

**PAJARO VALLEY UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2005**



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT  
OF SANTA CRUZ COUNTY  
WATSONVILLE, CALIFORNIA  
JUNE 30, 2005**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rhea De Hart	President	2006
Sharon Gray	Vice President	2006
Evelyn Volpa	Member	2006
Karen Osmundson	Member	2008
Doug Keegan	Member	2008
Willie Yahiro	Member	2006
Sandra Nichols	Member	2008

**ADMINISTRATION**

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

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2005

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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 Pajaro Valley Unified School District (the "District") as of and for the year ended June 30, 2005, 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 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2005, 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 16, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 51, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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 unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
November 16, 2005



*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, 2005. 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, 2005

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

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

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

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

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

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

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

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

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

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

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

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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 \$163.3 million and \$138.6 million for the fiscal years ended June 30, 2005 and 2004, respectively. Of this amount, \$12.7 million and \$10.2 million were unrestricted for fiscal years ending June 30, 2005 and 2004, 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, 2005

Table 1

	Governmental Activities 2005	Governmental Activities 2004
Current and other assets	\$ 96,871,912	\$ 94,787,648
Capital assets	157,169,902	126,878,537
<b>Total Assets</b>	<b>254,041,814</b>	<b>221,666,185</b>
Current liabilities	26,564,345	40,183,075
Long-term debt	64,201,689	42,854,236
<b>Total Liabilities</b>	<b>90,766,034</b>	<b>83,037,311</b>
Net assets		
Invested in capital assets, net of related debt	133,761,679	110,056,770
Restricted	16,772,327	18,331,105
Unrestricted	12,741,774	10,240,624
<b>Total Net Assets</b>	<b>\$ 163,275,780</b>	<b>\$ 138,628,499</b>

The \$12.7 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.

### *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 page 13. 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, 2005

**Table 2**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 1,786,398	\$ 1,992,388
Operating grants and contributions	66,524,985	60,045,159
Capital grants and contributions	24,469,832	30,139,250
General revenues:		
Federal and state sources	57,063,714	46,348,899
Property taxes	48,546,230	52,170,708
Other general revenues	11,348,933	16,767,342
<b>Total Revenues</b>	<b>209,740,092</b>	<b>207,463,746</b>
<b>Expenses</b>		
Instruction related	132,751,989	122,361,270
Student support services	20,361,940	21,210,885
Administration	8,470,955	9,137,280
Maintenance and operations	15,574,514	13,117,062
Other	7,933,412	6,674,460
<b>Total Expenses</b>	<b>185,092,810</b>	<b>172,500,957</b>
<b>Change in Net Assets</b>	<b>\$ 24,647,282</b>	<b>\$ 34,962,789</b>

### Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$185 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$48.5 million because \$68.3 million of the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$57.1 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, 2005

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 2005	Net Cost of Services 2004
Instruction and instruction related	\$ 57,943,348	\$ 47,114,706
Pupil services	7,440,718	8,466,821
General Administration	6,194,153	6,354,184
Maintenance and operations	13,957,980	12,232,706
Other	6,775,396	6,155,743
<b>Totals</b>	<b>\$ 92,311,595</b>	<b>\$ 80,324,160</b>

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

As the District completed this year, our governmental funds reported a combined fund balance of \$71.0 million, which is an increase of \$17.0 million from last year.

The primary reasons for these changes are:

1. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$1.7 million to \$15.2 million. This change is due to a combination of the following:
  - a. The District received the Williams Instructional Materials grant funds late in the fiscal year which were unspent due to timing at the end of the year. In addition, the district had identified with the use of the Budget Committee expenditure reductions for fiscal years 03-04 and 04-05 to be implemented in order to maintain a positive balance in the following two years. These reductions have contributed to the additional fund balance.
2. The Building fund (Bond Fund) has an increase in fund balance of \$15.3.
  - a. This increase is due to the financing of the second series of the bond issuance and refunding of the original bond series. The funds have been distributed based on the ratio originally developed to each of the sites covered under the bond.
3. The Trust and Scholarship fund received \$290 K in new Scholarship dollars to help students attend college



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

### General Fund Budgetary Highlights

Our original adopted budget projected an ending fund balance of \$8,116,212 and our final budget projected an ending balance of \$12,147,833. Our actual ending balance at year-end was \$15,196,669, a positive variance of \$3,048,836 from our final budget. Actual revenues exceeded final budgeted revenues by 6,303,661. Actual expenditures were \$3,197,565 higher than the final budgeted amounts. Other financing sources (uses) generated a negative variance of (\$57,260) when comparing actuals to final budget.

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

Our final budget revenues were \$ 147,897,767, however actual revenues were \$154,201,428. The variance, \$6,303,661, is primarily due to higher categorical expenditures in grants than anticipated in addition to higher interest received on the TRANS. 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, 2005 and 2004, the District had \$207.0 million and \$171.7 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 over \$30.3 million, or 24 percent, from last year.

**TABLE 4**

	Governmental Activities 2005	Governmental Activities 2004
Land	\$ 9,021,890	\$ 9,021,890
Construction in progress	99,707,011	64,439,312
Buildings and improvements	95,646,971	95,646,971
Equipment	2,626,799	2,626,799
Accumulated depreciation	(49,832,769)	(44,856,435)
<b>Totals</b>	<b>\$ 157,169,902</b>	<b>\$ 126,878,537</b>

This year's additions of \$35.2 million included several projects such as continuous work on Pajaro Valley High, Finalization of Radcliff Elementary and Landmark Elementary and a number of Bond and Modernization projects that are in process.

Several capital projects are planned for the 2005-06 year. We anticipate the finalization of the Pajaro Valley High Campus and continued construction on the North and South Zone Bond projects. Funds are available to complete ongoing new construction, modernization and bond projects.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

### Long-Term Debt

At the end of this year, the District had \$58.6 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

<i>Years ending</i>	2005	2004
Certificates of participation	\$ 3,220,000	\$ 1,605,000
General obligation bonds	58,621,053	40,010,212
Bond premium	1,072,465	-
Accumulated vacation - net	1,289,790	1,339,508
Capital leases	937,933	1,208,240
Other	1,143,080	1,338,260
<b>Totals</b>	<b>\$ 66,284,321</b>	<b>\$ 45,501,220</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 2004 -2005 ARE NOTED BELOW:***

The State funding increased by 2.85% which was enough to cover our normal increases for employees and operating costs. This required us to continue with the reductions of prior years but did not require any additional reductions. We have been able to keep most of the reductions away from the classroom and still maintain a balanced budget. The District opened Pajaro Valley High School in temporary quarters on Arthur Road while continuing the construction of the \$49 million New Pajaro Valley High School on Harkins Slough Road. We also opened two new elementary schools including Landmark and Radcliff Elementary Schools. The district also continued work on bond projects and multiple modernization projects.

