

**PAJARO VALLEY
UNIFIED SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2006**

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

OF SANTA CRUZ COUNTY

WATSONVILLE, CALIFORNIA

JUNE 30, 2006

GOVERNING BOARD

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

ADMINISTRATION

Mr. Terry McHenry

Interim Superintendent

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2006, 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 4 through 12 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.

VavineK, Trine, Day & Co LLP
Pleasanton, California
October 17, 2006



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

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

MANAGEMENT'S 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, 2006. 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, 2006

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, 2006

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$160.5 million and \$163.3 million for the fiscal years ended June 30, 2006 and 2005, respectively. Of this amount, \$6.5 million and \$12.7 million were unrestricted for fiscal years ending June 30, 2006 and 2005, respectively. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities 2006	Governmental Activities 2005
Current and other assets	\$ 86,675,720	\$ 96,871,912
Capital assets	170,046,978	157,169,902
Total Assets	256,722,698	254,041,814
Current liabilities	28,504,582	26,564,345
Long-term debt	67,740,434	64,201,689
Total Liabilities	96,245,016	90,766,034
Net assets		
Invested in capital assets, net of related debt	138,793,228	133,761,679
Restricted	15,201,033	16,772,327
Unrestricted	6,483,421	12,741,774
Total Net Assets	\$ 160,477,682	\$ 163,275,780

The \$6.5 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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 14. Table 2 takes the information from the Statement and rearranges them slightly so you can see our total revenues and expenses for the year.

Table 2

	Governmental Activities 2006	Governmental Activities 2005
Revenues		
Program revenues		
Charges for services	\$ 1,747,752	\$ 1,786,398
Operating grants and contributions	72,150,481	66,524,985
Capital grants and contributions	4,127,714	24,469,832
General revenues:		
Federal and state sources	58,404,244	57,063,714
Property taxes	51,555,079	48,546,230
Other general revenues	16,550,199	11,348,933
Total Revenues	204,535,469	209,740,092
Expenses		
Instruction related	150,926,145	132,751,989
Student support services	23,127,038	20,361,940
Administration	9,910,971	8,470,955
Maintenance and operations	16,179,345	15,574,514
Other	7,190,078	7,933,412
Total Expenses	207,333,577	185,092,810
Change in Net Assets	\$ (2,798,108)	\$ 24,647,282

Governmental Activities

As reported in the Statement of Activities on page 14, the cost of all of our governmental activities this year was \$207.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$51.6 million because \$73.9 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 \$58.4 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, 2006

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 2006	Net Cost of Services 2005
Instruction and instruction related	\$ 90,476,907	\$ 57,943,348
Pupil services	9,195,667	7,440,718
General administration	7,902,292	6,194,153
Maintenance and operations	15,305,289	13,957,980
Other	6,427,475	6,775,396
Totals	\$ 129,307,630	\$ 92,311,595

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$60.5 million, which is a decrease of \$10.5 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 remained relatively stable this year.
2. The Building fund (Bond Fund) has a decrease in fund balance of \$8.5 million. This decrease is due to District Bond projects in process. Over the past year the existing bond projects have begun to be completed. Each year until completion we will show a decrease in fund balance in the fund.
3. Our Non-Major funds decreased by \$2.0 million. The largest components of this net decrease of \$2.0 million were:
 - a. The Deferred Maintenance Fund increased \$1.2 million primarily because of the district has recently completed modernizing many of the schools and has multiple bond projects in process. The Deferred Maintenance Funds will be used to maintain these changes over the next several years.
 - b. The Capital Facilities Fund decreased by \$3.0 million due to use of the funds for modernization project matches and various other growth projects within the district being completed.
 - c. The County School Facilities Fund decreased by \$1.6 million primarily because projects are being completed as planned. Pajaro Valley High, Landmark, Radcliff and various modernization projects were completed or substantially completed in the 2005-2006 fiscal year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

General Fund Budgetary Highlights

Our original adopted budget projected an ending fund balance of \$13.7 million and our final budget projected an ending balance of \$12.6 million. Our actual ending balance at year-end was \$15.2, a positive variance of \$2.6 million from our final budget. Actual revenues exceeded final budgeted revenues by \$6.9 million. Actual expenditures were \$4.4 million higher than the final budgeted amounts. Other financing sources (uses) generated a positive variance of approximately \$24,000 when comparing actual to final budget.

Significant Differences in Revenues:

Our final budget revenues were \$159 million, however, actual revenues were \$166 million. The variance, \$6.9 million, is primarily due to higher categorical expenditures in grants than anticipated which in turn has the district recognize the revenue in the current year as opposed to deferring it to the subsequent year to be spent as carryover. In addition, higher interest than anticipated was received on the TRANS as interest rates continued to increase over the year.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2006 and 2005, the District had \$170.0 million and \$157.2 million, net of 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 \$12.9 million, or 8 percent, from last year.

TABLE 4

	Governmental Activities 2006	Governmental Activities 2005
Land	\$ 17,055,144	\$ 9,021,890
Construction in progress	18,818,146	99,707,011
Buildings and improvements	191,070,651	95,646,971
Equipment	2,737,674	2,626,799
Accumulated depreciation	(59,634,637)	(49,832,769)
Totals	\$ 170,046,978	\$ 157,169,902

This year's additions to capital assets of \$22.7 million included several projects such as finalizing work on Pajaro Valley High and the Pajaro Valley High Wetland Educational Resource Center (WERC). In addition, Landmark Elementary and a number of Bond and Modernization projects continue to be finalized.

Several capital projects are planned for the 2006-2007 year. We anticipate the completion of the construction of New School and Academic Vocational Charter and the near completion of 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, 2006

Long-Term Debt

At the end of this year, the District had \$59.4 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

<i>Years ending</i>	2006	2005
Certificates of participation	\$ 3,190,000	\$ 3,220,000
General obligation bonds	59,404,161	58,621,053
Bond premium	1,011,353	1,072,465
Accumulated vacation - net	1,422,206	1,289,790
Supplemental employees retirement plan	4,489,448	-
Capital leases	863,331	937,933
Other	947,900	1,143,080
Totals	\$ 71,328,399	\$ 66,284,321

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 2005-2006 ARE NOTED BELOW:

The State funding increased by 4.23% and implemented a reduction in the deficit factor we have been enduring for the past few years. This enabled the district to pay for all step and column increases, a 9% Health Benefit increase, implement a classification study adjustment to salaries for many classified employees as well as management employees. Important to note is that under this plan classified employees were moved on the salary schedule from one range to another and at an equal step. In other words, if the employee moved from a range 20 step 5 to a range 23, the employee also moved to a step 5 within the new range. Management employees moved to the new range when appropriate but to the salary range closest to the one they were previously on and were required to wait until their anniversary date to move to the next step.

In addition to the adjustments listed above, the district implemented a salary increase of 3.25% across all bargaining units including management. We also offered our eligible employees an early retirement plan (SERP/ Supplemental Early Retirement Plan).

