

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
OF SANTA CRUZ COUNTY
WATSONVILLE, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Doug Keegan	President	2008
Kim Turley	Vice President	2010
Libby Wilson	Member	2010
Karen Osmundson	Member	2008
Sandra Nichols	Member	2008
Willie Yahiro	Member	2010
Leslie L. DeRose	Member	2010

ADMINISTRATION

Dr. Mary Anne Mays	Interim Superintendent
Mary Hart	Associate Superintendent of Business

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, 2007, 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 2006-07* 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, 2007, 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 December 14, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 12 and budgetary comparison information on page 50, is not a required part of the basic financial statements, but is 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*, is presented for purposes of additional analysis and is/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, is 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 it.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2007



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, 2007. 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, 2007

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, 2007

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, 2007

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$163.6 million and \$160.5 million for the fiscal years ended June 30, 2007 and 2006, respectively. Of this amount, \$3.4 million and \$6.5 million were unrestricted for fiscal years ending June 30, 2007 and 2006, 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 2007	Governmental Activities 2006
Current and other assets	\$ 70,820,903	\$ 86,675,720
Capital assets	184,309,266	170,046,978
Total Assets	255,130,169	256,722,698
Current liabilities	20,059,964	28,504,582
Long-term debt	71,478,750	67,740,434
Total Liabilities	91,538,714	96,245,016
Net assets		
Invested in capital assets, net of related debt	135,881,805	138,793,228
Restricted	24,276,323	15,201,033
Unrestricted	3,433,327	6,483,421
Total Net Assets	\$ 163,591,455	\$ 160,477,682

The \$3.4 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, 2007

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. 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 2007	Governmental Activities 2006
Revenues		
Program revenues		
Charges for services	\$ 1,665,783	\$ 1,747,752
Operating grants and contributions	81,377,540	72,150,481
Capital grants and contributions	3,884,682	4,127,714
General revenues:		
Federal and state sources	66,553,062	58,404,244
Property taxes	51,569,402	51,555,079
Other general revenues	15,280,192	16,550,199
Total Revenues	220,330,661	204,535,469
Expenses		
Instruction related	158,363,319	150,926,145
Student support services	25,034,104	23,127,038
Administration	8,520,096	9,910,971
Maintenance and operations	17,226,091	16,179,345
Other	8,073,278	7,190,078
Total Expenses	217,216,888	207,333,577
Change in Net Assets	\$ 3,113,773	\$ (2,798,108)

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$217.2 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$130.3 million because \$86.9 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 \$133.4 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, 2007

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 2007	Net Cost of Services 2006
Instruction and instruction related	\$ 91,698,477	\$ 90,476,907
Pupil services	9,694,916	9,195,667
General administration	6,583,695	7,902,292
Maintenance and operations	15,552,469	15,305,289
Other	6,759,326	6,427,475
Totals	\$ 130,288,883	\$ 129,307,630

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$47.7 million, which is a decrease of \$12.8 million from last year.

The primary reasons for these changes are:

1. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$2.1 million to \$17.3 million.
2. The Building fund (Bond Fund) has a decrease in fund balance of \$17.7 million. This decrease is due to District Bond projects in process. Over the past year the existing bond projects have had some phases completed and others are well underway and expected to be complete in the 07/08 fiscal year. Each year until completion we will show a decrease in fund balance in the fund.
3. Our Non-Major funds increased by \$ 2.9 million. The largest components of this net increase of \$ 2.9 million were:
 - a. The Deferred Maintenance Fund increased \$ 1.3 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, including roofing, painting and electrical.
 - b. The Capital Facilities Fund decreased by \$ 1.1 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 increased by \$ 3.5 million due to the financing of the Watsonville High modernization project.
 - d. Other Miscellaneous Funds (i.e.: Adult Education, Charter, and Cafeteria) had a decrease of \$.8 million.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

General Fund Budgetary Highlights

Our original adopted budget projected an ending fund balance of \$11.6 million and our final budget projected an ending balance of \$15.6 million. Our actual ending balance at year-end was \$17.3 million, a positive variance of \$ 1.7 million from our final budget. Actual revenues exceeded final budgeted revenues by \$4.1 million excluding on behalf payments. Actual expenditures were \$3.4 million higher than the final budgeted amounts excluding on behalf payments. Other financing sources (uses) generated a positive variance of approximately \$.9 million when comparing actual to final budget.