The District built the budget for 2004/2005 for an increase of 300 students due to changes in the geographic location of Alianza Charter School and Watsonville Charter School of the Arts as well as housing growth. The actual growth was only 160 students but is still expected to 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. Therefore, the District's revenue limit is expected to only increase or decrease with changes in the State COLA or the reduction of the state deficit or for 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 negotiated with the bargaining units to implement changes to Health and Welfare plans that supported 10% of the 15% anticipated increase in 2004-05, thereby leaving the district with the responsibility of funding the remaining 5%.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

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

**JUNE 30, 2005**

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The State reduced the deficit in Revenue Limit dollars by 1% in 2005-06 and designated Equalization funds of approximately \$25/ADA. This is additional income to the District of approximately \$1,425,000 in unrestricted revenues. The District continues to maintain the reductions in expenditures made in prior years and has implemented additional reduction in the 2005-06 budget in order to maintain positive balances in the current and subsequent two years as required by the state.

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

In considering the District Budget for the 2005/06 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Projections of revenue limit income include a COLA of 4.23% with a 1% reduction in the deficit applied.
2. Developer fee collections are based on projected new housing units to be constructed.
3. There will be no change in the District's ADA.
4. Employee benefits will be increased by 9%.

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

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

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, 2005

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 81,589,561
Receivables	14,446,733
Prepaid expenses	505,939
Stores inventories	329,679
Capital assets not depreciated	108,728,901
Capital assets depreciated	98,273,770
Less: Accumulated depreciation	(49,832,769)
<b>Total Assets</b>	<b>254,041,814</b>
<b>LIABILITIES</b>	
Accounts payable	8,924,854
Interest payable	1,087,573
Deferred revenue	9,786,504
Claims liability	4,682,782
Bond premium, net of amortization	1,072,465
Current portion of long-term obligations	1,010,167
Noncurrent portion of long-term obligations	64,201,689
<b>Total Liabilities</b>	<b>90,766,034</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	133,761,679
Restricted for:	
Legally restricted	3,940,279
Debt service	445,639
Capital projects	7,388,687
Special revenue	4,997,722
Unrestricted	12,741,774
<b>Total Net Assets</b>	<b>\$ 163,275,780</b>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 103,310,566	\$ 72,640	\$ 34,888,786	\$ 24,469,832	\$ (43,879,308)
Instruction-related activities:					
Supervision of instruction	15,207,710	6,871	13,695,807	-	(1,505,032)
Instructional library, media, and technology	1,785,008	20	523,678	-	(1,261,310)
School site administration	12,448,705	11,465	1,139,542	-	(11,297,698)
Pupil services:					
Home-to-school transportation	5,495,483	82,493	2,993,774	-	(2,419,216)
Food services	5,940,081	1,545,124	4,305,031	-	(89,926)
All other pupil services	8,926,376	84	3,994,716	-	(4,931,576)
General administration:					
Data processing	1,224,545	-	21,320	-	(1,203,225)
All other general administration	7,246,410	53,578	2,201,904	-	(4,990,928)
Plant services	15,574,514	5,833	1,610,701	-	(13,957,980)
Ancillary services	948,396	32	23,744	-	(924,620)
Community services	1,330	2	251	-	(1,077)
Enterprise services	1,554,162	-	-	-	(1,554,162)
Interest on long-term debt	2,833,931	-	-	-	(2,833,931)
Other outgo	2,595,593	8,256	1,125,731	-	(1,461,606)
<b>Total Governmental-Type Activities</b>	<u>\$ 185,092,810</u>	<u>\$ 1,786,398</u>	<u>\$ 66,524,985</u>	<u>\$ 24,469,832</u>	<u>(92,311,595)</u>
General revenues and subventions:					
Property taxes, levied for general purposes					44,961,171
Property taxes, levied for debt service					2,924,921
Taxes levied for other specific purposes					660,138
Federal and State aid not restricted to specific purposes					57,063,714
Interest and investment earnings					1,178,947
Transfers					2,536,180
Miscellaneous					7,633,806
<b>Subtotal, General Revenues</b>					<u>116,958,877</u>
<b>Change in Net Assets</b>					<u>24,647,282</u>
Net Assets - Beginning					<u>138,628,498</u>
Net Assets - Ending					<u>\$ 163,275,780</u>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	General Fund	Building Funds	County School Facilities Fund
<b>ASSETS</b>			
Deposits and investments	\$ 8,885,738	\$ 42,992,332	\$ 7,096,275
Receivables	11,980,603	-	189,186
Due from other funds	3,950,475	38,796	764,542
Prepaid expenses	362,628	-	-
Stores inventories	201,774	-	-
<b>Total Assets</b>	<b>\$ 25,381,218</b>	<b>\$ 43,031,128</b>	<b>\$ 8,050,003</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,800,238	\$ 351,571	\$ 1,995,508
Due to other funds	937,043	5,676	966
Deferred revenue	5,447,268	-	3,751,711
<b>Total Liabilities</b>	<b>10,184,549</b>	<b>357,247</b>	<b>5,748,185</b>
<b>Fund Balances:</b>			
Reserved for:			
Stores inventories	201,774	-	-
Other reservations	4,282,907	-	-
Unreserved:			
Designated	5,588,419	-	-
Undesignated, reported in:			
General Fund	5,123,569	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	42,673,881	2,301,818
<b>Total Fund Balance</b>	<b>15,196,669</b>	<b>42,673,881</b>	<b>2,301,818</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 25,381,218</b>	<b>\$ 43,031,128</b>	<b>\$ 8,050,003</b>

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

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<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 15,296,703	\$ 74,271,048
1,665,400	13,835,189
876,016	5,629,829
143,311	505,939
127,905	329,679
<u>\$ 18,109,335</u>	<u>\$ 94,571,684</u>

\$ 1,887,978	\$ 8,035,295
4,812,386	5,756,071
587,525	9,786,504
<u>7,287,889</u>	<u>23,577,870</u>

127,905	329,679
163,311	4,446,218

1,645,000	7,233,419
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-	5,123,569
3,352,722	3,352,722
445,639	445,639
5,086,869	50,062,568
<u>10,821,446</u>	<u>70,993,814</u>
<u>\$ 18,109,335</u>	<u>\$ 94,571,684</u>

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH STATEMENT OF NET ASSETS JUNE 30, 2005

