comparing actuals to final budget.

### **Significant Differences in Revenues:**

Our final budget revenues were \$141,425,056, however actual revenues were \$144,369,017. The variance, \$2,943,961, 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 & DEBT ADMINISTRATION**

#### *Capital Assets*

At June 30, 2004 and 2003, the District had \$171.7 million and \$139.6 million before depreciation in a broad range of capital assets including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of just under \$32.2 million, or 27 percent, from last year.

**TABLE 4**

	Governmental Activities 2004	Governmental Activities 2003
Land	\$ 9,021,890	\$ 9,021,890
Construction in progress	64,439,312	32,884,711
Buildings and improvements	95,646,971	95,055,879
Equipment	2,626,799	2,597,263
Accumulated depreciation	(44,856,435)	(39,851,218)
<b>Totals</b>	<b>\$ 126,878,537</b>	<b>\$ 99,708,525</b>

This years additions of \$32.2 million included several projects such as Pajaro Valley High, Radcliff Elementary, Landmark Elementary and a number of Bond and Modernization projects that are in process.

Several capital projects are planned for the 2004-05 year. We anticipate capital additions to be \$55 million for the 2004-05 year. The funds are to complete ongoing new construction, modernization and bond projects. We present more detailed information about our capital assets in Note 4 to the financial statements.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

### Long-Term Debt

At the end of this year, the District had \$40 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

<i>Years ending</i>	2004	2003
Certificates of participation	\$ 1,605,000	\$ 1,630,000
General obligation bonds	40,010,212	39,995,542
Accumulated vacation - net	1,339,508	1,211,085
Capital leases	1,208,240	1,612,003
Other	1,338,260	1,449,440
<b>Totals</b>	<b>\$ 45,501,220</b>	<b>\$ 45,898,070</b>

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

Other obligations include compensated absences payable, certificates of participation, capital leases and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

### ***SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2003-04 ARE NOTED BELOW:***

While State funding continued to be reduced in 2003-04 the district was able to identify areas to reduce spending away from the classroom and maintain a balanced budget. In addition, the district continued the construction of the \$49 million New High School project and built two new elementary schools. The Freshman class at the new high school and the two elementary schools are scheduled to open in August 2004. The district also continued work on bond projects and multiple modernization projects.

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

In considering the District Budget for the 2004/2005 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Projections of revenue limit income.
2. Developer fee collections are based on projected new housing units to be constructed.
3. State income will increase by 2.41 percent and the deficit will be maintained.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

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

**JUNE 30, 2004**

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While the district has built an increase of 300 ADA in the budget for 2004/2005 due to changes in the geographic location of Alianza Charter School and Watsonville Charter School of the Arts as well as housing growth, the district's enrollment will basically stabilize and is 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.

The district put the 2% salary reduction back on the salary schedule in 2004/2005 and is not implementing Furlough days. In addition, the district is negotiating with the bargaining units to implement changes to Health and Welfare plans that will support 10% of the 15% anticipated increase in 2004/2005, thereby leaving the district with the responsibility of funding the remaining 5%.

The State continues to deficit Revenue Limit dollars in 2004/2005 but has designated Equalization funds of approximately \$25/ADA. This is additional income to the district of approximately \$425,000 in unrestricted revenues. The District continues to maintain the reductions in expenditures made in prior years and has implemented additional reduction in the 2004/2005 budget in order to maintain positive balances in the current and subsequent two years as required by the state. No improvement is expected until the State financial system improves.

### ***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, 2004

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 78,119,579
Receivables	15,635,784
Prepaid expenses	670,731
Stores inventories	361,554
Capital assets	171,734,972
Less: Accumulated depreciation	(44,856,435)
<b>Total assets</b>	<u>221,666,185</u>
<b>Liabilities</b>	
Accounts payable	7,391,716
Accrued interest	754,222
Deferred revenue	27,571,993
Claims liability	1,818,535
Current portion of long-term obligations	2,646,984
Noncurrent portion of long-term obligations	<u>42,854,236</u>
<b>Total liabilities</b>	<u>83,037,686</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	110,056,770
Restricted for:	
Debt service	1,696,014
Capital projects	8,145,057
Legally restricted	2,348,262
Special revenue	2,739,765
Self insurance	3,402,007
Unrestricted	10,240,624
<b>Total net assets</b>	<u>\$ 138,628,499</u>

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

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
Instruction	\$ 96,704,455	\$ 101,916	\$ 31,953,448	\$ 30,139,250
Instruction related activities:				
Supervision of instruction	6,948,764	13,997	6,189,484	-
Instructional library, media and technology	1,747,181	65	582,721	-
School site administration	16,960,870	15,376	6,250,307	-
Pupil services:				
Home-to-school transportation	5,515,931	238,428	2,866,722	-
Food services	6,095,671	1,565,443	4,115,670	-
All other pupil services	9,599,283	3,698	3,954,103	-
General administration:				
Data processing	1,141,693	70	70,922	-
All other general administration	7,995,587	39,052	2,673,052	-
Plant services	13,117,062	7,577	876,779	-
Ancillary services	946,996	1,339	141,506	-
Community services	3,102	21	1,517	-
Interest on long-term debt	2,197,100	-	-	-
Other outgo	3,527,262	5,406	368,928	-
<b>Total governmental-type activities</b>	<b>\$ 172,500,957</b>	<b>\$ 1,992,388</b>	<b>\$ 60,045,159</b>	<b>\$ 30,139,250</b>
General revenues and subventions:				
Property taxes, levied for general purposes				
Taxes levied for other specific purposes				
Federal and State aid not restricted				
Interest and investment earnings				
Transfers				
Miscellaneous				
<b>Subtotal, general revenues</b>				
<b>Changes in net assets</b>				
Net assets - beginning				
Net assets - ending				

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



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**Net (Expenses)  
Revenues and  
Changes  
in Net Assets**

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**Total  
Government  
Activities**

---

\$ (34,509,841)

(745,283)

(1,164,395)

(10,695,187)

(2,410,781)

(414,558)

(5,641,482)

(1,070,701)

(5,283,483)

(12,232,706)

(804,151)

(1,564)

(2,197,100)

(3,152,928)

---

(80,324,160)

---

52,072,233

98,475

46,348,899

706,969

3,857,395

12,202,978

---

115,286,949

---

34,962,789

103,665,710

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\$ 138,628,499

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2004

	General Fund	Building Fund	County School Facilities Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,271,260	\$ 27,418,289	\$ 28,083,304
Receivables	12,869,901	-	-
Due from other funds	4,265,049	-	-
Prepaid expenses	555,595	-	-
Stores inventories	183,639	-	-
<b>Total assets</b>	<u>\$ 21,145,444</u>	<u>\$ 27,418,289</u>	<u>\$ 28,083,304</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,273,075	\$ 78,344	\$ 1,352,743
Due to other funds	1,171,864	-	750,170
Deferred revenue	3,168,640	-	23,885,623
<b>Total liabilities</b>	<u>7,613,579</u>	<u>78,344</u>	<u>25,988,536</u>
<b>Fund Balances:</b>			
Reserved for:			
Stores inventories	183,639	-	-
Other reservations	2,403,262	-	-
Unreserved:			
Designated	5,399,599	-	-
Undesignated, reported in:			
General fund	5,545,365	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	27,339,945	2,094,768
<b>Total fund balance</b>	<u>13,531,865</u>	<u>27,339,945</u>	<u>2,094,768</u>
<b>Total liabilities and fund balances</b>	<u>\$ 21,145,444</u>	<u>\$ 27,418,289</u>	<u>\$ 28,083,304</u>