Significant Differences in Revenues:

Our final budget revenues were \$174.3 million; however, actual revenues were \$ 181.7 million. The variance, \$7.4 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 and funding for the Student Information System, phone systems and buses.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007 and 2006, the District had \$184.3 million and \$170.0 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 \$14.3 million, or 8 percent, from last year.

TABLE 4

	Governmental Activities 2007	Governmental Activities 2006
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	42,204,466	18,818,146
Buildings and improvements	191,617,926	191,070,651
Equipment	2,858,924	2,737,674
Accumulated depreciation	(69,427,194)	(59,634,637)
Totals	\$ 184,309,266	\$ 170,046,978

This year's additions to capital assets of \$24.1 million included several projects such as Watsonville High, Aptos High and MintieWhite Bond Projects

Several capital projects completions are planned for the 2007-2009 year. We anticipate the completion of Aptos High and Watsonville High 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, 2007

Long-Term Debt

At the end of this year, the District had \$59.7 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

<i>Years ending</i>	2007	2006
Certificates of participation	\$ 3,105,000	\$ 3,190,000
General obligation bonds	59,681,467	59,404,161
Bond premium	950,241	1,011,353
Accumulated vacation - net	1,584,810	1,422,206
Supplemental employees retirement plan	3,337,248	4,489,448
Capital leases	2,067,264	863,331
Other	752,720	947,900
Totals	\$ 71,478,750	\$ 71,328,399

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 2006-2007 ARE NOTED BELOW:

The State funding increased 5.92% in fiscal year 2006-2007 and had no deficits. This enabled the district to pay for all step and column increases, a 3.66% salary increase; to all bargaining units, including management, and a 9% Health Benefit increase. We were also able to fund the district Music program for an additional year and give additional support to year 5 program improvement sites with some additional staffing. The district successfully closed the year with its required 3% reserve.

Other outstanding accomplishment of 2006-2007: the opening of new school sites for New School and Academic Vocational Charter. These new sites improve the ability of these two programs to grow their individual academic programs and serve more students throughout the district.

Throughout the fiscal year various other construction projects and maintenance projects were successfully completed as well. Mintie White now has a new Multi Purpose Room for school and community events and Aptos High School opened its new Swimming Pool Complex.

Maintenance and Operations maintained all 33 sites. Transportation transported 6000+ students to school each day with total mileage of 1,194,548, Food Service served 1.9 million breakfast and lunch meals, Technology

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

maintained 5000+ computers connected to the network for use of office work, Student Information system, libraries, technology labs and classroom use. In addition, purchasing processed 6600 purchase orders.

Accounting paid on all the purchase orders as well as reconciled and paid all credit card statements. Payroll processed pay for 4,400 individuals equating to approximately 30,000 checks. They also maintained the staff health and welfare accounts, worker compensation claims, section 125 applicants and retirement accounts including 403B's. Finance maintained a balanced budget of \$263 million including miscellaneous fund.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2007-2008 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Projections of revenue limit income include a COLA of 4.53%.
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 14%.

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:

Mary Hart, Associate Superintendent, Business
294 Green Valley Road, Watsonville, CA 95076

Helen Bellonzi, Director of Fiscal Services
294 Green Valley Road, Watsonville, CA 95076

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental Activities
ASSETS	
Deposits and investments	\$ 47,315,640
Receivables	22,725,161
Prepaid expenses	398,749
Stores inventories	381,353
Capital assets not depreciated	59,259,610
Capital assets, net of accumulated depreciation	125,049,656
Total Assets	255,130,169
LIABILITIES	
Accounts payable	7,649,460
Interest payable	986,851
Deferred revenue	3,745,838
Claim liabilities	7,677,815
Current portion of long-term obligations	4,506,820
Noncurrent portion of long-term obligations	66,971,930
Total Liabilities	91,538,714
NET ASSETS	
Invested in capital assets, net of related debt	135,881,805
Restricted for:	
Debt service	1,564,278
Capital projects	3,513,786
Special revenues	5,983,920
Self-Insurance	3,681,853
Legally restricted	9,532,486
Unrestricted	3,433,327
Total Net Assets	\$ 163,591,455