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

Total fund balance - governmental funds		\$ 70,993,814
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	\$207,002,671	
Accumulated depreciation is	<u>(49,832,769)</u>	157,169,902
The assets and liabilities of the internal service fund are included with governmental activities.		1,985,495
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.		(1,087,573)
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.		498,463
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	58,621,053	
Certificates of participation	3,220,000	
Unamortized bond premium	1,072,465	
Capital leases payable and other debt	2,081,013	
Compensated absences (vacations)	<u>1,289,790</u>	(66,284,321)
Total net assets-governmental activities		<u>\$ 163,275,780</u>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Building Fund	County School Facilities Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 89,549,340	\$ -	\$ -
Federal sources	22,324,977	-	-
Other State sources	38,996,845	-	24,097,394
Other local sources	3,330,266	594,000	372,438
<b>Total Revenues</b>	<b>154,201,428</b>	<b>594,000</b>	<b>24,469,832</b>
<b>EXPENDITURES</b>			
Current			
Instruction	90,218,023	-	-
Instruction-related activities:			
Supervision of instruction	13,475,595	-	-
Instructional library, media and technology	1,554,967	-	-
School site administration	10,646,041	-	-
Pupil Services:			
Home-to-school transportation	5,370,766	-	-
Food services	148	-	-
All other pupil services	7,892,859	-	-
General administration:			
Data processing	1,196,755	-	-
All other general administration	5,055,955	-	-
Plant services	11,973,687	-	133,720
Facility acquisition and construction	362,688	7,279,812	24,129,062
Ancillary services	926,348	-	-
Community services	1,300	-	-
Other outgo	2,595,593	-	-
Debt service			
Principal	406,524	-	-
Interest and other	575,256	-	-
<b>Total Expenditures</b>	<b>152,252,505</b>	<b>7,279,812</b>	<b>24,262,782</b>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<b>1,948,923</b>	<b>(6,685,812)</b>	<b>207,050</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Other sources	-	22,019,748	40,215,000
Transfers out	(284,119)	-	-
Other uses	-	-	(40,215,000)
<b>Net Financing Sources (Uses)</b>	<b>(284,119)</b>	<b>22,019,748</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,664,804</b>	<b>15,333,936</b>	<b>207,050</b>
<b>Fund Balance - Beginning</b>	<b>13,531,865</b>	<b>27,339,945</b>	<b>2,094,768</b>
<b>Fund Balance - Ending</b>	<b>\$ 15,196,669</b>	<b>\$ 42,673,881</b>	<b>\$ 2,301,818</b>

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

Nonmajor Governmental Funds		Total Governmental Funds	
\$	4,933,096	\$	94,482,436
	10,432,117		32,757,094
	4,187,049		67,281,288
	10,930,280		15,226,984
	30,482,542		209,747,802
	10,820,860		101,038,883
	1,386,985		14,862,580
	189,531		1,744,498
	1,520,148		12,166,189
	-		5,370,766
	5,805,126		5,805,274
	830,938		8,723,797
	-		1,196,755
	2,079,010		7,134,965
	2,138,991		14,246,398
	3,522,952		35,294,514
	525		926,873
	-		1,300
	-		2,595,593
	838,963		1,245,487
	3,631,655		4,206,911
	32,765,684		216,560,783
	(2,283,142)		(6,812,981)
	1,929,119		1,929,119
	1,764,889		63,999,637
	(1,645,000)		(1,929,119)
	-		(40,215,000)
	2,049,008		23,784,637
	(234,134)		16,971,656
	11,055,580		54,022,158
\$	10,821,446	\$	70,993,814

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET ASSETS PROPRIETARY FUND JUNE 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 7,318,513
Receivables	99,915
Due from other funds	139,408
<b>Total Current Assets</b>	<u>7,557,836</u>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 969,371
Claim liabilities	4,602,970
<b>Total Current Liabilities</b>	<u>5,572,341</u>
 <b>NET ASSETS</b>	<u><u>\$ 1,985,495</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, 2005**

	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 27,778,663
<b>Total Operating Revenues</b>	<u>27,778,663</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	89,968
Supplies and materials	2,151
Other operating cost	29,178,120
<b>Total Operating Expenses</b>	<u>29,270,239</u>
<b>Operating (Loss)</b>	<u>(1,491,576)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>75,064</u>
<b>Change in Net Assets</b>	(1,416,512)
<b>Total Net Assets - Beginning</b>	<u>3,402,007</u>
<b>Total Net Assets - Ending</b>	<u>\$ 1,985,495</u>

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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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:

**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.

**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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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**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).

**Special Reserve – Capital Outlay** The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

**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 scholarship trust funds and student body agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has two trust funds, the Retiree Benefits Trust and the Private Purpose Scholarship Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

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

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

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

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has not determined the effect of this statement on the financial statements.

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 74,271,048
Proprietary activities	7,318,513
Fiduciary funds	4,682,292
Total Deposits and Investments	<u>\$ 86,271,853</u>

Deposits and investments as of June 30, 2005, consists of the following:

Cash on hand and in banks	\$ 4,526,541
Cash in revolving	75,000
Investments	81,670,312
Total Deposits and Investments	<u>\$ 86,271,853</u>

#### Policies and Practices

The District is authorized under California Government Code [or the Entity's investment policy if different] to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of the deposits with the County Treasurer at June 30, 2005 was \$81,650,412 and the weighted average of the pool was .42 years.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
U.S. Treasuries	\$ 19,900	Not Applicable
County Pool	81,650,412	.42 years
Total	<u>\$ 81,670,312</u>	

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have investments that are subject to credit risk.

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2005, \$2,297,686 of the District's bank balance of \$4,304,737 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants, entitlements and interest and other local sources. All receivables are considered collectible in full.

	General	County School Facilities	Nonmajor Funds	Total	Proprietary
Federal Government					
Categorical aid	\$ 4,133,964	\$ -	\$ 910,820	\$ 5,044,784	\$ -
State Government					
Apportionment	1,836,726	-	218,348	2,055,074	-
Categorical aid	2,436,702	189,186	384,615	3,010,503	-
Lottery	1,363,207	-	24,045	1,387,252	-
Local Government					
Other Local Sources	2,210,004	-	127,572	2,337,576	99,915
Total	<u>\$11,980,603</u>	<u>\$ 189,186</u>	<u>\$ 1,665,400</u>	<u>\$13,835,189</u>	<u>\$ 99,915</u>

Additional long-term receivables include \$498,463 for a special education settlement with payments expected to be received annually over the next six years.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$ 9,021,890	\$ -	\$ -	\$ 9,021,890
Construction in Progress	64,439,312	35,267,699	-	99,707,011
Total Capital Assets not being depreciated	73,461,202	35,267,699	-	108,728,901
Capital Assets being depreciated:				
Buildings and Improvements	95,646,971	-	-	95,646,971
Furniture and Equipment	2,626,799	-	-	2,626,799
Total Capital Assets being depreciated	98,273,770	-	-	98,273,770
Total Capital Assets	171,734,972	35,267,699	-	207,002,671
Less Accumulated Depreciation:				
Buildings and Improvements	43,655,482	4,730,954	-	48,386,436
Furniture and Equipment	1,200,953	245,380	-	1,446,333
Total Accumulated Depreciation	44,856,435	4,976,334	-	49,832,769
Governmental Activities Capital Assets, Net	\$126,878,537	\$30,291,365	\$ -	\$ 157,169,902

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

<b>Governmental Activities</b>	
Instruction	\$ 2,271,683
Supervision of Instruction	345,130
Instructional Library & Media	40,510
School Site Administration	282,516
Home to School Transportation	124,717
Food Services	134,807
All Other Pupil Services	202,579
Ancillary Services	21,523
Community Services	30
Enterprise Activities	62,585
All General Administration	161,163
Data Processing Services	27,790
Plant Services	1,301,301
Total Depreciation Expenses All Activities	\$ 4,976,334