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

<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 11,979,503	\$ 70,752,356
1,991,490	14,861,391
1,264,317	5,529,366
115,136	670,731
177,915	361,554
<u>\$ 15,528,361</u>	<u>\$ 92,175,398</u>

\$ 1,046,509	\$ 5,750,671
2,908,541	4,830,575
517,730	27,571,993
<u>4,472,780</u>	<u>38,153,239</u>

177,915	361,554
20,000	2,423,262
	5,399,599
	5,545,365
3,111,363	3,111,363
1,696,014	1,696,014
6,050,289	35,485,002
<u>11,055,581</u>	<u>54,022,159</u>
<u>\$ 15,528,361</u>	<u>\$ 92,175,398</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH STATEMENT OF NET ASSETS JUNE 30, 2004

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

<b>Total fund balance - governmental funds</b>		<b>\$ 54,022,159</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 171,734,972	
Accumulated depreciation is	<u>(44,856,435)</u>	126,878,537
The assets and liabilities of the internal service fund are included with governmental activities.		3,402,007
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.		(754,222)
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount.		581,238
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	40,010,212	
Certificates of participation	1,605,000	
Capital leases payable and other debt	2,546,500	
Compensated absences (vacations)	<u>1,339,508</u>	<u>(45,501,220)</u>
<b>Total net assets-governmental activities</b>		<b><u>\$ 138,628,499</u></b>

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

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Building Fund	County School Facilities Fund
<b>Revenues</b>			
Revenue limit sources	\$ 85,993,268	\$ -	\$ -
Federal sources	19,315,754	-	-
Other state sources	35,982,322	-	29,706,765
Other local sources	3,077,673	366,655	405,410
<b>TOTAL REVENUES</b>	<b>144,369,017</b>	<b>366,655</b>	<b>30,112,175</b>
<b>Expenditures</b>			
<b>Current</b>			
Instruction	82,694,942	-	-
Instruction related activities:			
Supervision of instruction	5,948,943	-	-
Instructional library, media and technology	1,530,527	-	-
School site administration	14,405,328	-	-
Pupil Services:			
Home-to school transportation	5,334,116	-	-
Food services	-	-	-
All other pupil services	8,566,052	-	-
General administration:			
Data processing	1,104,061	-	-
All other general administration	6,007,470	-	-
Plant services	11,313,534	-	-
Facility acquisition and construction	148,755	1,921,520	29,540,937
Ancillary services	915,781	-	-
Community services	3,000	-	-
Other outgo	3,527,262	-	-
Debt service			
Principal	445,742	-	-
Interest and other	388,999	-	-
<b>TOTAL EXPENDITURES</b>	<b>142,334,512</b>	<b>1,921,520</b>	<b>29,540,937</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>2,034,505</b>	<b>(1,554,865)</b>	<b>571,238</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	239,520	-	-
Other sources	-	-	-
Transfers out	(717,503)	-	(723,797)
<b>NET FINANCING SOURCES (USES)</b>	<b>(477,983)</b>	<b>-</b>	<b>(723,797)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,556,522</b>	<b>(1,554,865)</b>	<b>(152,559)</b>
Fund Balance - Beginning	11,975,343	28,894,810	2,247,327
Fund Balance - Ending	\$ 13,531,865	\$ 27,339,945	\$ 2,094,768

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

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 4,457,457	\$ 90,450,725
9,790,543	29,106,297
3,760,603	69,449,690
13,604,592	17,454,330
<u>31,613,195</u>	<u>206,461,042</u>
10,874,718	93,569,660
770,777	6,719,720
159,064	1,689,591
1,996,482	16,401,810
-	5,334,116
5,902,029	5,902,029
716,822	9,282,874
-	1,104,061
1,735,257	7,742,727
1,857,189	13,170,723
510,356	32,121,568
-	915,781
-	3,000
-	3,527,262
164,201	609,943
1,411,932	1,800,931
<u>26,098,827</u>	<u>199,895,796</u>
<u>5,514,368</u>	<u>6,565,246</u>
1,633,327	1,872,847
70,000	70,000
(59,949)	(1,501,249)
<u>1,643,378</u>	<u>441,598</u>
7,157,746	7,006,844
3,897,835	47,015,315
<u>\$ 11,055,581</u>	<u>\$ 54,022,159</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, 2004

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

Net changes in fund balances - governmental funds

\$ 7,006,844

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

32,175,229  
(5,005,217)

27,170,012

In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount.

581,239

Proceeds received from state building loan 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.

(70,000)

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 \$128,423

(128,423)

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.

25,000

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.

473,763

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.

111,180

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.

(396,169)

An internal service fund is used by the District's management to charge the costs of the workers compensation 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.

189,343

Change in net assets of governmental activities

\$ 34,962,789

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



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2004**

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	<b>Governmental Activities: Internal Service Fund</b>
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 7,352,664
Receivables	193,155
Due from other funds	24,117
Prepaid expense	14,558
<b>Total assets</b>	<u>7,584,494</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	1,633,196
Due to other funds	730,756
Claim liabilities	1,818,535
<b>Total current liabilities</b>	<u>4,182,487</u>
 <b>NET ASSETS</b>	 <u><u>\$ 3,402,007</u></u>

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, 2004**

	<b>Governmental Activities: Internal Service Fund</b>
<b>Operating revenues:</b>	
Interfund premiums	\$ 25,313,585
<b>Total operating revenues</b>	<u>25,313,585</u>
<b>Operating expenses:</b>	
Payroll costs	84,917
Professional services and claims payments	25,086,773
Supplies and materials	2,418
<b>Total operating expenses</b>	<u>25,174,108</u>
<b>Operating income</b>	<u>139,477</u>
<b>Nonoperating revenues</b>	
Interest income	<u>49,866</u>
<b>Change in net assets</b>	189,343
<b>Total net assets - Beginning</b>	<u>3,212,664</u>
<b>Total net assets - Ending</b>	<u><u>\$ 3,402,007</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, 2004**

	<b>Governmental Activities: Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 25,118,343
Cash payments for insurance claims	(23,302,888)
Cash payments to suppliers for goods and services	(2,418)
Cash payments for other operating expenses	(84,917)
Net cash provided by operating activities	<u>1,728,120</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>49,866</u>
Net cash provided by investing activities	<u>49,866</u>
Net increase in cash and cash equivalents	1,777,986
Cash and cash equivalents - Beginning	5,574,678
Cash and cash equivalents - Ending	<u>\$ 7,352,664</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 139,477
Changes in assets and liabilities:	
Receivables	(193,155)
Due from other funds	(2,087)
Prepaid expenses	7,675
Accounts payable	1,632,086
Claims liability	(536,629)
Due to other funds	680,753
Net cash provided by operating activities	<u>\$ 1,728,120</u>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS JUNE 30, 2004