Another outstanding accomplishment for the 2005-2006 year is the district opened its third class at Pajaro Valley High, the WERC center and a new cafeteria.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006-07 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 5.92% with a 0% reduction in deficit applied. In addition, it includes equalization per ADA of \$84.18.
2. Developer fee collections have been reduced substantially due to a decrease in development in the surrounding area.
3. The district's ADA has been projected at the same level as prior year due to the fact the district believes it will be declining.
4. Employee benefits will be increased by 7%.

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, 2006

	Governmental Activities
ASSETS	
Deposits and investments	\$ 67,799,175
Receivables	18,178,158
Prepaid expenses	319,080
Stores inventories	379,307
Capital assets not depreciated	35,873,290
Capital assets, net of accumulated depreciation	134,173,688
Total Assets	256,722,698
LIABILITIES	
Accounts payable	11,752,958
Interest payable	937,032
Deferred revenue	4,548,812
Claim liabilities	7,677,815
Current portion of long-term obligations	3,587,965
Noncurrent portion of long-term obligations	67,740,434
Total Liabilities	96,245,016
NET ASSETS	
Invested in capital assets, net of related debt	138,793,228
Restricted for:	
Legally restricted	5,262,705
Special revenues	5,855,875
Debt services	1,233,170
Capital projects	2,849,283
Unrestricted	6,483,421
Total Net Assets	\$ 160,477,682

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, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 115,516,276	\$ 79,104	\$ 37,720,567	\$ 4,127,714	\$ (73,588,891)
Instruction-related activities:					
Supervision of instruction	18,615,323	15,495	15,972,272	-	(2,627,556)
Instructional library and technology	2,972,180	15	1,542,266	-	(1,429,899)
School site administration	13,822,366	6,171	985,634	-	(12,830,561)
Pupil services:					
Home-to-school transportation	6,460,638	79,965	3,295,096	-	(3,085,577)
Food services	6,374,580	1,520,077	4,611,197	-	(243,306)
All other pupil services	10,291,820	270	4,424,766	-	(5,866,784)
General administration:					
Data processing	1,254,219	29	7,702	-	(1,246,488)
All other general administration	8,656,752	30,322	1,970,626	-	(6,655,804)
Plant services	16,179,345	5,085	868,971	-	(15,305,289)
Ancillary services	1,004,045	6	24,031	-	(980,008)
Community services	12,747	15	3,924	-	(8,808)
Interest on long-term debt	3,198,608	-	-	-	(3,198,608)
Other outgo	2,974,678	11,198	723,429	-	(2,240,051)
Total Governmental-Type Activities	\$ 207,333,577	\$ 1,747,752	\$ 72,150,481	\$ 4,127,714	(129,307,630)
General revenues and subventions:					
Property taxes, levied for general purposes					48,275,443
Property taxes, levied for debt service					3,195,432
Taxes levied for other specific purposes					84,204
Federal and State aid not restricted to specific purposes					58,404,244
Interest and investment earnings					1,866,252
Miscellaneous					14,683,947
Subtotal, General Revenues					126,509,522
Change in Net Assets					(2,798,108)
Net Assets - Beginning					163,275,790
Net Assets - Ending					\$ 160,477,682

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2006

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 7,264,123	\$ 36,413,272	\$ 13,525,076	\$ 57,202,471
Receivables	15,398,501	-	2,191,304	17,589,805
Due from other funds	2,688,120	80,726	73,867	2,842,713
Prepaid expenses	203,944	-	115,136	319,080
Stores inventories	222,141	-	157,166	379,307
Total Assets	\$ 25,776,829	\$ 36,493,998	\$ 16,062,549	\$ 78,333,376
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	6,321,785	2,331,003	1,711,016	10,363,804
Due to other funds	-	-	2,935,021	2,935,021
Deferred revenue	4,279,962	-	268,850	4,548,812
Total Liabilities	10,601,747	2,331,003	4,914,887	17,847,637
Fund Balances:				
Reserved for:				
Stores inventories	222,141	-	157,166	379,307
Other reservations	5,521,649	-	115,136	5,636,785
Unreserved:				
Designated	5,929,342	-	1,496,821	7,426,163
Undesignated, reported in:				
General fund	3,501,950	-	-	3,501,950
Special revenue funds	-	-	4,359,054	4,359,054
Debt service funds	-	-	2,170,202	2,170,202
Capital projects funds	-	34,162,995	2,849,283	37,012,278
Total Fund Balance	15,175,082	34,162,995	11,147,662	60,485,739
Total Liabilities and Fund Balances	\$ 25,776,829	\$ 36,493,998	\$ 16,062,549	\$ 78,333,376

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2006

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

Total Fund Balance - Governmental Funds **\$ 60,485,739**

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	\$ 229,681,615	
Accumulated depreciation is	<u>(59,634,637)</u>	
Net Capital Assets		170,046,978

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

581,248

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.

(937,032)

An internal service fund is used by the District's management to charge the costs of the self insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.

1,629,148

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Bonds payable and premiums, net of amortization	60,415,514	
Certificates of participation	3,190,000	
Capital leases payable	863,331	
State building loan	42,000	
Compensated absences (vacations)	1,422,206	
Supplemental employee retirement plan	4,489,448	
Energy service contract	<u>905,900</u>	
Total Long-Term Liabilities		(71,328,399)
Total Net Assets - Governmental Activities		<u>\$ 160,477,682</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$94,639,904	\$ -	\$ 5,553,095	\$ 100,192,999
Federal sources	26,824,723	-	10,272,424	37,097,147
Other state sources	39,723,354	-	8,761,581	48,484,935
Other local sources	4,847,837	1,700,791	11,909,651	18,458,279
Total Revenues	166,035,818	1,700,791	36,496,751	204,233,360
EXPENDITURES				
Current				
Instruction	93,964,425	-	12,219,617	106,184,042
Instruction-related activities:				
Supervision of instruction	15,342,059	-	1,887,803	17,229,862
Instructional library and technology	2,903,146	-	133,360	3,036,506
School site administration	9,898,824	-	2,756,732	12,655,556
Pupil services:				
Home-to-school transportation	6,132,925	-	-	6,132,925
Food services	-	-	6,156,483	6,156,483
All other pupil services	8,668,322	-	954,380	9,622,702
General administration:				
Data processing	1,234,728	-	-	1,234,728
All other general administration	6,920,503	-	500,845	7,421,348
Plant services	14,091,400	-	1,507,999	15,599,399
Facility acquisition and construction	155,631	10,211,677	11,647,972	22,015,280
Ancillary services	953,115	-	-	953,115
Community services	12,100	-	-	12,100
Other outgo	2,974,678	-	-	2,974,678
Debt service				
Principal	846,957	-	168,601	1,015,558
Interest and other	984,314	-	1,642,839	2,627,153
Total Expenditures	165,083,127	10,211,677	39,576,631	214,871,435
Excess (Deficiency) of Revenues Over Expenditures	952,691	(8,510,886)	(3,079,880)	(10,638,075)
Other Financing Sources (Uses):				
Transfers in	50,000	-	1,024,278	1,074,278
Other sources	-	-	80,000	80,000
Transfers out	(1,024,278)	-	-	(1,024,278)
Net Financing Sources (Uses)	(974,278)	-	1,104,278	130,000
NET CHANGE IN FUND BALANCES	(21,587)	(8,510,886)	(1,975,602)	(10,508,075)
Fund Balance - Beginning	15,196,669	42,673,881	13,123,264	70,993,814
Fund Balance - Ending	\$15,175,082	\$34,162,995	\$ 11,147,662	\$ 60,485,739

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Total Net Change in Fund Balances - Governmental Funds \$ (10,508,075)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which capital outlays exceed depreciation in the period.