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, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 121,869,677	\$ 72,154	\$ 44,489,682	\$ 3,884,682	\$ (73,423,159)
Instruction-related activities:					
Supervision of instruction	18,495,671	11,515	15,413,671	-	(3,070,485)
Instructional library, media, and technology	3,669,604	153	1,887,130	-	(1,782,321)
School site administration	14,328,367	11,234	894,621	-	(13,422,512)
Pupil services:					
Home-to-school transportation	6,643,908	81,336	3,301,388	-	(3,261,184)
Food services	6,654,324	1,435,332	4,984,173	-	(234,819)
All other pupil services	11,735,872	687	5,536,272	-	(6,198,913)
Administration:					
Data processing	1,335,807	-	-	-	(1,335,807)
All other administration	7,184,289	20,123	1,916,278	-	(5,247,888)
Plant services	17,226,091	4,762	1,668,860	-	(15,552,469)
Ancillary services	1,437,388	311	78,238	-	(1,358,839)
Community services	8,605	24	1,535	-	(7,046)
Interest on long-term obligations	3,252,987	-	-	-	(3,252,987)
Other outgo	3,374,298	28,152	1,205,692	-	(2,140,454)
Total Governmental Activities	\$ 217,216,888	\$ 1,665,783	\$ 81,377,540	\$ 3,884,682	(130,288,883)
General revenues and subventions:					
					48,296,602
					3,066,063
					206,737
					66,553,062
					2,311,953
					3,350,080
					9,618,159
					133,402,656
					3,113,773
					160,477,682
					\$ 163,591,455

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2007

	General Fund	Building Funds	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 8,387,852	\$ 18,129,231	\$ 14,708,358	\$ 41,225,441
Receivables	19,232,889	-	3,159,369	22,392,258
Due from other funds	3,382,942	792	1,250,714	4,634,448
Prepaid expenses	283,613	-	115,136	398,749
Stores inventories	220,690	-	160,663	381,353
Total Assets	\$31,507,986	\$18,130,023	\$ 19,394,240	\$ 69,032,249
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,407,523	\$ 1,696,879	\$ 1,272,853	\$ 6,377,255
Due to other funds	7,328,428	-	3,847,704	11,176,132
Deferred revenue	3,492,876	-	252,962	3,745,838
Total Liabilities	14,228,827	1,696,879	5,373,519	21,299,225
Fund Balances:				
Reserved for:				
Grant reservations	8,697,384	-	-	8,697,384
Other reservations	559,303	-	275,799	835,102
Unreserved:				
Designated	6,109,603	-	-	6,109,603
Undesignated, reported in:				
General Fund	1,912,869	-	-	1,912,869
Special revenue funds	-	-	5,983,920	5,983,920
Debt service funds	-	-	2,551,129	2,551,129
Capital projects funds	-	16,433,144	5,209,873	21,643,017
Total Fund Balance	17,279,159	16,433,144	14,020,721	47,733,024
Total Liabilities and Fund Balances	\$31,507,986	\$18,130,023	\$ 19,394,240	\$ 69,032,249

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, 2007

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

Total Fund Balance - Governmental Funds **\$ 47,733,024**

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	\$ 253,736,460	
Accumulated depreciation is	<u>(69,427,194)</u>	
Net Capital Assets		184,309,266

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.

332,913

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.

(986,851)

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.

3,681,853

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	60,631,708	
Certificates of participation	3,105,000	
Capital leases payable	2,067,264	
State building loan	28,000	
Compensated absences (vacations)	1,584,810	
Supplemental employee retirement plan	3,337,248	
Energy service contract	<u>724,720</u>	
Total Long-Term Liabilities		<u>(71,478,750)</u>
Total Net Assets - Governmental Activities		<u>\$ 163,591,455</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, 2007