	Retiree Benefits Trust	Other Private- Purpose Trust	Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,652,647	\$ 1,838,663	\$ 646,790
Due from other funds	7,848	-	-
<b>Total assets</b>	<u>\$ 1,660,495</u>	<u>\$ 1,838,663</u>	<u>\$ 646,790</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 4,024	\$ 209,755	\$ -
Due to student groups	-	-	646,790
<b>Total liabilities</b>	<u>4,024</u>	<u>209,755</u>	<u>\$ 646,790</u>
<b>NET ASSETS</b>			
Reserved for scholarships	-	1,628,908	
Unreserved	1,656,471	-	
<b>Total Net Assets</b>	<u>\$ 1,656,471</u>	<u>\$ 1,628,908</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, 2004**

	<b>Retiree Benefits Trust</b>	<b>Other Private- Purpose Trust</b>
<b>ADDITIONS</b>		
Private donations	\$ -	\$ 577,496
District contributions	1,178,629	-
Interest	21,087	19,869
<b>Total Additions</b>	<u>1,199,716</u>	<u>597,365</u>
<b>DEDUCTIONS</b>		
Other expenditures	1,850,156	-
Scholarships awarded	-	216,503
<b>Total Deductions</b>	<u>1,850,156</u>	<u>216,503</u>
<b>Change in Net Assets</b>	(650,440)	380,862
<b>Net Assets - Beginning</b>	2,306,911	1,248,046
<b>Net Assets - Ending</b>	<u>\$ 1,656,471</u>	<u>\$ 1,628,908</u>

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

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Financial Reporting Entity**

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

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

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the district is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing boards of the component units are essentially the same as the governing board of the District and because their purpose is to operate charter schools authorized by the District.

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

**Joint Powers Agencies and Public Entity Risk Pools** The District is associated with the School Excess Liability Fund public entity risk pool. The organization does 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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### **Basis of Presentation—Fund Accounting**

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

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

### **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.

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

**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.

### **Nonmajor Governmental Funds**

**Special Revenue Funds** The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

**Charter Schools Fund** The Charter Schools Special Revenue Fund exists as an option to separately report the activities of those charter schools not included in the General Fund.

**Adult Education Fund** The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

**Child Development Fund** The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

**Cafeteria Fund** The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

**Deferred Maintenance Fund** The Deferred Maintenance Fund to accumulate General Fund resources designated for the purposes of major repair or replacement of District property.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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**Special Reserve Fund for Postemployment Benefits** The Special Reserve Fund for Postemployment Benefits is used to account for amounts the District has earmarked for the future cost of retiree benefits but has not contributed irrevocably to a separate trust for the retiree benefit plan.

**Capital Projects Funds** The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

**Capital Facilities Fund** The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

**State School Building Fund** The State School Building Fund is used primarily to account separately for state school facilities apportionments.

**Debt Service Funds** The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, the 2003 General and Capital Appreciation Bonds.

**Tax Override Fund** The Tax Override Fund is used for the repayment of the voted indebtedness tax levies to be financed from ad valorem tax levies.

**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 student body agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District 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).



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### **Basis of Accounting—Measurement Focus**

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each 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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

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

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 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.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

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### **Investments**

Investments held at June 30, 2004, 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.

### **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, 2004**

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### **Compensated Absences**

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

### **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, 2004**

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### **Net Assets**

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

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, 2004**

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### **Property Tax**

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

### **New Accounting Pronouncement**

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. This statement does not have a significant impact on the financial statements of the District. The adoption of this Statement has no impact on the District's financial statements.

## **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, 2004**

### Cash

Cash at June 30, 2004, 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	\$ 636,167	\$ 1,725,070	\$ 2,361,237
Cash in revolving fund	-	49,280	49,280
Cash with fiscal agent	-	247,892	247,892
Total	<u>\$ 636,167</u>	<u>\$ 2,022,242</u>	<u>\$ 2,658,409</u>

	Governmental Carrying Amount	Proprietary Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 83,425	\$ 1,955,942	\$ 646,790	\$ 2,686,157
Cash in revolving fund	75,000	-	-	75,000
Cash with fiscal agent	47,892	200,000	-	247,892
Cash awaiting deposit	489,872	194,502	435	684,809
	<u>\$ 696,189</u>	<u>\$ 2,350,444</u>	<u>\$ 647,225</u>	<u>\$ 3,693,858</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, 2004

The investments at June 30, 2004 had reported and fair values and were categorized as follows:

	Fair Market Value	Reported in Governmental Funds	Reported in Proprietary Fund	Reported in Fiduciary Funds	Total
Uncategorized:					
U.S. Treasury	\$ 19,900	\$ -	\$ -	\$ 19,900	\$ 19,900
Deposits with county treasurer	78,497,950	70,056,167	5,002,220	3,470,975	78,529,362
	<u>\$ 78,517,850</u>	<u>\$ 70,056,167</u>	<u>\$ 5,002,220</u>	<u>\$ 3,490,875</u>	<u>\$ 78,549,262</u>
Cash		\$ 696,189	\$ 2,350,444	\$ 647,225	\$ 3,693,858
Investments		70,056,167	5,002,220	3,490,875	78,549,262
Cash and cash equivalents		<u>\$ 70,752,356</u>	<u>\$ 7,352,664</u>	<u>\$ 4,138,100</u>	<u>\$ 82,243,120</u>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements and interest and other local sources. All receivables are considered collectible in full.

	General	Nonmajor Funds	Total	Proprietary
Federal Government				
Categorical aid	\$ 6,343,037	\$ 1,136,785	\$ 7,479,822	\$ -
State Government				
Apportionment	1,265,655	325,557	1,591,212	-
Categorical aid	1,936,248	172,841	2,109,089	-
Lottery	1,137,762	82,305	1,220,067	-
Local Government				
Other Local Sources	2,187,199	274,001	2,461,200	193,155
Total	<u>\$ 12,869,901</u>	<u>\$ 1,991,489</u>	<u>\$ 14,861,390</u>	<u>\$ 193,155</u>

Additional long-term receivables include \$581,239 for a special education settlement with payments expected to be received annually over the next seven years.