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

### NOTE 5 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances at June 30, 2005, between major and nonmajor governmental funds, internal service funds, and fiduciary funds are as follows:

		Due to				
		General	County School Facilities	Building	Nonmajor Governmental	Retiree Benefits
						Total
Due from	General	\$ -	\$ 966	\$ 5,676	\$ 3,943,830	\$ -
	Building	38,796	-	-	-	38,796
	County School Facilities	764,542	-	-	-	764,542
	Nonmajor governmental	100,861	-	-	761,989	13,166
	Internal Service	32,843	-	-	106,566	-
Total		<u>\$ 937,042</u>	<u>\$ 966</u>	<u>\$ 5,676</u>	<u>\$ 4,812,385</u>	<u>\$ 13,166</u>
						<u>\$5,769,235</u>

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, 2005

### Operating Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following:

Transfer From	Transfer To	
	Nonmajor	Governmental
General		\$ 284,119
Nonmajor Governmental		1,645,000
Total		<u>\$ 1,929,119</u>
The General Fund transferred to the Charter School Fund for contributions.		\$ 146,899
The General Fund transferred to the Adult Education Fund for contributions.		101,160
The General Fund transferred to the Child Development Fund for contributions.		36,060
The Special Reserve-Capital Fund transferred to the Adult Education Fund for COP issuance.		1,645,000
		<u>\$ 1,929,119</u>

### NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consisted of the following:

	General	Building	County School Facilities	Nonmajor Governmental	Total	Proprietary	Fiduciary
Vendor payables	\$2,909,721	\$351,571	\$ 1,995,508	\$ 1,418,523	\$ 6,675,323	\$ 969,371	\$ 240,175
Salaries and benefits	890,517	-	-	469,455	1,359,972	-	-
Total	<u>\$3,800,238</u>	<u>\$351,571</u>	<u>\$ 1,995,508</u>	<u>\$ 1,887,978</u>	<u>\$ 8,035,295</u>	<u>\$ 969,371</u>	<u>\$ 240,175</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

### NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2005, consisted of the following:

	General	County School Facilities	Nonmajor Governmental	Total
Federal financial assistance	\$ 2,288,478	\$ -	\$ -	\$ 2,288,478
State categorical aid	1,787,213	-	278,897	2,066,110
School facilities apportionment	-	3,751,711	-	3,751,711
Other local	1,371,577	-	308,628	1,680,205
Total	<u>\$ 5,447,268</u>	<u>\$ 3,751,711</u>	<u>\$ 587,525</u>	<u>\$ 9,786,504</u>

### NOTE 8 – FUND BALANCES

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

	General	Building	County School Facilities	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 20,000	\$ 75,000
Stores inventory	201,774	-	-	127,905	329,679
Prepaid expenditures	362,628	-	-	143,311	505,939
Restricted programs	3,865,279	-	-	-	3,865,279
Total Reserved	<u>4,484,681</u>	<u>-</u>	<u>-</u>	<u>291,216</u>	<u>4,775,897</u>
Unreserved					
Designated					
Economic uncertainties	4,478,610	-	-	-	4,478,610
Other designation	1,109,809	-	-	1,645,000	2,754,809
Total Designated	<u>5,588,419</u>	<u>-</u>	<u>-</u>	<u>1,645,000</u>	<u>7,233,419</u>
Undesignated	<u>5,123,569</u>	<u>42,673,881</u>	<u>2,301,818</u>	<u>8,885,230</u>	<u>58,984,498</u>
Total Unreserved	<u>10,711,988</u>	<u>42,673,881</u>	<u>2,301,818</u>	<u>10,530,230</u>	<u>66,217,917</u>
Total	<u>\$ 15,196,669</u>	<u>\$ 42,673,881</u>	<u>\$ 2,301,818</u>	<u>\$ 10,821,446</u>	<u>\$ 70,993,814</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

### 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, 2004	Accretion/ Additions	Deductions	Balance June 30, 2005	Due in one year
Certificates of participation	\$ 1,605,000	\$ 1,645,000	\$ 30,000	\$ 3,220,000	\$ 30,000
General obligation bonds	40,010,212	58,621,053	40,010,212	58,621,053	600,000
Bond premium	-	1,122,850	50,385	1,072,465	50,385
Accumulated vacation - net	1,339,508	-	49,718	1,289,790	-
Capital leases	1,208,240	-	270,307	937,933	134,602
State building loan	70,000	-	14,000	56,000	14,000
Energy service contract	1,268,260	-	181,180	1,087,080	181,180
	<u>\$ 45,501,220</u>	<u>\$ 61,388,903</u>	<u>\$ 40,605,802</u>	<u>\$ 66,284,321</u>	<u>\$ 1,010,167</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Certificate of Participation payments are made by capital facilities fund. Payments on the capital leases are paid by the general fund, the charter school fund and the capital facilities funds. The state building loan and the energy service contract payments are made by the general fund.

#### Defeasance of Debt Obligations

On May 6, 2005, the District issued general obligation bonds of \$40,215,000 at a premium of \$1,122,850 with interest rates ranging from 3 percent 5.31 percent. The bonds were issued to defease and redeem the \$39,441,065 outstanding principal amount of the 2002-Series A Bonds. As a result of the advance refunding, the District reduced its total debt service requirements by approximately \$6,000,000 if it were to accrete interest on the 2002 Series A bond through the original payment dates which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$2,000,000.

#### 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, 2005, the principal balance outstanding was \$1,575,000. During the current year the District redeemed \$30,000 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 percent. The maturity table below reflects the interest rate adjustment. In April 5, 2005, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,645,000 to finance construction related to the Adult Education Center.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 30,000	\$ 129,440	\$ 159,440
2007	85,000	117,646	202,646
2008	90,000	114,871	204,871
2009	95,000	111,934	206,934
2010	100,000	108,834	208,834
2011-2015	525,000	491,254	1,016,254
2016-2020	650,000	377,116	1,027,116
2021-2025	715,000	226,478	941,478
2026-2030	630,000	77,513	707,513
2031-2032	300,000	7,263	307,263
Total	<u>\$ 3,220,000</u>	<u>\$ 1,762,348</u>	<u>\$ 4,982,348</u>

### General Obligation Bonds

In May 6, 2005, the Pajaro Valley Unified School District issued capital appreciation and general obligation bonds in the amount of \$58,469,288 with initial interest rates ranging from 3% to 5.31% percent. The interest rates vary from year to year. \$40,215,000 of the amount was issued to refund the remaining balance on the 2002 outstanding general obligation bond. At June 30, 2005, the principal balance outstanding was \$58,621,053. The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2004	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2005
2003	2032	1.13-5.57%	\$39,995,542	\$40,010,212	\$ -	\$40,010,212	\$ -
2005	2022	3-5.31%	40,215,000	-	40,215,000	-	40,215,000
2005	2029	3-5.31%	18,254,288	-	18,406,054	-	18,406,054
				<u>\$40,010,212</u>	<u>\$58,621,054</u>	<u>\$40,010,212</u>	<u>\$58,621,054</u>



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

The Bonds mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 600,000	\$ 2,566,075	\$ 3,166,075
2007	1,050,000	2,148,725	3,198,725
2008	1,230,000	2,117,225	3,347,225
2009	1,385,000	2,077,400	3,462,400
2010	1,560,000	2,025,000	3,585,000
2011-2015	1,755,000	1,955,763	3,710,763
2016-2020	15,620,000	9,526,713	25,146,713
2021-2025	23,331,513	7,354,849	30,686,362
2026-2027	11,937,774	24,817,226	36,755,000
Subtotal	58,469,287	\$ 54,588,976	\$ 113,058,263
Accretion to date:	151,766		
Total general obligation bonds	<u>\$ 58,621,053</u>		

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$1,289,790.