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 100,991,374	\$ -	\$ 6,366,641	\$107,358,015
Federal sources	26,208,672	-	10,589,640	36,798,312
Other State sources	48,696,857	-	9,476,443	58,173,300
Other local sources	5,755,738	1,377,906	10,745,205	17,878,849
Total Revenues	181,652,641	1,377,906	37,177,929	220,208,476
EXPENDITURES				
Instruction	103,395,705	-	12,911,900	116,307,605
Instruction-related activities:				
Supervision of instruction	15,873,035	-	1,784,299	17,657,334
Instructional library, media and technology	3,338,327	-	158,694	3,497,021
School site administration	10,213,023	-	3,507,004	13,720,027
Pupil services:				
Home-to-school transportation	6,364,145	-	-	6,364,145
Food services	-	-	6,341,368	6,341,368
All other pupil services	10,280,754	-	903,174	11,183,928
Administration:				
Data processing	1,272,983	-	-	1,272,983
All other administration	7,493,169	-	439,893	7,933,062
Plant services	15,107,311	-	1,428,357	16,535,668
Facility acquisition and construction	334,910	19,107,757	4,430,378	23,873,045
Ancillary services	1,369,787	-	-	1,369,787
Community services	8,200	-	-	8,200
Other outgo	3,374,298	-	-	3,374,298
Debt service				
Principal	1,363,382	-	782,531	2,145,913
Interest and other	56,465	-	2,330,509	2,386,974
Total Expenditures	179,845,494	19,107,757	35,018,107	233,971,358
Excess (Deficiency) of Revenues Over Expenditures	1,807,147	(17,729,851)	2,159,822	(13,762,882)
Other Financing Sources (Uses)				
Transfers in	50,000	-	1,070,536	1,120,536
Other sources	1,317,466	-	60,000	1,377,466
Transfers out	(1,070,536)	-	(417,299)	(1,487,835)
Net Financing Sources (Uses)	296,930	-	713,237	1,010,167
NET CHANGE IN FUND BALANCES	2,104,077	(17,729,851)	2,873,059	(12,752,715)
Fund Balance - Beginning	15,175,082	34,162,995	11,147,662	60,485,739
Fund Balance - Ending	\$ 17,279,159	\$ 16,433,144	\$ 14,020,721	\$ 47,733,024

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds **\$ (12,752,715)**
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

\$ (9,800,557)

Capital outlays

24,134,845

Net Expense Adjustment

14,334,288

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.

(1,377,466)

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.

(248,335)

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 \$162,604.

(162,604)

Amortization of bond premium is a revenue in the statement of activities, but is not recognized in the governmental funds.

61,112

Payment of capital leases 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.

113,533

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Payment of the principal of certificates of participation an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets and does not affect the statement of activities.	85,000
Payment of the principal of general obligation bonds is an expenditure in the governmental funds, but reduces the long-term liabilities in the statement of net assets and does not affect the statement of activities.	600,000
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.	(49,819)
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.	(877,306)
Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds.	(12,000)
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.	1,152,200
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.	2,052,705
Change in Net Assets of Governmental Activities	\$ 3,113,773

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 6,090,199
Due from other funds	6,390,121
Total Current Assets	<u>12,480,320</u>
LIABILITIES	
Current Liabilities	
Accounts payable	1,070,502
Due to other funds	50,150
Claim liabilities	7,677,815
Total Current Liabilities	<u>8,798,467</u>
NET ASSETS	
Unrestricted	3,681,853
Total Net Assets	<u><u>\$ 3,681,853</u></u>

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, 2007

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 33,367,862
Total Operating Revenues	33,367,862
OPERATING EXPENSES	
Payroll costs	109,935
Other operating cost	31,525,743
Total Operating Expenses	31,635,678
Operating Income	1,732,184
NONOPERATING REVENUES (EXPENSES)	
Interest income	370,521
Transfers out	(50,000)
Total Nonoperating Revenues (Expenses)	320,521
Change in Net Assets	2,052,705
Total Net Assets - Beginning	1,629,148
Total Net Assets - Ending	\$ 3,681,853

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, 2007**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 27,138,739
Cash payments for insurance claims	(31,965,765)
Net Cash (Used) for Operating Activities	(4,827,026)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants used	(50,000)
Net Cash (Used) from Noncapital Financing Activities	(50,000)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	370,521
Net (decrease) in Cash and Cash Equivalents	(4,506,505)
Cash and Cash Equivalents - Beginning	10,596,704
Cash and Cash Equivalents - Ending	\$ 6,090,199
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ 1,732,184
Changes in assets and liabilities:	
Receivables	7,115
Due from other funds	(6,236,238)
Accrued liabilities	(317,092)
Due to other fund	(12,995)
NET CASH USED BY OPERATING ACTIVITIES	\$ (4,827,026)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 2,006,335	\$ 2,135,594	\$ 738,567
Receivables	-	3,000	-
Due from other funds	201,713	-	-
Total Assets	<u>2,208,048</u>	<u>2,138,594</u>	<u>\$ 738,567</u>
LIABILITIES			
Accounts payable	-	277,450	\$ -
Due to student groups	-	-	738,567
Total Liabilities	<u>-</u>	<u>277,450</u>	<u>\$ 738,567</u>
NET ASSETS			
Unreserved	<u>2,208,048</u>	<u>1,861,144</u>	
Total Net Assets	<u>\$ 2,208,048</u>	<u>\$ 1,861,144</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, 2007