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$ 9,021,890	\$ -	\$ -	\$ 9,021,890
Construction in Progress	32,884,711	31,554,601	-	64,439,312
Total Capital Assets not being depreciated	41,906,601	31,554,601	-	73,461,202
Capital Assets being depreciated:				
Buildings and Improvements	95,055,879	591,092	-	95,646,971
Furniture and Equipment	2,597,263	29,536	-	2,626,799
Total Capital Assets being depreciated	97,653,142	620,628	-	98,273,770
Total Capital Assets	139,559,743	32,175,229	-	171,734,972
Less Accumulated Depreciation:				
Buildings and Improvements	38,895,645	4,759,837	-	43,655,482
Furniture and Equipment	955,573	245,380	-	1,200,953
Total Accumulated Depreciation	39,851,218	5,005,217	-	44,856,435
Governmental Activities Capital Assets, Net	\$ 99,708,525	\$ 27,170,012	\$ -	\$ 126,878,537

Depreciation was allocated to the different functions as follows:

### Governmental Activities

Instruction	\$ 3,134,795
Supervision of Instruction	229,044
Instructional Library & Media	57,590
School Site Administration	559,060
Home to School Transportation	181,815
Food Services	193,642
All Other Pupil Services	316,409
Ancillary Services	31,215
Community Services	102
All General Administration	263,913
Data Processing Services	37,632
Total Depreciation Expenses All Activities	\$ 5,005,217

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### NOTE 5 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances at June 30, 2004, between major and nonmajor governmental funds, internal service funds, and fiduciary funds are as follows:

		Due to				
		General	County School Facilities	Nonmajor Governmental	Internal Service	Total
Due from	General	\$ -	\$ 750,170	\$ 2,784,123	\$ 730,756	\$ 4,265,049
	Nonmajor governmental	1,156,032	-	108,285	-	1,264,317
	Internal Service	15,832	-	8,285	-	24,117
	Retiree Benefits - Trust	-	-	7,848	-	7,848
	Total	\$ 1,171,864	\$ 750,170	\$ 2,908,541	\$ 730,756	\$ 5,561,331

All remaining balances 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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

### Operating Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following:

Transfer From	Transfer To		
	General	Nonmajor Governmental	Total Governmental
General	\$ -	\$ 717,503	\$ 717,503
County School Facilities	179,571	544,226	723,797
Nonmajor Governmental	59,949	-	59,949
Retiree Benefit - Trust	-	371,598	371,598
Total	\$ 239,520	\$ 1,633,327	\$ 1,872,847

The General fund transferred to the Adult Education fund for contributions.	\$ 101,160
The General fund transferred to the Child Development fund for contributions.	18,843
The General fund transferred to the Deferred Maintenance fund for state match.	597,500
The State School Building fund transferred to the General fund for return of contributions.	59,949
The County School Facilities fund transferred to the Deferred Maintenance fund for return of contributions.	170,337
The County School Facilities fund transferred to the General fund for return of contributions.	179,571
The County School Facilities fund transferred to the Adult Education fund for purchase of Radcliff Property.	373,889
The Retiree Benefits Trust fund transferred to the Retiree Benefits Government fund for contributions.	371,598
	<u>\$ 1,872,847</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	General	Building	County School Facilities	Nonmajor Governmental	Total	Proprietary	Fiduciary
Vendor payables	\$ 1,708,512	\$ 78,344	\$ 1,352,743	\$ 621,393	\$ 3,760,992	\$ 1,633,196	\$ 213,779
State apportionment	698,737	-	-	-	698,737	-	-
Salaries and benefits	865,826	-	-	425,116	1,290,942	-	-
Total	<u>\$ 3,273,075</u>	<u>\$ 78,344</u>	<u>\$ 1,352,743</u>	<u>\$ 1,046,509</u>	<u>\$ 5,750,671</u>	<u>\$ 1,633,196</u>	<u>\$ 213,779</u>

### NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	General	County School Facilities	Nonmajor Governmental	Total
Federal financial assistance	\$ 1,387,315	\$ -	\$ 66,046	\$ 1,453,361
State categorical aid	717,126	-	446,505	1,163,631
School facilities apportionment	-	23,885,623	5,179	23,890,802
Other local	1,064,199	-	-	1,064,199
Total	<u>\$ 3,168,640</u>	<u>\$ 23,885,623</u>	<u>\$ 517,730</u>	<u>\$27,571,993</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### NOTE 8 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building	County School Facilities	Nonmajor Governmental	Total	Fiduciary Funds
<b>Reserved</b>						
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 20,000	\$ 75,000	\$ -
Stores inventory	183,639	-	-	177,915	361,554	-
Prepaid expenditures	-	-	-	-	-	-
Restricted programs	2,348,262	-	-	-	2,348,262	-
Total Reserved	2,586,901	-	-	197,915	2,784,816	-
<b>Unreserved</b>						
Designated						
Economic uncertainty	4,247,859	-	-	-	4,247,859	-
Other designation	1,151,740	-	-	-	1,151,740	-
Total Designated	5,399,599	-	-	-	5,399,599	-
Undesignated	5,545,365	27,339,945	2,094,768	10,857,666	45,837,744	3,285,379
Total Unreserved	10,944,964	27,339,945	2,094,768	10,857,666	51,237,343	3,285,379
Total	\$ 13,531,865	\$ 27,339,945	\$ 2,094,768	\$ 11,055,581	\$ 54,022,159	\$ 3,285,379

### 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, 2003	Accretion/ Additions	Deductions	Balance June 30, 2004	Due in one year
Certificates of participation	\$ 1,630,000	\$ -	\$ 25,000	\$ 1,605,000	\$ 30,000
General obligation bonds	39,995,542	14,670	-	40,010,212	750,000
Accumulated vacation - net	1,211,085	128,423	-	1,339,508	1,339,508
Capital leases	1,612,003	-	403,763	1,208,240	332,296
State building loan	-	70,000	-	70,000	14,000
Energy service contract	1,449,440	-	181,180	1,268,260	181,180
	<u>\$ 45,898,070</u>	<u>\$ 213,093</u>	<u>\$ 609,943</u>	<u>\$ 45,501,220</u>	<u>\$ 2,646,984</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2004**

### 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, of which \$11,000,000 was redeemed in fiscal year ending June 30, 2003. At June 30, 2004, the principal balance outstanding was \$1,605,000. During the current year the District redeemed \$25,000 of the outstanding certificates. 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
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	35,000	56,356	91,356
2010-2014	190,000	264,725	454,725
2015-2019	245,000	223,094	468,094
2020-2024	315,000	165,869	480,869
2025-2029	400,000	93,125	493,125
2030-2032	300,000	17,650	317,650
Total	<u>\$ 1,605,000</u>	<u>\$ 1,060,769</u>	<u>\$ 2,665,769</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. The interest rates vary from year to year. The current rate, as set by the depository trust company is 2%. At June 30, 2004, the principal balance outstanding was \$40,010,212.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The Bonds mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 750,000	\$ 1,760,426	\$ 2,510,426
2006	935,000	1,745,426	2,680,426
2007	1,035,000	1,726,726	2,761,726
2008	550,000	1,706,026	2,256,026
2009	630,000	1,694,338	2,324,338
2010-2014	4,595,000	8,113,512	12,708,512
2015-2019	7,790,000	6,939,600	14,729,600
2020-2024	12,485,000	4,596,500	17,081,500
2025-2027	11,225,542	1,266,654	12,492,196
Subtotal	39,995,542	\$ 29,549,208	\$ 69,544,750
Accretion to date:	14,670		
Total general obligation bonds	<u>\$ 40,010,212</u>		

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$1,339,508.