Depreciation expense

\$ (9,801,868)

Capital outlays

22,678,944

Net Expense Adjustment

12,877,076

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.

(80,000)

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.

82,775

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$132,416.

(132,416)

Amortization of issuance cost is an expense in the statement of activities, but is not recognized in the governmental funds.

61,112

Payment of capital leases are an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

154,602

Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the statement of net assets over the live of the bonds.

30,000

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Payment of principal on energy service contract is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	181,180
Payment of principal on state school building loan is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	14,000
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	150,541
Accreted interest on capital appreciation bond is not recorded in the governmental funds, but it increases the bond principals in the statement of net assets and increases interest expense in the statement of activities.	(783,108)
Issuance of supplemental employee retirement plan (SERP) is not recorded in the governmental fund, but it increases the long-term liabilities in the statement of net assets and increases expenditures in the statement of activities.	(5,125,224)
Supplemental employee retirement plan payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net assets and does not affect the statement of activities.	635,776
An internal service fund is used by the District's management to charge the costs of the various insurance programs to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	(356,347)
Change in Net Assets of Governmental Activities	\$ (2,798,108)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 10,596,704
Receivables	7,115
Due from other funds	121,571
Total Assets	10,725,390
LIABILITIES	
Current Liabilities	
Accounts payable	1,389,164
Due to other funds	29,263
Claim liabilities	7,677,815
Total Current Liabilities	9,096,242
NET ASSETS	
Unrestricted	1,629,148
Total Net Assets	\$ 1,629,148

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 29,779,837
Total Operating Revenues	<u>29,779,837</u>
OPERATING EXPENSES	
Payroll costs	102,789
Transfers out	50,000
Other operating cost	30,202,729
Total Operating Expenses	<u>30,355,518</u>
Operating Loss	<u>(575,681)</u>
NONOPERATING REVENUES	
Interest income	<u>219,334</u>
Change in Net Assets	(356,347)
Total Net Assets - Beginning	<u>1,985,495</u>
Total Net Assets - Ending	<u><u>\$ 1,629,148</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 29,890,474
Cash payments to employees for services	(102,789)
Cash payments for insurance claims	(26,728,828)
Net Cash Provided for Operating Activities	<u>3,058,857</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>219,334</u>
Net Increase in Cash and Cash Equivalents	3,278,191
Cash and Cash Equivalents - Beginning	7,318,513
Cash and Cash Equivalents - Ending	<u><u>\$ 10,596,704</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (575,681)
Receivables	92,800
Due from other fund	17,837
Accrued liabilities	3,494,638
Due to other fund	29,263
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 3,058,857</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 59,869	\$ 2,198,359	\$ 654,382
Receivables	1,712,588	-	-
Total Assets	<u>1,772,457</u>	<u>2,198,359</u>	<u>\$ 654,382</u>
LIABILITIES			
Accounts payable	-	311,575	\$ -
Due to student groups	-	-	654,382
Total Liabilities	<u>-</u>	<u>311,575</u>	<u>\$ 654,382</u>
NET ASSETS			
Reserved for scholarships	-	1,886,784	
Unreserved	1,772,457	-	
Total Net Assets	<u>\$ 1,772,457</u>	<u>\$ 1,886,784</u>	

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 165,764
District contributions	2,123,993	-
Interest	30,906	88,933
Total Additions	<u>2,154,899</u>	<u>254,697</u>
DEDUCTIONS		
Other expenditures	2,092,308	287,971
Scholarships awarded	-	-
Total Deductions	<u>2,092,308</u>	<u>287,971</u>
Change in Net Assets	62,591	(33,274)
Net Assets - Beginning	1,709,866	1,920,058
Net Assets - Ending	<u>\$ 1,772,457</u>	<u>\$ 1,886,784</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units – Charter Schools

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

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

Joint Powers Agencies and Public Entity Risk Pools The District is associated with the School Excess Liability Fund public entity risk pool. The organization does not meet the criteria for inclusion as component unit of the District.

The District also participates in the Henry J. Mello Center for the Performing Arts Administration Agency (the JPA), through a joint powers agreement with the City of Watsonville and the District. Each member's board appoints three directors. The JPA was established for the purpose of administering all functions necessary for the operation and maintenance of the Performing Arts Center (the Center). On August 2, 1994, the JPA entered into a management, operation and maintenance agreement with the Pajaro Valley Performing Arts Association (PVPAA), a tax exempt, nonprofit public benefit corporation. The agreement is for a period of ten years, whereby, PVPAA shall operate the Center and perform all services reasonably required in connection with the management and operation of the Center. PVPAA shall pay costs and operating expenses of every kind pertaining to the Center's operation by PVPAA.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

Non-Major Governmental Funds

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

Charter Schools Fund The Charter Schools Fund exists as an option to separately report the activity of charter schools.

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 is used for the purpose 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 irrevocable to a separate trust for the retiree benefit plan.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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, district bonds, interest, and related costs.

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

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. In addition to the one presented as major fund, the District also 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).

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

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 only one internal service fund, which is Self-Insurance fund.

Self-Insurance Fund Self-Insurance funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates workers' compensations, health, dental and vision programs that are accounted for in the Self-Insurance fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The district's fiduciary fund category is split into three classifications: retiree benefit trust funds, private-purpose scholarship trust funds and student body agency funds.

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Restricted Assets

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

Prepaid Expenditures

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$25,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental column of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

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

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Net Assets

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

Operating Revenues and Expenses

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Property Tax

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

Changes in Accounting Pronouncements

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged. The District has implemented this statement and recorded long term debt in the amount of \$1,907,328 for the remaining amount due on a 2004 Supplemental Employees Retirement Plan program (see Note 9).

New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2008. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities. The District has established an irrevocable trust to begin funding these amounts and has had an actuarial study done to estimate the preliminary liability (see Note 11).

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 57,202,471
Proprietary fund	10,596,704
Fiduciary funds	2,912,610
Total Deposits and Investments	<u>\$ 70,711,785</u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 2,939,807
Cash in revolving	55,000
Investments	67,716,978
Total Deposits and Investments	<u>\$ 70,711,785</u>

Policies and Practices

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

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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
First America Treasury Obligation Fund	1,577,091	Not applicable
County Pool	66,073,705	217 days
Total	<u>\$ 67,670,696</u>	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2006.