### 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, 2004	\$ 91,073	\$ 1,016,043	\$ 150,275	\$ 56,350	\$ 193,551	\$ 1,507,292
Payments	(22,767)	(92,368)	(150,275)	(28,174)	(38,711)	(332,295)
Balance, June 30, 2005	<u>\$ 68,306</u>	<u>\$ 923,675</u>	<u>\$ -</u>	<u>\$ 28,176</u>	<u>\$ 154,840</u>	<u>\$ 1,174,997</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2006	\$ 182,021
2007	153,846
2008	153,846
2009	131,078
2010	92,368
2011-2015	461,838
Total	1,174,997
Less: Amount Representing Interest	237,064
Present Value of Minimum Lease Payments	\$ 937,933

### State Building Loan

The Watsonville Charter School received \$56,000 in loans from the State with an interest rate of 1.61 percent. State school building loans outstanding as of June 30, 2005, are as follows:

Year Ending June 30,	Principal	Interest	Total
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	\$ 56,000	\$ 2,054	\$ 58,054

### Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2006	\$ 181,180
2007	181,180
2008	181,180
2009	181,180
2010	181,180
2011	181,180
Total	\$ 1,087,080

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

### 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, 221 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 \$2,140,337 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2005, amounts to \$ 5,934,761. 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, 2005, multiplied by the number of years of payments remaining. The District established an irrevocable Retirement Benefit Fund in 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, 2005, 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, 2005

### 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, 2003, to June 30, 2005:

Liability Balance, July 1, 2003	\$ 2,355,164
Claims and changes in estimates	22,728,959
Claims payments	(25,084,123)
Liability Balance, June 30, 2004	2,355,164
Claims and changes in estimates	(36,136,254)
Claims payments	29,178,120
Liability Balance, June 30, 2005	\$ 4,602,970
Assets available to pay claims at June 30, 2005	\$ 6,588,465

### 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 2004-2005 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, 2005, 2004, and 2003 were \$5,872,570, \$5,793,934, and \$5,687,256, respectively, and equal 100 percent of the required contributions for each year.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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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 9.952 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 2004-2005 was 9.952 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, 2005, 2004 and 2003 were \$ 2,285,245, \$2,337,984 and \$623,602 respectively and equal 100 percent of the required contributions for that year.

### Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

### On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,211,883 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2005. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### 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, 2005.

### Construction Commitments

As of June 30, 2005, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Radcliff	\$ 389,208	6/30/06
Landmark	1,010,694	6/30/06
Pajaro Valley High	3,829,784	07/30/06
Aptos High	19,168,831	07/01/06
Watsonville High	19,098,972	07/01/07
E.A. Hall	1,316,558	01/01/07
Mintie White	1,192,166	12/01/05
Pajaro Valley High	1,897,354	12/01/05
	<u>\$ 47,903,567</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.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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.

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

### Entity

### Purpose

School Excess Liability Fund

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

### Participants

School district/county school offices

### Governing Board

One representative from each member district

### Condensed Audited Financial Information Follows

	June 30, 2004*
Assets	\$ 173,648,016
Liabilities	147,852,240
Fund Equity	\$ 25,795,776
Revenues	\$ 79,888,579
Expenses	85,290,333
Net Increase in Fund Equity	\$ (5,401,754)
Payments for the Current Year	\$ 635,776

\* Most recent information available

### NOTE 15 – TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2002, the District issued \$22,000,000 Tax and Revenue Anticipation Notes bearing interest at 1.58 percent. Interest and principal were due and payable before the end of the fiscal year. By May 1, 2005, 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 \$19,000,000 of Tax And Revenue Anticipation Notes dated July 1, 2005. The notes mature on June 30, 2006, and yield 2.62 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, 2006, and the remaining 50 percent of principal and interest due on account by April 30, 2006.

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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, 2005

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 89,467,734	\$ 89,297,531	\$ 89,549,340	\$ 251,809
Federal sources	17,554,705	21,113,571	22,324,977	1,211,406
Other State sources	33,694,620	34,935,223	38,996,845	4,061,622
Other local sources	2,172,163	2,551,442	3,330,266	778,824
<b>Total Revenues</b>	<b>142,889,222</b>	<b>147,897,767</b>	<b>154,201,428</b>	<b>6,303,661</b>
<b>EXPENDITURES</b>				
Current				
Instruction	82,567,271	85,430,140	90,218,023	(4,787,883)
Instruction-related activities:				
Supervision of instruction	4,861,294	11,170,162	13,475,595	(2,305,433)
Instructional library, media, and technology	1,328,259	1,466,888	1,554,967	(88,079)
School site administration	15,940,562	13,212,609	10,646,041	2,566,568
Pupil services:				
Home-to-school transportation	5,158,800	5,068,796	5,370,766	(301,970)
Food services	-	148	148	-
All other pupil services	8,950,797	7,966,572	7,892,859	73,713
General administration:				
Data processing	1,817,082	1,436,149	1,196,755	239,394
All other general administration	7,021,317	5,927,198	5,055,955	871,243
Plant services	12,376,853	12,164,387	11,973,687	190,700
Facility acquisition and construction	159,032	763,156	362,688	400,468
Ancillary services	973,236	937,696	926,348	11,348
Community services	-	-	1,300	(1,300)
Other outgo	2,710,217	2,616,862	2,595,593	21,269
Debt service				
Principal	382,899	382,899	406,524	(23,625)
Interest	466,006	511,278	575,256	(63,978)
<b>Total Expenditures</b>	<b>144,713,625</b>	<b>149,054,940</b>	<b>152,252,505</b>	<b>(3,197,565)</b>
<b>Excess (Deficiency) of Revenues</b>	<b>(1,824,403)</b>	<b>(1,157,173)</b>	<b>1,948,923</b>	<b>3,106,096</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	50,000	-	-	-
Other sources	20,000	-	-	-
Transfers out	(101,160)	(226,859)	(284,119)	(57,260)
<b>Net Financing Sources (Uses)</b>	<b>(31,160)</b>	<b>(226,859)</b>	<b>(284,119)</b>	<b>(57,260)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,855,563)</b>	<b>(1,384,032)</b>	<b>1,664,804</b>	<b>3,048,836</b>
<b>Fund Balance - Beginning</b>	<b>13,531,865</b>	<b>13,531,865</b>	<b>13,531,865</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 11,676,302</b>	<b>\$ 12,147,833</b>	<b>\$ 15,196,669</b>	<b>\$ 3,048,836</b>

\*The budget columns do not include on behalf payments of \$3,211,883. This amount has been included in the actual column and allocated to the various functions.