### Capital Leases

The District has entered into the following capital lease arrangements and has recorded capital assets and corresponding accumulated depreciation based on the estimated cost assessment of such assets at July 1, 2002. The District's liability on lease agreements with options to purchase are summarized below:

	Portable Classrooms	Porter Building	Buses	Modular Room	7 Year Portable	Total
Balance, July 1, 2003	\$ 113,840	\$ 1,108,410	\$ 450,825	\$ 84,525	\$ 232,263	\$ 1,989,863
Additions	-	-	-	-	-	-
Payments	(22,767)	(92,367)	(300,550)	(28,175)	(38,712)	(482,571)
Balance, June 30, 2004	<u>\$ 91,073</u>	<u>\$ 1,016,043</u>	<u>\$ 150,275</u>	<u>\$ 56,350</u>	<u>\$ 193,551</u>	<u>\$ 1,507,292</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2004**

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2005	\$ 332,295
2006	182,021
2007	153,846
2008	153,846
2009	131,078
2010-2014	461,838
2015	92,368
Total	1,507,292
Less: Amount Representing Interest	299,052
Present Value of Minimum Lease Payments	<u>\$ 1,208,240</u>

### State Building Loan

The Watsonville Charter School received \$70,000 in loans from the State with an interest rate of 1.61%. State school building loans outstanding as of June 30, 2004, are as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 14,000	\$ 1,921	\$ 15,921
2006	14,000	874	14,874
2007	14,000	648	14,648
2008	14,000	423	14,423
2009	14,000	109	14,109
Total	<u>\$ 70,000</u>	<u>\$ 3,975</u>	<u>\$ 73,975</u>

### Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2005	\$ 181,180
2006	181,180
2007	181,180
2008	181,180
2009	181,180
2010-2011	362,360
Total	<u>\$ 1,268,260</u>



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### 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, 222 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 \$2,719,684 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2004, amounts to \$7,613,970. 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, 2004, multiplied by the number of years of payments remaining. The District established an irrevocable 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, 2004, 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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

### Claims Liabilities

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

### Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2002, to June 30, 2004:

Liability Balance, July 1, 2002	\$ 2,162,030
Claims and changes in estimates	20,381,960
Claims payments	(20,188,826)
Liability Balance, June 30, 2003	2,355,164
Claims and changes in estimates	24,547,494
Claims payments	25,084,123
Liability Balance, June 30, 2004	\$ 1,818,535
Assets available to pay claims at June 30, 2004	\$ 5,220,542

### 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 2003-2004 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, 2004, 2003, and 2002 were \$5,793,934, \$5,687,256, and \$5,203,982, respectively, and equal 100 percent of the required contributions for each year.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

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### **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 year 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2004 and 2003 were \$2,337,984 and \$623,602 respectively 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 year ending June 30, 2002.

### **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 \$1,600,489 (2.28 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These payments have been recorded in the financial statements.

## **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, 2004.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2004**

### **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, 2004.

### **Construction Commitments**

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Radcliff	\$ 2,899,791	6/30/05
Landmark	4,360,373	6/30/05
Pajaro Valley High	16,430,319	7/30/05
Aptos High	22,753,552	10/01/06
Watsonville High	18,065,766	01/01/07
E.A. Hall	1,207,801	12/01/05
Mintie White	1,224,699	12/01/05
Pajaro Valley High	1,949,073	11/01/05
	<u>\$ 68,891,374</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, 2004

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

<b>Entity</b>	School Excess Liability Fund
<b>Purpose</b>	To establish and operate cooperative programs of risk pooling, insurance, and risk management for excess liability and property
<b>Participants</b>	School district/county school offices
<b>Governing Board</b>	One representative from each member district

### Condensed Audited Financial Information Follows

		June 30, 2003*
Assets		\$ 139,052,615
Liabilities		107,855,085
Fund Equity		\$ 31,197,530
Revenues		\$ 40,290,486
Expenses		56,733,282
Net Increase in Fund Equity		\$ (16,442,796)
Payments for the Current Year		\$ 258,877

\* Most recent information available

### NOTE 15 – TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2002, the District issued \$26,500,000 Tax and Revenue Anticipation Notes bearing interest at 1.75 percent. Interest and principal were due and payable by July 1, 2004. By May 1, 2004, 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 \$22,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2004. The notes mature on June 30, 2005, and yield 1.58 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 January 31, 2005, and the remaining 50 percent of principal and interest due on account by April 30, 2005.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (unfavorable)
	Original	Final		Final to Actual
<b>Revenues:</b>				
Revenue limit sources	\$ 86,333,738	\$ 85,820,255	\$ 85,993,268	\$ 173,013
Federal sources	20,234,335	17,876,124	19,315,754	1,439,630
Other state sources	33,899,476	35,058,356	35,982,322	923,966
Other local sources	3,042,951	2,670,321	3,077,673	407,352
<b>Total revenues:</b>	<b>143,510,500</b>	<b>141,425,056</b>	<b>144,369,017</b>	<b>2,943,961</b>
<b>Expenditures</b>				
<b>Current</b>				
Instruction	85,021,914	82,640,469	82,694,942	(54,473)
Instruction related activities:				
Supervision of instruction	4,556,325	5,425,487	5,948,943	(523,456)
Instructional library, media and technology	1,369,693	1,472,445	1,530,527	(58,082)
School site administration	15,371,505	14,267,362	14,405,328	(137,966)
Pupil services:				
Home-to-school transportation	5,018,753	5,637,081	5,334,116	302,965
All other pupil services	8,941,698	8,366,365	8,566,052	(199,687)
General Administration:				
Data processing	1,710,361	1,082,269	1,104,061	(21,792)
All other general administration	7,486,230	6,469,918	6,007,470	462,448
Plant services	12,214,818	11,451,117	11,313,534	137,583
Facility acquisition and construction	164,259	888,160	148,755	739,405
Ancillary services	910,743	917,564	915,781	1,783
Community services	7,000	-	3,000	(3,000)
Other outgo	3,244,590	3,854,056	3,527,262	326,794
Debt Service				
Principal	356,455	334,558	445,742	(111,184)
Interest	29,540	32,560	388,999	(356,439)
<b>TOTAL EXPENDITURES</b>	<b>146,403,884</b>	<b>142,839,411</b>	<b>142,334,512</b>	<b>504,899</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(2,893,384)</b>	<b>(1,414,355)</b>	<b>2,034,505</b>	<b>3,448,860</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	50,000	63,611	239,520	175,909
Other sources	25,000	24,399	-	(24,399)
Transfers out	(698,660)	(698,660)	(717,503)	(18,843)
<b>NET FINANCING SOURCES (USES)</b>	<b>(623,660)</b>	<b>(610,650)</b>	<b>(477,983)</b>	<b>132,667</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,517,044)</b>	<b>(2,025,005)</b>	<b>1,556,522</b>	<b>3,581,527</b>
Fund balance - Beginning	11,975,343	11,975,343	11,975,343	-
Fund balance - Ending	\$ 8,458,299	\$ 9,950,338	\$ 13,531,865	\$ 3,581,527

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***SUPPLEMENTARY INFORMATION***

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS BALANCE SHEET (UNAUDITED) JUNE 30, 2004