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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. As of June 30, 2006, the District's bank balance of \$1,734,834 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.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in First America Treasury Obligation Fund of \$1,577,091 and U.S. Treasury of \$19,900, the District has a custodial credit risk exposure of \$1,596,991 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District's investment policy does not limit the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Non-Major Governmental	Total	Self Insurance	Fiduciary Funds
Federal Government					
Categorical aid	\$ 5,486,234	\$ 926,438	\$ 6,412,672	\$ -	\$ -
State Government					
Apportionment	4,146,429	575,417	4,721,846	-	-
Categorical aid	2,536,415	379,387	2,915,802	-	-
Lottery	1,546,757	97,221	1,643,978	-	-
Local Government				-	-
Other Local Sources	1,682,666	212,841	1,895,507	7,115	1,712,588
Total	<u>\$ 15,398,501</u>	<u>\$ 2,191,304</u>	<u>\$ 17,589,805</u>	<u>\$ 7,115</u>	<u>\$ 1,712,588</u>

Additional long-term receivables include \$581,238 for a special education settlement with payments expected to be received annually over the next five years.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 9,021,890	\$ 8,033,254	\$ -	\$ 17,055,144
Construction in Progress	99,707,011	10,303,296	91,192,161	18,818,146
Total Capital Assets Not Being Depreciated	108,728,901	18,336,550	91,192,161	35,873,290
Capital Assets Being Depreciated:				
Buildings and Improvements	95,646,971	95,423,680	-	191,070,651
Furniture and Equipment	2,626,799	110,875	-	2,737,674
Total Capital Assets Being Depreciated	98,273,770	95,534,555	-	193,808,325
Less Accumulated Depreciation:				
Buildings and Improvements	48,386,436	9,548,801	-	57,935,237
Furniture and Equipment	1,446,333	253,067	-	1,699,400
Total Accumulated Depreciation	49,832,769	9,801,868	-	59,634,637
Capital Assets Being Depreciated, Net	48,441,001	85,732,687	-	134,173,688
Governmental Activities Capital Assets, Net	\$157,169,902	\$ 104,069,237	\$ 91,192,161	\$ 170,046,978

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

Governmental Activities	
Instruction	\$ 5,523,117
Supervision of instruction	920,679
Instructional library, media, and technology	162,256
School site administration	677,271
Home-to-school transportation	327,713
Food services	328,972
All other pupil services	514,190
Ancillary services	50,930
Data processing	65,978
All other general administration	396,560
Community services	647
Plant services	833,555
Total Depreciation Expenses All Activities	\$ 9,801,868

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2006, between major and non-major governmental funds, and proprietary fund are as follows:

Due To	Due From				Total
	General	Building	Non-Major Governmental	Proprietary	
Non-Major Governmental funds	\$ 2,658,857	\$ 80,726	\$ 73,867	\$121,571	\$ 2,935,021
Proprietary funds	29,263	-	-	-	29,263
Total	<u>\$ 2,688,120</u>	<u>\$ 80,726</u>	<u>\$ 73,867</u>	<u>\$121,571</u>	<u>\$ 2,964,284</u>

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

Operating Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,024,278	\$ 1,024,278
Internal service funds	50,000	-	50,000
Total	<u>\$ 50,000</u>	<u>\$ 1,024,278</u>	<u>\$ 1,074,278</u>

The General Fund transferred to the Charter Fund for contribution.	190,692
The General Fund transferred to the Adult Education Fund for transfer of lottery money.	101,160
The General Fund transferred to the Child Development Fund for contribution.	32,426
The General Fund transferred to the Deferred Maintenance for matching purposes.	700,000
The Internal Service Fund transferred for safety expenditures.	50,000
	<u>\$ 1,074,278</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Fund	Fiduciary Funds
Vendor payables	\$ 3,202,710	\$ 2,331,003	\$ 1,231,049	\$ 6,764,762	\$ 1,389,164	\$ 311,575
State apportionment	2,201,357	-	-	2,201,357	-	-
Salaries and benefits	917,718	-	479,967	1,397,685	-	-
Total	<u>\$ 6,321,785</u>	<u>\$ 2,331,003</u>	<u>\$ 1,711,016</u>	<u>\$ 10,363,804</u>	<u>\$ 1,389,164</u>	<u>\$ 311,575</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2006, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,548,816	\$ 7,116	\$ 2,555,932
State categorical aid	458,486	256,721	715,207
Other local	1,272,660	5,013	1,277,673
Total	<u>\$ 4,279,962</u>	<u>\$ 268,850</u>	<u>\$ 4,548,812</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2005, the District had no outstanding Tax and Revenue Anticipation Notes. On July 1, 2005, the District issued \$19,000,000 Tax and Revenue Anticipation Notes bearing interest at 2.62 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2006. By April 30, 2006, 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2005	Accretion/ Additions	Deductions	Balance June 30, 2006	Due in One Year
General obligation bonds	\$ 58,621,053	\$ 783,108	\$ -	\$ 59,404,161	\$ 600,000
Bond premium	1,072,465	-	61,112	1,011,353	61,112
State school building loans	56,000	-	14,000	42,000	14,000
Certificates of participation	3,220,000	-	30,000	3,190,000	30,000
Accumulated vacation - net	1,289,790	132,416	-	1,422,206	1,422,206
Capital leases	937,933	80,000	154,602	863,331	127,267
Energy service contract	1,087,080	-	181,180	905,900	181,180
Supplemental employees retirement benefits	-	5,125,224	635,776	4,489,448	1,152,200
Total	<u>\$ 66,284,321</u>	<u>\$ 6,120,748</u>	<u>\$ 1,076,670</u>	<u>\$ 71,328,399</u>	<u>\$ 3,587,965</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. Accumulated vacation and supplemental employees retirement benefits are paid by the funds for which the employees worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2005	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2006
2005	2022	3-5.31%	\$ 40,215,000	\$40,215,000	\$ -	\$ -	\$ 40,215,000
2005	2029	3-5.31%	18,254,288	18,406,053	783,108	-	19,189,161
				<u>\$58,621,053</u>	<u>\$ 783,108</u>	<u>\$ -</u>	<u>\$ 59,404,161</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Debt Service Requirements to Maturity

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2007	\$ 600,000	\$ 2,357,401	\$ 2,957,401
2008	1,050,000	2,132,976	3,182,976
2009	1,230,000	2,097,314	3,327,314
2010	1,385,000	2,051,201	3,436,201
2011	1,560,000	1,990,382	3,550,382
2012-2016	11,080,000	8,543,197	19,623,197
2017-2021	18,290,000	4,841,552	23,131,552
2022-2026	15,505,634	11,725,579	27,231,213
2027-2030	7,768,653	17,566,347	25,335,000
Sub Total	\$ 58,469,287	\$ 53,305,949	\$ 111,775,236
Accretion to date	934,874		
Total general obligation bonds	\$ 59,404,161		

State and Public School Building Loans

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, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 14,000	\$ 648	\$ 14,648
2008	14,000	423	14,423
2009	14,000	109	14,109
Total	\$ 42,000	\$ 1,180	\$ 28,532

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 interest rates ranging from 2.9 to 4.5 percent, of which \$11,000,000 was redeemed in fiscal year ending June 30, 2003. At June 30, 2006, the principal balance outstanding was \$1,545,000. During the current year the District redeemed \$30,000 of the outstanding certificates.