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***SUPPLEMENTARY INFORMATION***

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

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	\$ 5,340,989
Title I, Part F, Comprehensive School Reform	84.010	03966	482,698
Title I, Part C, Migrant Education	84.011	03174	4,947,249
Title I, Program Improvement & School Choice	84.348	04106	(2,177)
Title I, Part B, Reading First Program	84.357	04328	815,639
Title III, Limited English Proficiency Student Program	84.365	00084	643,344
Title II, Part B, CA Mathematics and Science Partnerships	84.366	04512	37,047
Title II, Part A, Teacher Quality	84.367	04341	1,194,653
Title IV, Part A, Drug-Free Schools	84.186	04347	135,632
Title I, Even Start Family Literacy	84.213	04331	167,271
Title I, Part B, Even Start Migrant Education	84.214	00030	130,759
Title V, Part B, Charter Schools Grants	84.282	03150	59,725
Title IV, Part B, 21st Century Community Centers Learning <sup>[1]</sup>	84.287	04349	2,696,322
Title III, Bilingual Education: Discretionary Grants	84.290	00008	706,990
Title V, Part A, Innovative Education Strategies	84.298A	04354	80,867
Title II, Part D, Enhancing Education Through Technology	84.318	04335	150,819
Title VI, Flexibility & Accountability	84.369	04363	50,485
Adult Education Act:			
Adult Basic Education	84.002A	04508	148,880
Priority 4, Family Literacy	84.002A	03977	2,475
Priority 5, Adult Secondary Education	84.002A	03978	18,963
English Literacy & Civics Education	84.002A	04109	173,140
Individuals With Disabilities Act:			
Basic Local Assistance Entitlement, Part B <sup>[1]</sup>	84.027	03379	3,029,874
Preschool Local Entitlement, Part B <sup>[1]</sup>	84.027A	03682	317,984
Local Staff Development Grant, Part B <sup>[1]</sup>	84.027A	03613	11,059
Preschool Grants, Part B <sup>[1]</sup>	84.173	03430	182,462
Preschool Staff Development, Part B <sup>[1]</sup>	84.173A	03431	1,381
Early Intervention Grants <sup>[1]</sup>	84.181	03761	246,523
State Improvement Grant, Improving Special Education	84.323	03904	7,647
Workability II, Transition Partnership	84.158	00006	230,203

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Carl Perkins Act:			
Vocational Programs Applied Sex Bias	84.048	03570	12,009
Vocational & Applied Technology Secondary II	84.048	03577	177,867
Subtotal			<u>22,198,779</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed though CDE:			
Child Development Act:			
Quality Improvement Activities	93.575	03942	3,851
School-Age Child Care Resource Contracts	93.575	03941	2,932
Infant/Toddler Child Care Resource Contracts	93.575	03942	7,543
Medi-Cal Billing Option	93.778	00013	215,099
LEA Medical Billing Option	93.778	00029	254,557
Head Start	93.600	00016	5,919,576
Subtotal			<u>6,403,558</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed though CDE:			
Child Nutrition Act:			
National School Lunch Program <sup>[1]</sup>	10.555	04198	3,005,977
Breakfast <sup>[1]</sup>	10.553	04198	652,418
Summer <sup>[1]</sup>	10.559	04198	302,871
Child Care Food Program	10.558	04198	193,491
Subtotal			<u>4,154,757</u>
Total Federal Programs			<u>\$32,757,094</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, 2005

	Amended Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	1,299	1,305
First through third	4,073	4,076
Fourth through sixth	3,902	3,903
Seventh and eighth	2,755	2,747
Opportunity schools	12	12
Home and hospital	4	5
Special education	253	258
Total Elementary	12,298	12,306
<b>SECONDARY</b>		
Regular classes	4,496	4,445
Continuation education	176	176
Home and hospital	5	6
Special education	156	58
Community Education	59	155
Total Secondary	4,892	4,840
Total K-12	17,190	17,146
<b>CLASSES FOR ADULTS</b>		
Concurrently enrolled	14	13
Not concurrently enrolled	958	990
Adults in correctional facilities	38	38
Total Classes for Adults	1,010	1,041
<b>CHARTER SCHOOLS</b>		
Elementary	785	815
Secondary	202	175
Total Charter Schools	987	990
Grand Total	19,187	19,177
		<b>Hours of Attendance</b>
<b>SUMMER SCHOOL</b>		
Elementary		625,416
High School		212,833
Total Hours		838,249

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2005

Grade Level	1986-87 Minutes Requirement	1982-83 Actual Minutes	2004-05 Actual Minutes	Status
Kindergarten	36,000	31,500	36,000	In Compliance
Grades 1 - 3	50,400	42,000	50,448	In Compliance
Grades 4 - 6	54,000	52,500	54,000	In Compliance
Grades 7 - 8	54,000	52,500	54,498	In Compliance
Grades 9 - 12	64,800	59,500	64,800	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, 2005**

The following are adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements as of June 30, 2005.

	General Fund	Building Fund	County School Facilities Fund	Self Insurance Fund
<b>FUND BALANCE/NET ASSETS</b>				
Balance, June 30, 2005, Unaudited Actuals	\$ 15,341,665	\$ 657	\$ 2,435,538	\$ 4,769,930
(Increase) in accounts payable	(144,996)	42,673,224	(133,720)	(2,784,435)
Balance, June 30, 2005, Audited Financial Statements.	<u>\$ 15,196,669</u>	<u>\$ 42,673,881</u>	<u>\$ 2,301,818</u>	<u>\$ 1,985,495</u>

See accompanying note to supplementary information.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

	(Budget) 2006 <sup>(1)</sup>	2005	2004	2003
<b>GENERAL FUND</b>				
Revenues <sup>(3)</sup>	\$ 153,339,776	\$ 154,201,428	\$ 142,912,298	\$ 143,376,670
Other sources and transfers in	50,000	-	239,520	223,903
<b>Total Revenues and Other Sources</b>	<b>153,389,776</b>	<b>154,201,428</b>	<b>143,151,818</b>	<b>143,600,573</b>
Expenditures <sup>(3)</sup>	152,736,960	152,252,505	140,877,793	141,538,996
Other uses and transfers out	976,085	284,119	717,503	809,146
<b>Total Expenditures and Other Uses</b>	<b>153,713,045</b>	<b>152,536,624</b>	<b>141,595,296</b>	<b>142,348,142</b>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>	<b>\$ (323,269)</b>	<b>\$ 1,664,804</b>	<b>\$ 1,556,522</b>	<b>\$ 1,252,431</b>
<b>FUND EQUITY TRANSFER</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,315,465)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 14,873,400</b>	<b>\$ 15,196,669</b>	<b>\$ 13,531,865</b>	<b>\$ 11,975,343</b>
<b>AVAILABLE RESERVES <sup>(2)</sup></b>	<b>\$ 9,948,711</b>	<b>\$ 9,602,179</b>	<b>\$ 9,793,231</b>	<b>\$ 8,883,941</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>6.5%</b>	<b>6.4%</b>	<b>6.9%</b>	<b>6.2%</b>
<b>LONG-TERM DEBT</b>	<b>\$ 2,249,572</b>	<b>\$ 65,211,856</b>	<b>\$ 45,501,220</b>	<b>\$ 45,898,070</b>
<b>AVERAGE DAILY ATTENDANCE AT P-2 <sup>(4)</sup></b>	<b>17,217</b>	<b>17,190</b>	<b>17,026</b>	<b>17,166</b>

The general fund balance has increased by \$3,221,326 over the past two years. The fiscal year 2005-06 budget projects a decrease of \$323,269. 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 2005-06 fiscal year. Total long-term debt has increased by \$19,313,786 over the past two years mainly due to the issuance of new bonds in fiscal year 2005.