	Charter Schools Fund	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,739,320	\$ 349,031	\$ 1,063,330	\$ 353,055	\$ 403,737
Receivables	300,077	484,072	42,936	1,001,195	-
Due from other funds	395,552	252,049	19,216	-	597,500
Prepaid expenses	22,768	92,368	-	-	-
Stores inventories	-	-	-	177,915	-
<b>Total assets</b>	<u>\$ 2,457,717</u>	<u>\$ 1,177,520</u>	<u>\$ 1,125,482</u>	<u>\$ 1,532,165</u>	<u>\$ 1,001,237</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 130,285	\$ 138,485	\$ 569,425	\$ 178,020	\$ 12,810
Due to other funds	1,099,522	331,605	205,872	1,172,687	-
Deferred revenue	-	167,545	350,185	-	-
<b>Total liabilities</b>	<u>1,229,807</u>	<u>637,635</u>	<u>1,125,482</u>	<u>1,350,707</u>	<u>12,810</u>
<b>Fund Balances:</b>					
Reserved for:					
Stores inventories	-	-	-	177,915	-
Other reservations	20,000	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	1,207,910	539,885	-	3,543	988,427
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
<b>Total fund balance</b>	<u>1,227,910</u>	<u>539,885</u>	<u>-</u>	<u>181,458</u>	<u>988,427</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,457,717</u>	<u>\$ 1,177,520</u>	<u>\$ 1,125,482</u>	<u>\$ 1,532,165</u>	<u>\$ 1,001,237</u>

See accompanying note to supplementary information.

Special Reserve Postemployee Benefits Fund	Capital Facilities Fund	State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Non Major Governmental Funds
\$ 371,598	\$ 6,003,043	\$ -	\$ 1,665,357	\$ 31,032	\$ 11,979,503
-	163,210	-	-	-	1,991,490
-	-	-	-	-	1,264,317
-	-	-	-	-	115,136
-	-	-	-	-	177,915
<u>\$ 371,598</u>	<u>\$ 6,166,253</u>	<u>\$ -</u>	<u>\$ 1,665,357</u>	<u>\$ 31,032</u>	<u>\$ 15,528,361</u>
\$ -	\$ 17,109	\$ -	\$ 375	\$ -	\$ 1,046,509
-	98,855	-	-	-	2,908,541
-	-	-	-	-	517,730
-	115,964	-	375	-	4,472,780
-	-	-	-	-	177,915
-	-	-	-	-	20,000
371,598	-	-	-	-	3,111,363
-	-	-	1,664,982	31,032	1,696,014
-	6,050,289	-	-	-	6,050,289
<u>371,598</u>	<u>6,050,289</u>	<u>-</u>	<u>1,664,982</u>	<u>31,032</u>	<u>11,055,581</u>
<u>\$ 371,598</u>	<u>\$ 6,166,253</u>	<u>\$ -</u>	<u>\$ 1,665,357</u>	<u>\$ 31,032</u>	<u>\$ 15,528,361</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2004

	Charter Schools Fund	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>Revenues</b>					
Revenue limit sources	\$ 2,230,948	\$ 2,226,509	\$ -	\$ -	\$ -
Federal sources	-	435,439	5,196,191	4,158,913	-
Other state sources	1,275,480	385,914	1,576,744	248,650	241,435
Other local sources	3,560,166	186,307	74,352	1,607,165	4,435
<b>TOTAL REVENUES</b>	<b>7,066,594</b>	<b>3,234,169</b>	<b>6,847,287</b>	<b>6,014,728</b>	<b>245,870</b>
<b>Expenditures</b>					
Current					
Instruction	4,398,013	1,908,211	4,568,494	-	-
Instruction related activities:					
Supervision of instruction	53,308	192,952	524,517	-	-
Instructional library and technology	126,586	31,808	670	-	-
School site administration	821,140	818,659	356,683	-	-
Pupil services:					
Food services	-	-	11,005	5,891,024	-
All other pupil services	71,093	23,322	622,407	-	-
General administration:					
All other general administration	1,212,572	132,104	258,911	123,704	-
Plant services	252,174	84,302	523,445	-	219,501
Facility acquisition and construction	(31,461)	375,860	-	-	-
Debt service					
Principal	19,695	67,827	-	-	-
Interest and other	3,073	24,541	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>6,926,193</b>	<b>3,659,586</b>	<b>6,866,132</b>	<b>6,014,728</b>	<b>219,501</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>140,401</b>	<b>(425,417)</b>	<b>(18,845)</b>	<b>-</b>	<b>26,369</b>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	475,049	18,843	-	767,837
Other sources	70,000	-	-	-	-
Transfers out	-	-	-	-	-
<b>NET FINANCING SOURCES (USES)</b>	<b>70,000</b>	<b>475,049</b>	<b>18,843</b>	<b>-</b>	<b>767,837</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>210,401</b>	<b>49,632</b>	<b>(2)</b>	<b>-</b>	<b>794,206</b>
Fund Balance - Beginning	1,017,509	490,253	2	181,458	194,221
Fund Balance - Ending	<b>\$ 1,227,910</b>	<b>\$ 539,885</b>	<b>\$ -</b>	<b>\$ 181,458</b>	<b>\$ 988,427</b>

See accompanying note to supplementary information.

Special Reserve Postemployee Benefits Fund	Capital Facilities Fund	State School Building Fund	Bond Interest and Redemption Fund	Tax Override Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,457,457
-	-	-	-	-	9,790,543
-	-	27,074	5,306	-	3,760,603
-	5,630,509	160	2,541,496	2	13,604,592
-	5,630,509	27,234	2,546,802	2	31,613,195
-	-	-	-	-	10,874,718
-	-	-	-	-	770,777
-	-	-	-	-	159,064
-	-	-	-	-	1,996,482
-	-	-	-	-	5,902,029
-	-	-	-	-	716,822
-	7,966	-	-	-	1,735,257
-	777,767	-	-	-	1,857,189
-	165,957	-	-	-	510,356
-	76,679	-	-	-	164,201
-	18,381	-	1,365,937	-	1,411,932
-	1,046,750	-	1,365,937	-	26,098,827
-	4,583,759	27,234	1,180,865	2	5,514,368
371,598	-	-	-	-	1,633,327
-	-	-	-	-	70,000
-	-	(59,949)	-	-	(59,949)
371,598	-	(59,949)	-	-	1,643,378
371,598	4,583,759	(32,715)	1,180,865	2	7,157,746
-	1,466,530	32,715	484,117	31,030	3,897,835
\$ 371,598	\$ 6,050,289	\$ -	\$ 1,664,982	\$ 31,032	\$ 11,055,581