In April 5, 2005, the Pajaro Valley Unified School District issued certificates of participation in the amount of \$1,645,000 to finance construction related to the Adult Education Center. At June 30, 2006, the principal balance outstanding was still \$1,645,000.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
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	100,000	105,626	205,626
2012-2016	570,000	471,291	1,041,291
2017-2021	705,000	350,166	1,055,166
2022-2026	890,000	191,203	1,081,203
2027-2031	450,000	59,500	509,500
2032	105,000	1,838	106,838
Subtotal	<u>\$ 3,190,000</u>	<u>\$ 1,632,909</u>	<u>\$ 4,822,909</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2006, amounted to \$1,422,206.

Capital Leases

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

	Portable Classrooms	Porter Building	Van	Modular Room	7 Year Portable	Total
Balance, July 1, 2005	\$ 68,306	\$ 923,675	\$ -	\$ 28,176	\$ 154,840	\$ 1,174,997
Additions	-	-	89,103	-	-	89,103
Payments	22,770	92,368	20,000	28,176	38,709	202,023
Balance, July 1, 2006	<u>\$ 45,536</u>	<u>\$ 831,307</u>	<u>\$ 69,103</u>	<u>\$ -</u>	<u>\$ 116,131</u>	<u>\$ 1,062,077</u>

For capital leases entered into prior to July 1, 2002 (implementation date of GASB 34), the District has recorded capital assets and associated accumulated depreciation based on the estimated cost assessment of such assets determined by the capital asset valuation done at that time. For capital leases entered into after that date, the District has recorded capital assets of \$80,000 with a corresponding accumulated depreciation \$8,000.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2007	\$ 171,122
2008	171,122
2009	148,354
2010	109,643
2011	92,368
2012-2016	369,470
Total	1,062,079
Less: Amount Representing Interest	198,748
Present Value of Minimum Lease Payments	<u>\$ 863,331</u>

Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2007	\$181,180
2008	181,180
2009	181,180
2010	181,180
2011	181,180
Total	<u>\$905,900</u>

Supplemental Employees Retirement Plan (SERP)

The Supplemental Employees Retirement Plan balances outstanding as of June 30, 2006, are as follows:

Year Ending June 30,	2004 Plan	2006 Plan	Total
2007	\$ 635,776	\$ 516,424	\$ 1,152,200
2008	635,776	516,424	1,152,200
2009	635,776	516,424	1,152,200
2010	-	516,424	516,424
2011	-	516,424	516,424
Subtotal	<u>\$ 1,907,328</u>	<u>\$ 2,582,120</u>	<u>\$ 4,489,448</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Defeased Debt

In 2005, The District defeased the 2002, Series A bond in the amount of \$39,995,542 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's Long Term Obligations. As of June 30, 2006, the amount on deposit to service the defeased debt outstanding but removed from the Long Term Debt Obligations amounted to \$40,550,221.

NOTE 10 - FUND BALANCES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Reserved					
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 55,000	\$ -
Stores inventory	222,141	-	157,166	379,307	-
Prepaid expenditures	203,944	-	115,136	319,080	-
Restricted programs	5,262,705	-	-	5,262,705	-
Total Reserved	5,743,790		272,302	6,016,092	-
Unreserved					
Designated					
Economic uncertainties	4,899,982	-	-	4,899,982	-
Other designation	1,029,360	-	1,496,821	2,526,181	-
Total Designated	5,929,342	-	1,496,821	7,426,163	-
Undesignated	3,501,950	34,162,995	9,378,539	47,043,484	3,659,241
Total Unreserved	9,431,292	34,162,995	10,875,360	54,469,647	3,659,241
Total	\$15,175,082	\$ 34,162,995	\$ 11,147,662	\$ 60,485,739	\$ 3,659,241

NOTE 11 - POSTEMPLOYMENT BENEFITS

Regular Postemployment 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, 248 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 \$2,123,994 were recognized for retirees' health care benefits.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The accumulated future liability for the District at June 30, 2006, amounts to approximately \$9,230,372. 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, 2006, 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 begin funding the liability.

By prefunding retiree benefits, the District is planning on having enough funds available at retirement (on average) that, with interest, will be sufficient to pay all promised retiree health benefits without the need for any additional post-retirement District contributions. Had the District begun pre-funding retiree health benefits when each current employee and retiree was hired, a substantial fund would have accumulated. Actuarial estimates project the amount that would have accumulated to be \$34,929,708. The District has set aside \$400,000 to fund retiree health liabilities. This leaves an unfunded past service liability of \$34,529,708. The current year cost to amortize the unfunded "past service liability" is \$1,529,427.

NOTE 13 - 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, 2006, 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 of the fund is to administer workers' 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 for Excess Property and Liability and the Pajaro Valley Unified School District Worker's Compensation Self-Insurance Program is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation	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, 2006

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2004 to June 30, 2006:

Liability Balance, July 1, 2004	\$ 2,355,164
Claims and changes in estimates	31,425,926
Claims payments	(29,178,120)
Liability Balance, June 30, 2005	4,602,970
Claims and changes in estimates	35,309,176
Claims payments	(32,234,331)
Liability Balance, June 30, 2006	\$ 7,677,815
Assets available to pay claims at June 30, 2006	\$ 9,306,963

NOTE 14 - 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 year 2005-2006 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

statute. The District's contributions to STRS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$6,288,467, \$5,872,570, and \$5,793,934, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-2006 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, 2006, 2005, and 2004, were \$2,300,967, \$2,285,245, and \$2,337,984, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (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 \$3,439,423 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 15 - 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, 2006.

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, 2006.

Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Radcliff	\$ 96,330	12/31/2006
Landmark	547,181	12/31/2006
Pajaro Valley High	33,973	12/31/2006
Pajaro Valley High WERC	86,788	12/31/2006
Aptos Jr. High	16,445	12/31/2006
Rolling Hills	6,659	12/31/2006
Renaissance	74,894	12/31/2006
Pajaro Middle	12,951	12/31/2006
Rio Del Mar	35,831	12/31/2006
MacQuiddy	57,449	12/31/2006
Bradley	96,476	12/31/2006
E.A. Hall Middle	68,012	12/31/2006
Aptos High	17,832,817	6/30/2007
Watsonville High	14,999,278	6/30/2007
Pajaro Valley High	139,876	12/31/2006
E.A. Hall Middle	1,177,099	12/31/2006
Mintie White	95	12/31/2006
	<u>\$ 35,282,154</u>	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