Average daily attendance has decreased by 24 over the past two years. Growth of 27 in ADA is anticipated during fiscal year 2005-06.

1 Budget 2006 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 On-behalf payments of \$3,211,883 and \$1,600,489 have been excluded from the calculation of available reserves percentage for fiscal years ending June 30, 2005 and 2004. No amounts were recorded for fiscal year ending June 30, 2003.

4 Excludes Adult Education ADA and Charter Schools ADA.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2005**

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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

JUNE 30, 2005

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund Balance, Beginning	\$ 45,756	\$ (27,637)	\$ 387,811	\$ 824,602	\$ (2,622)	\$ 1,227,910
Revenues	1,171,988	1,023,570	1,331,606	2,535,375	418,866	6,481,405
Expenditures	(1,297,034)	(987,438)	(1,291,806)	(2,561,690)	(411,289)	(6,549,257)
Fund Balance, Ending	<u>\$ (79,290)</u>	<u>\$ 8,495</u>	<u>\$ 427,611</u>	<u>\$ 798,287</u>	<u>\$ 4,955</u>	<u>\$ 1,160,058</u>

See accompanying note to supplementary information.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2005**

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

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

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

#### **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.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION**

**JUNE 30, 2005**

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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**

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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***SUPPLEMENTARY INFORMATION - UNAUDITED***

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# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET (UNAUDITED) JUNE 30, 2005

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>ASSETS</b>					
Deposits and investments	\$ 2,240,847	\$ 2,324,063	\$ 1,211,282	\$ 908,485	\$ 1,486,836
Receivables	341,136	356,130	173,867	794,267	-
Due from other funds	235,357	7,941	36,072	48,723	-
Prepaid expenses	22,768	92,368	-	-	-
Stores inventories	-	-	-	127,905	-
<b>Total Assets</b>	<b>\$ 2,840,108</b>	<b>\$ 2,780,502</b>	<b>\$ 1,421,221</b>	<b>\$ 1,879,380</b>	<b>\$ 1,486,836</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 74,465	\$ 164,716	\$ 584,389	\$ 59,961	\$ -
Due to other funds	1,605,585	175,777	683,065	1,591,515	130
Deferred revenue	-	433,758	153,767	-	-
<b>Total Liabilities</b>	<b>1,680,050</b>	<b>774,251</b>	<b>1,421,221</b>	<b>1,651,476</b>	<b>130</b>
<b>Fund Balances:</b>					
Reserved for:					
Stores inventories	20,000	-	-	127,905	-
Other reservations	22,768	92,368	-	-	-
Unreserved:					
Designated	-	1,645,000	-	-	-
Undesignated, reported in:					
Special revenue funds	1,117,290	268,883	-	99,999	1,486,706
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
<b>Total Fund Balance</b>	<b>1,160,058</b>	<b>2,006,251</b>	<b>-</b>	<b>227,904</b>	<b>1,486,706</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,840,108</b>	<b>\$ 2,780,502</b>	<b>\$ 1,421,221</b>	<b>\$ 1,879,380</b>	<b>\$ 1,486,836</b>

See accompanying note to supplementary information – unaudited.

<b>Retiree Benefits Fund</b>	<b>Capital Facilities Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 379,844	\$ 6,299,707	\$ 414,599	\$ 31,040	\$ 15,296,703
-	-	-	-	1,665,400
-	547,923	-	-	876,016
-	28,175	-	-	143,311
-	-	-	-	127,905
<u>\$ 379,844</u>	<u>\$ 6,875,805</u>	<u>\$ 414,599</u>	<u>\$ 31,040</u>	<u>\$ 18,109,335</u>

\$ -	\$ 1,004,447	\$ -	\$ -	\$ 1,887,978
-	756,314	-	-	4,812,386
-	-	-	-	587,525
-	<u>1,760,761</u>	-	-	<u>7,287,889</u>

-	-	-	-	147,905
-	28,175	-	-	143,311
-	-	-	-	1,645,000
379,844	-	-	-	3,352,722
-	-	414,599	31,040	445,639
-	5,086,869	-	-	5,086,869
<u>379,844</u>	<u>5,115,044</u>	<u>414,599</u>	<u>31,040</u>	<u>10,821,446</u>
<u>\$ 379,844</u>	<u>\$ 6,875,805</u>	<u>\$ 414,599</u>	<u>\$ 31,040</u>	<u>\$ 18,109,335</u>

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2005

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>REVENUES</b>				
Revenue limit sources	\$ 2,651,092	\$ 2,282,004	\$ -	\$ -
Federal sources	-	343,458	5,933,902	4,154,757
Other State sources	1,014,499	459,111	1,650,198	258,193
Other local sources	2,668,914	367,864	62,564	1,602,712
<b>Total Revenues</b>	<u>6,334,505</u>	<u>3,452,437</u>	<u>7,646,664</u>	<u>6,015,662</u>
<b>EXPENDITURES</b>				
Current				
Instruction	3,964,680	2,034,008	4,822,172	-
Instruction-related activities:				
Supervision of instruction	30,485	463,367	893,133	-
Instructional library, media, and technology	127,039	5,000	57,492	-
School site administration	887,967	632,181	-	-
Pupil Services:				
Food services	-	-	18,033	5,787,093
All other pupil services	172	5,870	824,896	-
General administration:				
All other general administration	1,300,103	150,415	363,173	182,123
Plant services	199,597	95,699	703,824	-
Facility acquisition and construction	-	253,324	-	-
Ancillary services	525	-	-	-
Debt service				
Principal	34,026	30,000	-	-
Interest and other	4,662	62,367	-	-
<b>Total Expenditures</b>	<u>6,549,256</u>	<u>3,732,231</u>	<u>7,682,723</u>	<u>5,969,216</u>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over Expenditures</b>	<u>(214,751)</u>	<u>(279,794)</u>	<u>(36,059)</u>	<u>46,446</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	146,899	1,746,160	36,060	-
Other sources	-	-	-	-
Transfers out	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<u>146,899</u>	<u>1,746,160</u>	<u>36,060</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(67,852)</u>	<u>1,466,366</u>	<u>1</u>	<u>46,446</u>
<b>Fund Balance - Beginning</b>	<u>1,227,910</u>	<u>539,885</u>	<u>(1)</u>	<u>181,458</u>
<b>Fund Balance - Ending</b>	<u>\$ 1,160,058</u>	<u>\$ 2,006,251</u>	<u>\$ -</u>	<u>\$ 227,904</u>

See accompanying note to supplementary information – unaudited.