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program	Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through CDE:			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	04329	\$ 4,950,249
Title I, Part C, Migrant Education <sup>[1]</sup>	84.011	03174	5,391,389
Title I, Program Improvement & School Choice	84.348	04106	5,206
Title II, Part A, Teacher Quality <sup>[1]</sup>	84.367	04341	1,007,902
Title II, Part D, Enhancing Education Through Technology	84.318	04335	259,660
Title III, Bilingual Education Discretionary Grants	84.290	00008	1,630,335
Title III, Limited English Proficiency Student Program	84.365	00084	645,301
Title IV, Part A, Drug-Free Schools	84.186	04347	158,690
Title IV, Part B, 21st Century Community Centers	84.287	04349	712,301
Title V, Part A, Innovative Education Strategies	84.298A	04354	103,537
Title V, Part B, Charter Schools Grants	84.282	03150	56,738
Individuals with Disabilities Act:			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	03379	2,629,278
IDEA Preschool Grants, Part B, Sec 619	84.173	03430	182,858
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	03682	275,942
IDEA Local Staff Development Grant, Part B, Sec 611	84.027A	03613	11,307
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	03431	1,350
IDEA State/Staff Development	84.027A	03615	12,272
IDEA Early Intervention Grants	84.181	03761	246,523
Workability II, Transition Partnership	84.158	00006	210,716
Carl Perkins Act:			
Vocational and Applied Sex Bias/Equity II B	84.048	03570	11,403
Vocational and Applied Technology, Secondary II C	84.048	03577	174,265
Adult Education Act:			
Priority 1-3 Adult Basic Education	84.002A	03973	4,275
Priority 1-3, English as a Second Language	84.002A	04302	19,297
Priority 4, Family Literacy	84.002A	03977	126,000
Priority 5, Adult Secondary Education	84.002A	03978	15,525
Priority 1-3, ESL Citizenship	84.002	03974	136,800
English Literacy & Civics Education	84.002A	04109	114,192
Vocational Literacy	84.002	14494	19,350
Federal School Renovation Classroom Technology	84.352A	04318	29,015
Subtotal			<u>19,141,676</u>

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

#### Passed through CDE:

#### Child Development Act:

Quality Improvement Activities	93.575	03942	3,758
Infant/Toddler Child Care Resource Contracts	93.575	03942	2,511
Head Start <sup>[1]</sup>	93.600	00016	5,189,922
Medi-Cal Billing Option	93.778	00013	417,117
LEA Medi-Cal Billing Option	93.778	00013	192,400
Subtotal			<u>5,805,708</u>

### U.S. DEPARTMENT OF AGRICULTURE

#### Passed through CDE:

#### Child Nutrition Act:

Lunch	10.556	04198	2,767,137
Summer	10.556	04198	326,164
Child Care	10.556	04198	191,486
Commodity grants at fair market value	10.550	03389	220,915
Breakfast	10.556	04198	525,096
Needy Breakfast	10.556	04198	4,026
Supplement	10.556	04198	124,089
Subtotal			<u>4,158,913</u>
Total Federal Programs			<u>\$ 29,106,297</u>

<sup>[1]</sup> Tested as a major program

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2004

	Amended Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	1,310	1,317
First through third	3,927	3,936
Fourth through sixth	3,909	3,909
Seventh and eighth	2,701	2,693
Opportunity schools	12	12
Home and hospital	6	6
Special education	241	242
Total Elementary	12,106	12,114
<b>SECONDARY</b>		
Regular classes	4,517	4,462
Continuation education	174	173
Home and hospital	7	8
Special education	166	162
Community Education	55	50
Total Secondary	4,920	4,856
Total K-12	17,026	16,970
<b>CLASSES FOR ADULTS</b>		
Concurrently enrolled	1,118	1,023
Not concurrently enrolled	6	10
Adults in correctional facilities	48	46
Total Classes for Adults	1,172	1,079
<b>CHARTER SCHOOLS</b>		
Elementary	1,066	1,067
Secondary	179	179
Total Charter Schools	1,245	1,246
Grand Total	19,442	19,294
		<b>Hours of Attendance</b>
<b>SUMMER SCHOOL</b>		
Elementary		471,226
High School		399,711
Charter Schools		7,899
Total Hours		878,836

See accompanying note to supplementary information.



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2004

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	2003-04 Actual Minutes	Status
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 - 3	50,400	42,000	50,415	In Compliance
Grades 4 - 6	54,000	52,500	54,000	In Compliance
Grades 7 - 8	54,000	52,500	54,000	In Compliance
Grades 9 - 12	64,800	59,500	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, 2004**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements as of June 30, 2004.

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

	(Budget) 2005 <sup>(1)</sup>	2004	2003	2002
<b>GENERAL FUND</b>				
Revenues <sup>(3)</sup>	\$ 144,609,304	\$ 142,912,298	\$ 143,376,670	\$ 147,519,171
Other sources and transfers in	70,000	239,520	223,903	756,531
Total Revenues and Other Sources	144,679,304	143,151,818	143,600,573	148,275,702
Expenditures <sup>(3)</sup>	146,680,996	140,877,793	141,538,996	146,712,937
Other uses and transfers out	119,244	717,503	809,146	870,399
Total Expenditures and Other Uses	146,800,240	141,595,296	142,348,142	147,583,336
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>	\$ (2,120,936)	\$ 1,556,522	\$ 1,252,431	\$ 692,366
<b>FUND EQUITY TRANSFER</b>	\$ -	\$ -	\$ (1,315,465)	\$ -
<b>ENDING FUND BALANCE</b>	\$ 11,410,929	\$ 13,531,865	\$ 11,975,343	\$ 12,038,377
<b>AVAILABLE RESERVES <sup>(2)</sup></b>	\$ 8,337,918	\$ 9,793,231	\$ 8,883,941	\$ 6,379,904
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	5.7%	6.9%	6.2%	4.3%
<b>LONG-TERM DEBT</b>	\$ 42,854,236	\$ 45,501,220	\$ 45,898,070	\$ 17,131,739
<b>AVERAGE DAILY ATTENDANCE AT P-2 <sup>(4)</sup></b>	17,314	17,026	17,166	17,311

The general fund balance has increased by \$1,493,488 over the past two years. The fiscal year 2004-05 budget projects a decrease of \$2,120,936. 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 increased by \$28,369,481 over the past two years mainly due to the issuance of new bonds in fiscal year ending 2003.

Average daily attendance has decreased by 285 over the past two years. Growth of 288 in ADA is anticipated during fiscal year 2004-05.

1 Budget 2005 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 STRS on behalf contribution in the amount of \$1,456,719.

4 Excludes Adult Education ADA and Charter Schools ADA.

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2004

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Academic Vocational	Yes
Linscott Elementary	Yes
Watsonville School of Arts	Yes
Pacific Coast Charter School	Yes
Alianza Elementary	Yes

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## CHARTER SCHOOLS

### STATEMENT OF CHANGES IN FUND BALANCE (UNAUDITED)

JUNE 30, 2004

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund Balance, Beginning	\$ (85,903)	\$ (122,488)	\$ 509,524	\$ 713,723	\$ 2,653	\$ 1,017,509
Revenues	1,122,415	723,915	1,000,537	3,827,213	385,655	7,059,735
Expenditures	(990,756)	(629,064)	(1,122,250)	(3,716,334)	(390,930)	(6,849,334)
Fund Balance, Ending	<u>\$ 45,756</u>	<u>\$ (27,637)</u>	<u>\$ 387,811</u>	<u>\$ 824,602</u>	<u>\$ (2,622)</u>	<u>\$ 1,227,910</u>

See accompanying note to supplementary information.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004**

### **NOTE 1 - PURPOSE OF SCHEDULES**

#### **Schedule of Expenditures of Federal Awards**

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

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

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

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46200 through 46206.

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

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

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

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

#### **Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance (Unaudited)**

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

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION**

**JUNE 30, 2004**

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### **Schedule of Charter Schools**

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

### **Charter Schools – Statement of Changes in Fund Balance (Unaudited)**

The Charter School Statement of Changes in Fund Balance provides information about the changes in fund balance in each of the five charter schools the District operates.