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

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

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$25,147,735 of Tax and Revenue Anticipation Notes dated July 6, 2006. The notes mature on June 30, 2007, and yield 4.5 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that 50 percentage 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, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 93,686,813	\$ 93,714,135	\$ 94,639,904	\$ 925,769
Federal sources	23,829,100	25,886,241	26,824,723	938,482
Other state sources	32,779,964	35,753,066	39,723,354	3,970,288
Other local sources	2,065,171	3,761,379	4,847,837	1,086,458
Total Revenues¹	152,361,048	159,114,821	166,035,818	6,920,997
EXPENDITURES				
Current				
Instruction	86,688,470	90,978,872	93,964,425	(2,985,553)
Instruction-related activities:				
Supervision of instruction	14,492,196	15,308,058	15,342,059	(34,001)
Instructional library and technology	1,565,503	2,249,678	2,903,146	(653,468)
School site administration	10,578,714	9,953,197	9,898,824	54,373
Pupil services:				
Home-to-school transportation	5,432,036	6,228,617	6,132,925	95,692
All other pupil services	8,849,312	8,517,139	8,668,322	(151,183)
General administration:				
Data processing	1,107,573	1,199,101	1,234,728	(35,627)
All other general administration	6,474,992	6,638,571	6,920,503	(281,932)
Plant services	13,113,038	14,049,745	14,091,400	(41,655)
Facility acquisition and construction	83,397	616,460	155,631	460,829
Ancillary services	996,598	953,173	953,115	58
Community services	-	-	12,100	(12,100)
Other outgo	2,756,520	3,054,305	2,974,678	79,627
Debt service				
Principal	357,795	379,189	846,957	(467,768)
Interest	465,181	596,103	984,314	(388,211)
Total Expenditures¹	152,961,325	160,722,208	165,083,127	(4,360,919)
Excess (Deficiency) of Revenues				
Over Expenditures	(600,277)	(1,607,387)	952,691	2,560,078
Other Financing Sources (Uses):				
Transfers in	50,000	50,134	50,000	(134)
Transfers out	(973,370)	(1,048,405)	(1,024,278)	24,127
Net Financing Uses	(923,370)	(998,271)	(974,278)	23,993
NET CHANGE IN FUND BALANCES	(1,523,647)	(2,605,658)	(21,587)	2,584,071
Fund Balance - Beginning	15,196,669	15,196,669	15,196,669	-
Fund Balance - Ending	\$ 13,673,022	\$ 12,591,011	\$ 15,175,082	\$ 2,584,071

¹ On behalf payments of \$3,045,901 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education			
Adult Basic Education & ESL	84.002A	14508	\$ 153,000
Priority 5, Adult Secondary Education	84.002A	13978	14,850
English Literacy & Civics Education	84.002A	14109	76,275
California Alternative Performance Assessment	²	14488	624
Department of Rehab: Workability II	84.158	10006	230,203
No Child Left Behind			
Title I-Basic Grants Low-Income and Neglected ¹	84.010	14329	5,816,865
Title I-Program Improvement District Intervention ¹	84.010	14581	342,543
Title I-Reading First Program ¹	84.357	14328	1,645,914
Title I-Migrant Ed (Regular and Summer Program)	84.011	13174	5,004,365
Title I-Even Start Family Literacy	84.213	14331	433,729
Title I-Even Start Migrant Ed	84.214	10030	350,040
Title I-Comprehensive School Reform Demonstration	84.010	13966	503,140
Title II-Teacher Quality	84.367	14341	1,172,248
Title II-Enhancing Education Through Technology			
Formula Grants	84.318	14335	150,851
Competitive Grants	84.318	14368	359,286
Title II-CA Mathematics and Science Partnerships	84.366	14512	840,188
Title III-Immigrant Education	84.365	14346	85,995
Title III-Limited English Proficiency Student	84.365	10084	553,446
Title IV-Drug-Free Schools	84.186	14347	132,717
Title IV-21st Century Community Centers Learning	84.287	14349	3,113,743
Title V-Innovative Education Strategies	84.298A	14354	66,456
Safe Schools	²	³	630,783
Special Education (IDEA)			
Basic Local Assistance Entitlement	84.027	13379	3,166,662
Preschool Grants	84.173	13430	180,542
Preschool Local Entitlement	84.027A	13682	332,340
Preschool Staff Development	84.173A	13431	1,000
Early Intervention Grants	84.181	13761	246,523

¹ Tested as a major program

² Catalog number not available

³ Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Title III-Bilingual Education Discretionary Grants	84.290	10008	767,478
Vocational Programs (Carl Perkins Act)			
Vocational and Applied Sex Bias	84.048	13570	13,191
Vocational and Applied Tech Secondary	84.048	13924	171,130
Subtotal			<u>26,556,127</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Child Development			
Quality Improvement Activities	93.575	13942	12,253
School-Age Child Care Resource Contracts	93.575	13941	4,762
Infant/Toddler Child Care Resource Contracts	93.575	13942	12,123
Head Start ¹	93.600	10016	5,641,687
Medi-Cal Billing Option	93.778	10013	512,721
Subtotal			<u>6,183,546</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Clusters			
National School Lunch Program	10.555	13396	3,368,129
National School Breakfast	10.553	13390	83,936
Meal Supplements	10.556	13528	222,440
Especially Needy Breakfast	10.553	13526	475,976
Child and Adult Care Food Program	²	23165	206,993
Commodity grants at fair market value ⁴	10550	13389	216,846
Subtotal			<u>4,574,320</u>
Total Expenditures of Federal Awards			<u><u>\$37,313,993</u></u>

¹ Tested as a major program

² Catalog number not available

³ Pass-Through Entity Identifying Number not available

⁴ Not included in financial statements.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2006

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,300	1,301
First through third	3,950	3,949
Fourth through sixth	3,825	3,822
Seventh and eighth	2,518	2,510
Opportunity schools	13	13
Home and hospital	3	2
Special education	289	287
Total Elementary	11,898	11,885
SECONDARY		
Regular classes	4,582	4,547
Continuation education	168	168
Home and hospital	5	2
Special education	223	221
Students 21 and over and 19 or older not continuously enrolled since their 18th birthday, enrolled in K-12 through independent study	2	5
Total Secondary	4,980	4,943
Total K-12	16,878	16,827
CLASSES FOR ADULTS		
Concurrently enrolled	13	13
Not concurrently enrolled	1,106	1,084
Adults in correctional facilities	36	35
Total Classes for Adults	1,155	1,132
CHARTER SCHOOL		
Resident	1,087	1,088
Non-Resident	58	60
Total Charter Schools	1,145	1,148
Grant Total	19,179	19,107
SUMMER SCHOOL		Hours of Attendance
Elementary		627,230
High school		278,050
Total Hours		905,280

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2006

Grade Level	1982-83	1986-87	2005-2006	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,000	180	174	In compliance
Grades 1 - 3	42,000	50,400	50,508	180	174	In compliance
Grades 4 - 6	52,500	54,000	54,010	180	174	In compliance
Grades 7 - 8	52,500	54,000	54,142	180	174	In compliance
Grades 9 - 12	64,800	64,800	64,860	180	174	In compliance

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Self Insurance Fund
FUND BALANCE		
Balance, June 30, 2006, Unaudited Actuals	\$ 14,477,264	\$ 4,624,181
Decrease in:		
Accounts receivable	588,585	-
Accounts payable	109,233	-
Increase in:		
Claim liabilities	-	(3,278,896)
Balance, June 30, 2006, Audited Financial Statement	<u>\$ 15,175,082</u>	<u>\$ 1,345,285</u>