<b>Retiree Benefits Fund</b>	<b>Capital Facilities Fund</b>	<b>Special Reserve Capital Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,933,096
-	-	-	-	-	10,432,117
-	-	-	30,708	-	4,187,049
8,246	3,287,283	-	2,910,408	8	10,930,280
8,246	3,287,283	-	2,941,116	8	30,482,542
-	-	-	-	-	10,820,860
-	-	-	-	-	1,386,985
-	-	-	-	-	189,531
-	-	-	-	-	1,520,148
-	-	-	-	-	5,805,126
-	-	-	-	-	830,938
-	83,196	-	-	-	2,079,010
-	841,529	-	-	-	2,138,991
-	3,269,628	-	-	-	3,522,952
-	-	-	-	-	525
-	24,937	-	750,000	-	838,963
-	3,238	-	3,561,388	-	3,631,655
-	4,222,528	-	4,311,388	-	32,765,684
8,246	(935,245)	-	(1,370,272)	8	(2,283,142)
-	-	-	-	-	1,929,119
-	-	1,645,000	119,889	-	1,764,889
-	-	(1,645,000)	-	-	(1,645,000)
-	-	-	119,889	-	2,049,008
8,246	(935,245)	-	(1,250,383)	8	(234,134)
371,598	6,050,289	-	1,664,982	31,032	11,055,580
\$379,844	\$ 5,115,044	\$ -	\$ 414,599	\$ 31,040	\$ 10,821,446

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005**

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

#### **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.

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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 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, 2005, which collectively comprise the Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated November 16, 2005. 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 items 2005-1.

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 caused by error or fraud 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 that are required to be reported under *Government Auditing Standards*.

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

Vavrinek, Trine, Day & Co LLP  
Pleasanton, California  
November 16, 2005



**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, 2005. Pajaro Valley Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Pajaro Valley Unified School District's management. Our responsibility is to express an opinion on Pajaro Valley Unified School District's compliance based on our audit.

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

As described in item 2005-2 in the accompanying Schedule of Federal Award Findings and Questioned Costs, Pajaro Valley Unified School District did not comply with requirements regarding support for salaries and wages that are applicable to the Special Education Cluster and 21<sup>st</sup> Century Community Learning programs. Compliance with such requirements is necessary, in our opinion, for Pajaro Valley Unified School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005.

## Internal Control Over Compliance

The management of Pajaro Valley Unified School District's responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit 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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Pajaro Valley Unified School District's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as items 2005-02.

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 caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended 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 16, 2005



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board  
Pajaro Valley Unified School District  
Watsonville, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 2005-06 *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Title V	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	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
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes

	Procedures in Title V	Procedures Performed
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	12	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
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE)		Yes
Program	3	
School Accountability Report Card	3	Yes

We did not perform testing for community day schools because the reported ADA was below the State required audit threshold. With respect to the Alternative Pension Plan compliance requirements, the District has represented to us that they have not entered into any such arrangements.

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

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

*Vavrinek, Trine, Day, & Co LLP*

Pleasanton, California  
November 16, 2005

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

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**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**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?

Yes

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

Qualified

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

No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027

Special Education Cluster

84.287

21st Century Community Learning Programs

10.556, 10.553, 10.559

Child Nutrition Cluster

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

\$ 982,713

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?

None reported

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

Unqualified

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

### 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

#### 2005-1 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

- E.A. Hall Middle – We noted that the ASB disbursements lacked the proper approvals for the disbursements. The Student Body Minutes did not clearly approve all of the disbursements. In addition, we noted that the ASB did not prepare revenue potentials on cash collections raised through fund raising activities.
- H.A. Hyde – The site uses prenumbered receipt books, however, during our testing we noted that there were some receipts were out of sequence. The ASB did not keep the receipts that were voided on file and thus the controls over the sequential numbering of receipts has been overridden due to the fact that some of the receipts that were voided were disposed of.

##### Questioned costs

None

##### Context

All ASB cash collections at H.A. Hyde Elementary School and all disbursements in E.A. Hall Middle School.

# **PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005**

### Effect

Lack of receipt documentation 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.

Revenue potentials insure that all revenue collected from fund raising activities is properly accounted for and deposited into the ASB account.

Proper authorizations over the disbursements that the ASB process prevents misstatements and places more monitoring and control over what has been expended by the student body.

### Cause

Lack of cash receipts records, lack of controls over fund raising activities and lack of proper authorization over the ASB's disbursements.

### 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 cash collected. The collections should be accompanied with the proper number sequence of receipts. If receipt slips are to be voided, it should clearly be marked as voided and kept on file.

The ASBs should ensure that all fund raising activities are properly accounted for and tracked through revenue potentials. Revenue potentials verify that amounts expected to be received are actually received and assists in preventing errors or misstatements in the cash collection activity.

The ASB minutes should clearly indicate what the ASB funds should be spent on and all checks written should have the proper authorization on them.

### District Response

The district has notified each of the sites listed and will be setting up meetings with the appropriate sites and personnel to discuss the findings and resolve the issues for the future.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

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### FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

#### 2005-2     50000 – OMB Circular A-87

##### Criteria or specific requirements

Salaries and wages for federally funded programs are required to be supported by semi-annual certifications for personnel 100% funded by federal programs and by personnel activity reports for personnel whose activities are partially funded by federal programs.

##### Condition

During our testing of the IDEA Special Education Cluster and the 21<sup>st</sup> Century Community Learning program, we noted that semi-annual certifications for personnel 100% funded by the program had not been completed.

##### Cause

Procedures to ensure that the semi-annual certifications for salaried personnel are completed timely were not adequate.

##### Questioned costs

\$1,987,474 of total salaries related to the Special Education program and \$1,783,762 related to the 21<sup>st</sup> Century program.

##### Effect

Unless personnel charges to federal programs are documented in accordance with OMB Circular A-87, such charges are subject to potential disallowance.

##### Recommendation

In-service training should be provided to responsible personnel on procedures necessary to comply with OMB A-87 and procedures revised to include internal auditing for compliance throughout the year.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

District Response

The district will train the programs on the proper procedures and will maintain the proper record keeping.

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**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

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None reported.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

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### SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

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

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

#### *Financial Statement Findings*

##### **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

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

### 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.

### Current Status

Not implemented. See current year's finding 2005-1.

# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

### Five Digit Code

10000

40000

### AB 3627 Finding Type

Attendance

State Compliance

### *State Award Findings and Questioned Costs*

#### 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.

##### 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.



# PAJARO VALLEY UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

### Current Status

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.

### 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.

### Current Status

Implemented.