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***INDEPENDENT AUDITORS' REPORTS***

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

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 Pajaro Valley Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pajaro Valley Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pajaro Valley Unified School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as item 2004-1.

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



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pajaro Valley Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

*Vavrinek, Trine, Day, & Co LLP*

Pleasanton, California  
November 12, 2004





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, 2004. 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, 2004.



### Internal Control Over Compliance

The management of Pajaro Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pajaro Valley Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the 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.

*YavineK, Ture, Day & Co LLP*

Pleasanton, California

November 12, 2004







## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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 as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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.

The management of Pajaro Valley Unified School District is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Pajaro Valley Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	6	Yes
Kindergarten continuance	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not Applicable
Community day schools	9	No



	Procedures in Controller's Audit Guide	Procedures Performed
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform testing for Community Day School because the Santa Cruz County Office of Education operated the amount of ADA generated by that program and was subject to the Santa Cruz County Office of Education's audit.

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, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. 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, except as described in the Schedule of State Award Findings and Questioned Costs included in this report.

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

*Vavrinek, Tine, Day, & Co LLP*

Pleasanton, California  
November 12, 2004

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

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

### SUMMARY OF AUDITORS' RESULTS

#### 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?	Yes
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:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.011	Migrant Education
93.500	Headstart
84.347	Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 873,189
Auditee qualified as low-risk auditee?	Yes

#### STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Reporting conditions identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for state programs:	Qualified

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

### FINANCIAL STATEMENT FINDINGS

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

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

#### 2004-1 Associated Student Body - 30000

##### Criteria or specific requirements

General best accounting practices emphasize the importance of good internal controls. Strong internal controls over associated student body (ASB) funds are especially important due to the decentralized nature of ASB cash collections and disbursements.

##### Condition

- Bradley Elementary - We noted that the ASB receipts were not logged into a receipt book. The ASB did not have any records or recaps indicating what the cash receipts were throughout the year.
- Aptos Junior High – We noted that the site logs the receipts of the ASB funds and district site cash collections in one receipt book.
- Aptos High - We noted that the site logs the receipts of the ASB funds and district site cash collections in one receipt book. We also noted that Aptos High ASB's bank reconciliation contained stale dated outstanding checks that were over six months old. In addition, Aptos High ASB did not have adequate ticket control over its major fund raising activities and the average length of time between collection of funds and bank deposit during January 2004 exceeded one month.
- Pacific Coast Charter - We noted that the site logs the receipts of the ASB funds and district site cash collections in one receipt book.

##### Questioned costs

None

##### Context

All ASB cash collections at Bradley Elementary, Aptos Junior High, Aptos High, and Pacific Coast Charter Schools.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004**

### Effect

Lack of receipt documentation, co-mingling of ASB cash collections in receipt books along with site cash collections, and delays in depositing collections exposes ASB receipts to a greater risk of misstatement and causes difficulty in verifying that all cash collected was deposited to the bank accounts intact.

Use of one receipt book for amounts collected and recorded in two different sets of accounting records disables the control to reconcile ASB receipts with amounts recorded on the ASB ledgers and the prohibits the ability to reconcile the site cash collections with the cash collection transmittals sent to the District.

### Cause

Lack of cash receipts records, use of one receipt book for both ASB and District funds, and delays in depositing of cash receipts.

### Recommendation

We recommend that the District provide training to the sites on the importance of strengthening the internal controls over ASB funds and require the use of separate pre-numbered cash receipt books for the two different types of cash collected (District and ASB) since they are recorded in two separate sets of accounting records.

The ASBs should insure that all cash receipts are logged into a receipt book. In case of an error or any other reconciliation that needs to be performed in the future, the receipt book would provide the site with a record of what the receipts were throughout the year.

Deposits should be made at the bank at least once every week. Funds that are not deposited timely are at risk of being misappropriated or lost.

Stale dated checks should be written off and allocated back to the original activity they were charged to.

Fund raising activities should have proper controls. Sales summaries should indicate how many tickets were sold and for how much each ticket was sold. A reconciliation between how much should be collected from the sale of those tickets versus how much was collected should be performed for all major fundraisers.

### District Response

The district has notified sites of the findings and will follow up to ensure that separate receipt books and logs are used for each activity. In addition, the district office will also follow up to confirm that deposits are being made in a timely manner and sales summaries are created.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

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### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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The 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.

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### STATE AWARD FINDINGS AND QUESTIONED COSTS

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The following findings represent instances of noncompliance and questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance

#### 2004-2     **Independent Study - 10000**

##### Criteria or specific requirements

Education code 51747 (c) (8) requires that a written agreement containing all required elements be signed by the pupil or pupil's parent or guardian prior to commencement of the independent study.

##### Condition

During our testing of the independent study contracts at Aptos High School, we noted that some of the contracts were lacking the proper signature. In some instances, we noted that some Fall semester agreements were interpreted to be an extension of the Spring semester agreement although the Education code states specifically that an agreement shall state the period for which the student is enrolling in the independent study program, which in these cases, the agreement periods were only covering the Fall semester.

##### Questioned Costs

22% of the apportionment received for independent study at Aptos High, or \$36,831. This amount was calculated as follows 35 ADA \*\$4,783.29/ADA \* 22%.

##### Context

The total amount of independent study P2 and annual ADA generated by Aptos High was 35 ADA. We reviewed 46 contracts and noted that 10 of those contracts, or 22%, were not appropriately signed.



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004

### Effect

The District has received approximately \$36,831 in revenue limit funding that is in question and may need to be repaid to the state.

### Cause

Independent study forms are not renewed when the period covered has expired.

### Recommendation

The site should ensure that all student, teachers and guardians sign the independent study agreement prior to the student enrolling in the program. The District should ensure that the attendance clerk not record ADA unless an agreement exists with all the proper signatures indicating the period for which student was enrolled and the period of the assignment is at least five days.

### District's Response

The site has been notified of the finding and the proper procedure recommended above is to be implemented.

#### **2004-3 Attendance - 10000**

### Criteria or specific requirements

State attendance accounting procedures do not allow average daily attendance credit for students who are absent.

### Condition

An operations error in the use of the SASI software at one site resulted in absent students being claimed for average daily apportionment purposes.

### Questioned Costs

P2 average daily attendance claimed for absent students was 10 ADA or \$47,832 (10\* \$4,783.29/ADA). Annual average daily attendance claimed for absent students was also 10.

### Context

The error occurred at Aptos High and was the result of an employee turnover that occurred, where a new employee was unaware of the need to also mark the absent all day field when each of the multiple class period fields was marked as absent.

## **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2004**

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#### Effect

The site's average daily attendance reported to the District was overstated by inclusion of those students who were not marked absent all day.

#### Cause

Lack of familiarity with the absent code aspects of the SASI software system caused the critical software fields to be left blank and the attendance was then included in the site summaries.

#### Recommendation

We recommend that all site attendance personnel attend regular software training and that new personnel attend training prior to beginning their duties.

#### District's Response

The district has worked with the Aptos High Staff and also has implemented training for all attendance staff.

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### **SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

There were no prior year findings.