Summarized below are the Form Debt reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

FORM DEBT	
Total Liabilities, June 30, 2006, Unaudited Actuals	\$ 91,646,950
Increase in:	
General obligation bonds payable	1,794,461
Compensated absences	264,832
Supplemental employees retirement plan	4,489,448
Certificates of participation	55,000
Capital leases	77,708
Decrease in:	
Other postemployee benefits	(27,000,000)
Total Liabilities, June 30, 2006, Audited Financial Statement	<u>\$ 71,328,399</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

	(Budget) 2007 ¹	2006	2005	2004
GENERAL FUND				
Revenues	\$ 165,758,531	\$ 166,035,818	\$ 154,201,428	\$ 142,912,298
Other sources and transfers in	282,369	50,000	-	239,520
Total Revenues and Other Sources	166,040,900	166,085,818	154,201,428	143,151,818
Expenditures	166,255,875	165,083,127	152,252,505	140,877,793
Other uses and transfers out	1,374,619	1,024,278	284,119	717,503
Total Expenditures and Other Uses	167,630,494	166,107,405	152,536,624	141,595,296
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,589,594)	\$ (21,587)	\$ 1,664,804	\$ 1,556,522
ENDING FUND BALANCE	\$ 13,585,488	\$ 15,175,082	\$ 15,196,669	\$ 13,531,865
AVAILABLE RESERVES ²	\$ 6,742,387	\$ 8,401,932	\$ 9,602,179	\$ 9,793,231
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	4.02%	5.15%	6.43%	7.00%
LONG-TERM DEBT	\$ 67,740,434	\$ 71,328,399	\$ 65,211,856	\$ 45,501,220
K-12 AVERAGE DAILY ATTENDANCE AT P-2	16,871	16,878	17,190	17,026

The General Fund balance has increased by \$1,643,217 over the past two years. The fiscal year 2006-2007 budget projects a decrease of \$1,589,594 (10.47 percent). 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 two of the past three years, but anticipates incurring an operating deficit during the 2006-2007 fiscal year. Total long-term obligations have increased by \$25,827,179 over the past two years.

Average daily attendance has decreased by 148 over the past two years. Additional decline of 7 ADA is anticipated during fiscal year 2006-2007.

¹ Budget 2007 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 \$3,045,901, \$3,211,883 and \$1,600,489 have been excluded from the calculation of available reserves for fiscal years ending June 30, 2006, 2005, and 2004.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2006**

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

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

CHARTER SCHOOLS SCHEDULE OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2006

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund balance, beginning	\$ (79,290)	\$ 8,495	\$ 427,611	\$ 798,287	\$ 4,955	\$ 1,160,058
Revenues ¹	1,270,998	1,210,058	1,486,487	2,887,380	485,921	7,340,844
Expenditures ¹	(1,255,562)	(1,227,081)	(1,507,169)	(3,139,265)	(488,872)	(7,617,949)
Fund balance, ending	<u>\$ (63,854)</u>	<u>\$ (8,528)</u>	<u>\$ 406,929</u>	<u>\$ 546,402</u>	<u>\$ 2,004</u>	<u>\$ 882,953</u>

¹ On-behalf payments of \$157,152 have been excluded from the revenues and expenditures for fiscal year ending June 30, 2006.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIRST 5 MONTEREY GRANT

SCHEDULE OF GRANT REVENUES AND EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2006

<u>Grantor/Program</u>	<u>Revenue</u>	<u>Expenditures</u>
First 5 Monterey	<u>\$ 25,877</u>	<u>\$ 25,877</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2006

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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

Charter School Statement of Changes in Fund Balances

The charter school schedule of changes in fund balances provides information about the changes in fund balance in each of the five charter schools operated by the District.

First 5 Monterey Grant Schedule of Revenues and Expenditures

The First 5 Monterey grant schedule of revenues and expenditures provides information about the current year revenues and expenses of the grant program operated by the District.

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SUPPLEMENTARY INFORMATION - UNAUDITED

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2006**

	Charter School	Adult Education	Child Development	Cafeteria	Deferred Maintenance
ASSETS					
Deposits and investments	\$ 1,395,752	\$ 1,793,624	\$ 645,877	\$ 1,136,440	\$ 2,721,860
Receivables	433,861	433,534	339,006	836,793	-
Due from other funds	911	-	-	88	-
Prepaid expenses	22,768	92,368	-	-	-
Stores inventories	-	-	-	157,166	-
Total Assets	\$ 1,853,292	\$ 2,319,526	\$ 984,883	\$ 2,130,487	\$ 2,721,860
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 120,038	\$ 340,030	\$ 590,875	\$ 161,784	\$ 15,160
Due to other funds	850,301	52,886	166,699	1,711,453	-
Deferred revenue	-	68,081	200,769	-	-
Total Liabilities	970,339	460,997	958,343	1,873,237	15,160
Fund Balances:					
Reserved for:					
Stores inventories	-	-	-	157,166	-
Other reservations	22,768	92,368	-	-	-
Unreserved:					
Designated	-	1,496,821	-	-	-
Undesignated, reported in:					
Special revenue funds	860,185	269,340	26,540	100,084	2,706,700
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	882,953	1,858,529	26,540	257,250	2,706,700
Total Liabilities and Fund Balances	\$ 1,853,292	\$ 2,319,526	\$ 984,883	\$ 2,130,487	\$ 2,721,860

See accompanying note to supplementary information - unaudited.

Retiree Benefits Reserve	Capital Facilities	County School Facilities	Bond Interest and Redemption	Tax Override	Total Non-Major Governmental
\$ 396,205	\$ 2,602,300	\$ 662,816	\$2,139,157	\$ 31,045	\$ 13,525,076
-	-	148,110	-	-	2,191,304
-	72,868	-	-	-	73,867
-	-	-	-	-	115,136
-	-	-	-	-	157,166
<u>\$ 396,205</u>	<u>\$ 2,675,168</u>	<u>\$ 810,926</u>	<u>\$2,139,157</u>	<u>\$ 31,045</u>	<u>\$ 16,062,549</u>

\$ -	\$ 441,419	\$ 41,710	\$ -	\$ -	\$ 1,711,016
-	80,726	72,956	-	-	2,935,021
-	-	-	-	-	268,850
<u>-</u>	<u>522,145</u>	<u>114,666</u>	<u>-</u>	<u>-</u>	<u>4,914,887</u>

-	-	-	-	-	157,166
-	-	-	-	-	115,136
-	-	-	-	-	1,496,821
396,205	-	-	-	-	4,359,054
-	-	-	2,139,157	31,045	2,170,202
-	2,153,023	696,260	-	-	2,849,283
<u>396,205</u>	<u>2,153,023</u>	<u>696,260</u>	<u>2,139,157</u>	<u>31,045</u>	<u>11,147,662</u>
<u>\$ 396,205</u>	<u>\$ 2,675,168</u>	<u>\$ 810,926</u>	<u>\$2,139,157</u>	<u>\$ 31,045</u>	<u>\$ 16,062,549</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, 2006

	<u>Charter School</u>	<u>Adult Education</u>	<u>Child Development</u>	<u>Cafeteria</u>	<u>Deferred Maintenance</u>
REVENUES					
Revenue limit sources	\$ 2,999,353	\$ 2,553,742	\$ -	\$ -	\$ -
Federal sources	-	244,125	5,670,825	4,357,474	-
Other state sources	1,231,559	445,038	1,974,338	269,977	789,291
Other local sources	3,076,392	578,728	201,932	1,580,624	80,979
Total Revenues	<u>7,307,304</u>	<u>3,821,633</u>	<u>7,847,095</u>	<u>6,208,075</u>	<u>870,270</u>
EXPENDITURES					
Current					
Instruction	4,884,027	2,204,484	5,131,106	-	-
Instruction-related activities:					
Supervision of instruction	40,403	751,361	1,096,039	-	-
Instructional library and technology	133,093	-	267	-	-
School site administration	2,415,956	303,049	37,727	-	-
Pupil services:					
Food services	-	-	22,754	6,133,729	-
All other pupil services	7,336	-	947,044	-	-
General administration:					
All other general administration	29,211	100,772	265,862	105,000	-
Plant services	227,435	90,982	352,182	-	131,167
Facility acquisition and construction	-	451,160	-	-	219,109
Debt service					
Principal	33,173	56,436	-	20,000	-
Interest and other	4,467	112,271	-	-	-
Total Expenditures	<u>7,775,101</u>	<u>4,070,515</u>	<u>7,852,981</u>	<u>6,258,729</u>	<u>350,276</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(467,797)</u>	<u>(248,882)</u>	<u>(5,886)</u>	<u>(50,654)</u>	<u>519,994</u>
Other Financing Sources					
Transfers in	190,692	101,160	32,426	-	700,000
Other sources	-	-	-	80,000	-
Net Financing Sources	<u>190,692</u>	<u>101,160</u>	<u>32,426</u>	<u>80,000</u>	<u>700,000</u>
NET CHANGE IN FUND BALANCES	<u>(277,105)</u>	<u>(147,722)</u>	<u>26,540</u>	<u>29,346</u>	<u>1,219,994</u>
Fund Balance - Beginning	<u>1,160,058</u>	<u>2,006,251</u>	<u>-</u>	<u>227,904</u>	<u>1,486,706</u>
Fund Balance - Ending	<u>\$ 882,953</u>	<u>\$ 1,858,529</u>	<u>\$ 26,540</u>	<u>\$ 257,250</u>	<u>\$ 2,706,700</u>

See accompanying note to supplementary information - unaudited

Retiree Benefits Reserve	Capital Facilities	County School Facilities	Bond Interest and Redemption	Tax Override	Total Non-Major Governmental
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,553,095
-	-	-	-	-	10,272,424
-	-	4,020,827	30,551	-	8,761,581
16,361	2,802,324	360,091	3,212,215	5	11,909,651
16,361	2,802,324	4,380,918	3,242,766	5	36,496,751
-	-	-	-	-	12,219,617
-	-	-	-	-	1,887,803
-	-	-	-	-	133,360
-	-	-	-	-	2,756,732
-	-	-	-	-	6,156,483
-	-	-	-	-	954,380
-	-	-	-	-	500,845
-	706,233	-	-	-	1,507,999
-	4,991,227	5,986,476	-	-	11,647,972
-	58,992	-	-	-	168,601
-	7,893	-	1,518,208	-	1,642,839
-	5,764,345	5,986,476	1,518,208	-	39,576,631
16,361	(2,962,021)	(1,605,558)	1,724,558	5	(3,079,880)
-	-	-	-	-	1,024,278
-	-	-	-	-	80,000
-	-	-	-	-	1,104,278
16,361	(2,962,021)	(1,605,558)	1,724,558	5	(1,975,602)
379,844	5,115,044	2,301,818	414,599	31,040	13,123,264
<u>\$ 396,205</u>	<u>\$ 2,153,023</u>	<u>\$ 696,260</u>	<u>\$ 2,139,157</u>	<u>\$ 31,045</u>	<u>\$ 11,147,662</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2006, which collectively comprise the Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated October 17, 2006. 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 Financial Statement Findings 2006-1.

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

October 17, 2006



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

Governing Board
Pajaro Valley Unified School District
Watsonville, California

Compliance

We have audited 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, 2006. Pajaro Valley Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Pajaro Valley Unified School District's management. Our responsibility is to express an opinion on Pajaro Valley Unified School District's compliance based on our audit.

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

In our opinion, Pajaro Valley Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Vavinek, Trine, Day & Co LLP

Pleasanton, California
October 17, 2006



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, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2006, and have issued our report thereon dated October, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Audit Guide	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:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	No
Morgan-Hart Class Size Reduction	7	Yes

	Procedures in Audit Guide	Procedures Performed
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	Not Applicable
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) Program	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Non classroom-based instruction/independent study	15	Yes
Additional Non classroom-based instruction	1	Yes
Determination of funding for non classroom-based instruction	3	Yes
Annual instruction minutes classroom based	3	Yes

We did not perform testing for Community Day School because the amount of ADA generated was not significant enough to test.

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.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
October 17, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I - Basic Grants</u>
<u>93.600</u>	<u>Head Start</u>
<u>84.357</u>	<u>Title I - Reading First</u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,119,423</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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

2006-1 Associated Student Body - 30000

Criteria or specific requirements

General best accounting practices and the District's ASB accounting procedures 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

- Lakeview Middle – We noted that the ASB disbursements lacked the proper approvals for the disbursements. In addition, we noted that the ASB did not use prenumbered receipt books to record cash collections.
- Pajaro Valley High – We noted that the ASB did not prepare revenue potentials on cash collections raised through each fund raising activity event. In addition, The site does not have adequate control over ticket sales.

Questioned costs

None

Context

All ASB cash collections and disbursement at Lakeview Middle School and Cash collections and ticket control at Pajaro Valley High.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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 ensure 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.

Proper ticket control ensures that cash collected over ticket sales is properly accounted for and deposited into the ASB account.

Cause

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

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.

A master ticket log should be maintained which notes the type of ticket, color and current beginning ticket number in the roll. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

District Response

An outline has been provided to every school site that has an ASB. This outline informs the ASB staff and Advisors of the proper procedures to follow. Also, sample forms have been provided to make compliance easier. In addition, a copy of the Associated Student Body Accounting Manual & Desk Reference has also been provided to each school site. Training meetings with ASB accounting staff, Activities Directors and Principals take place at schools throughout the year. The activity that has been neglected and will require more time and attention this year is follow up at the school sites.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None Reported:

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

STATE AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

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

2005-1 30000 - Associated Student Body

Finding

- E.A. Hall Middle – We noted that the ASB disbursements lacked the proper approvals for the disbursement. 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..

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 potential 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.

Current Status

Not implemented. See current year's finding 2006-1.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

Federal Award Findings and Questioned Costs

2005-2 50000 - OMB Circular A-87

Finding

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

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.

Current Status

Implemented