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ 417,299	\$ 151,282
District contributions	2,287,092	-
Interest	62,924	110,229
Total Additions	<u>2,767,315</u>	<u>261,511</u>
DEDUCTIONS		
Other expenditures	2,331,724	-
Scholarships awarded	-	287,151
Total Deductions	<u>2,331,724</u>	<u>287,151</u>
Change in Net Assets	435,591	(25,640)
Net Assets - Beginning	<u>1,772,457</u>	<u>1,886,784</u>
Net Assets - Ending	<u>\$ 2,208,048</u>	<u>\$ 1,861,144</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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 sixteen elementary, six middle, three high school, two community day schools, one continuation 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 FOR THE YEAR ENDED JUNE 30, 2007

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 FOR THE YEAR ENDED JUNE 30, 2007

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).

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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 FOR THE YEAR ENDED JUNE 30, 2007

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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. 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.

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.

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, 2007, 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 FOR THE YEAR ENDED JUNE 30, 2007

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 FOR THE YEAR ENDED JUNE 30, 2007

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 FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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 FOR THE YEAR ENDED JUNE 30, 2007

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 statement of net assets (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 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 41,225,441
Proprietary fund	6,090,199
Fiduciary funds	4,880,496
Total Deposits and Investments	<u>\$ 52,196,136</u>

Deposits and investments as of June 30, 2007, consist of the following:

Cash on hand and in banks	\$ 6,953,198
Cash in revolving	55,000
Investments	45,187,938
Total Deposits and Investments	<u>\$ 52,196,136</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 FOR THE YEAR ENDED JUNE 30, 2007

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	Weighted Average Maturity in Years
U.S. Treasuries	\$ 19,900	7.88
U.S. Agencies	139,123	0.50
County Pool	45,010,903	0.69
Total	<u>\$ 45,169,926</u>	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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. The District has no significant custodial credit risk with respect to its deposit balances.

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 \$139,123 and U.S. Treasury of \$19,900, the District has a custodial credit risk exposure of \$159,023 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, 2007, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Fiduciary Funds
Federal Government				
Categorical aid	\$ 8,725,819	\$ 1,014,497	\$ 9,740,316	\$ -
State Government				
Apportionment	113,742	436,307	550,049	-
Categorical aid	6,788,984	1,545,321	8,334,305	-
Lottery	1,384,275	74,534	1,458,809	-
Local Government				-
Interest	1,038,532	-	1,038,532	-
Other Local Sources	1,181,537	88,710	1,270,247	3,000
Total	<u>\$19,232,889</u>	<u>\$ 3,159,369</u>	<u>\$22,392,258</u>	<u>\$ 3,000</u>

Additional long-term receivables include \$ 332,913 for a special education settlement with payments expected to be received annually over the next four years.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	18,818,146	23,386,320	-	42,204,466
Total Capital Assets Not Being Depreciated	35,873,290	23,386,320	-	59,259,610
Capital Assets Being Depreciated:				
Buildings and Improvements	191,070,651	547,275	-	191,617,926
Furniture and Equipment	2,737,674	201,250	80,000	2,858,924
Total Capital Assets Being Depreciated	193,808,325	748,525	80,000	194,476,850
Less Accumulated Depreciation:				
Buildings and Improvements	57,935,237	9,543,665	-	67,478,902
Furniture and Equipment	1,699,400	256,892	8,000	1,948,292
Total Accumulated Depreciation	59,634,637	9,800,557	8,000	69,427,194
Capital Assets Being Depreciated, Net Governmental Activities Capital Assets, Net	134,173,688	(9,052,032)	72,000	125,049,656
	<u>\$ 170,046,978</u>	<u>\$ 14,334,288</u>	<u>\$ 72,000</u>	<u>\$ 184,309,266</u>

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

Governmental Activities

Instruction	\$ 5,562,072
Supervision of Instruction	871,417
Instructional Library & Media	172,583
School Site Administration	677,105
Home to School Transportation	314,080
Food Services	312,956
All Other Pupil Services	551,944
Anciliary Services	67,601
Community Services	405
All General Administration	391,509
Data Processing Services	62,824
Plant Services	816,061
Total Depreciation Expense - All Activities	<u>\$ 9,800,557</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2007, between major and non-major governmental funds, and proprietary fund are as follows:

Due From	Due To			Total
	General Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ -	\$ 3,332,937	\$ 50,005	\$ 3,382,942
Building	-	792	-	792
Non-Major Governmental Funds	900,547	350,167	-	1,250,714
Proprietary Funds	6,244,169	145,952	-	6,390,121
Fiduciary Funds	183,712	17,856	145	201,713
Total	<u>\$ 7,328,428</u>	<u>\$ 3,847,704</u>	<u>\$ 50,150</u>	<u>\$ 11,226,282</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, 2007, consisted of the following:

Transfer From	Transfer To			Total
	General Fund	Non-Major Governmental Funds	Agency Fund	
General Fund	\$ -	\$ 1,070,536	\$ -	\$ 1,070,536
Non-Major Governmental Funds	-	-	417,299	417,299
Internal Service Funds	50,000	-	-	50,000
Total	<u>\$ 50,000</u>	<u>\$ 1,070,536</u>	<u>\$ 417,299</u>	<u>\$ 1,537,835</u>

The General Fund transferred to the Deferred Maintenance Fund for State Match.	\$ 750,000
The General Fund transferred to the Charter Schools Fund for District contribution.	211,062
The General Fund transferred to the Adult Education Fund for District contribution.	101,160
The General Fund transferred to the Child Development Fund for District contribution.	8,314
The Special Reserve - Retiree Benefit Fund transferred to the	
Fiduciary - Retiree Benefit Fund for District contribution.	417,299
The Self Insurance Fund transferred to the General Fund for cost reimbursement.	50,000
Total	<u>\$ 1,537,835</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Vendor payables	\$ 1,932,637	\$ 1,696,879	\$ 799,670	\$ 4,429,186	\$ 1,070,502	\$ 277,450
State apportionment	284,696	-	18,563	303,259	-	-
Salaries and benefits	1,190,190	-	454,620	1,644,810	-	-
Total	<u>\$ 3,407,523</u>	<u>\$ 1,696,879</u>	<u>\$ 1,272,853</u>	<u>\$ 6,377,255</u>	<u>\$ 1,070,502</u>	<u>\$ 277,450</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,047,752	\$ -	\$ 1,047,752
State categorical aid	1,188,109	242,878	1,430,987
Other local	1,257,015	10,084	1,267,099
Total	<u>\$ 3,492,876</u>	<u>\$ 252,962</u>	<u>\$ 3,745,838</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2006, the District had no outstanding Tax and Revenue Anticipation Notes. On July 6, 2006 the District issued \$25,147,735 Tax and Revenue Anticipation Notes bearing interest at 4.5 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2007. By April 30, 2007, 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, 2007

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance June 30, 2006	Accretion/ Additions	Deductions	Balance June 30, 2007	Due in One Year
General obligation bonds	\$ 59,404,161	\$ 877,306	\$ 600,000	\$ 59,681,467	\$ 1,050,000
Bond premium	1,011,353	-	61,112	950,241	61,112
State school building loans	42,000	-	14,000	28,000	14,000
Certificates of participation	3,190,000	-	85,000	3,105,000	90,000
Accumulated vacation - net	1,422,206	162,604	-	1,584,810	1,584,810
Capital leases	863,331	1,377,466	173,533	2,067,264	373,518
Energy service contract	905,900	-	181,180	724,720	181,180
Supplemental employees retirement benefits	4,489,448	-	1,152,200	3,337,248	1,152,200
Total	<u>\$ 71,328,399</u>	<u>\$ 2,417,376</u>	<u>\$ 2,267,025</u>	<u>\$ 71,478,750</u>	<u>\$ 4,506,820</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 June 30, 2006	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2007
2005	2022	3-5.31%	\$ 40,215,000	\$ 40,215,000	\$ -	\$ 600,000	\$ 39,615,000
2005	2029	3-5.31%	18,254,288	19,189,161	877,306	-	20,066,467
				<u>\$ 59,404,161</u>	<u>\$ 877,306</u>	<u>\$ 600,000</u>	<u>\$ 59,681,467</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

Debt Service Requirements to Maturity

The bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	1,755,000	1,912,976	3,667,976
2013-2017	12,315,000	7,963,984	20,278,984
2018-2022	19,713,064	4,203,338	23,916,402
2023-2027	13,104,117	15,028,483	28,132,600
2028-2029	5,757,106	13,567,894	19,325,000
Sub Total	57,869,287	\$ 65,630,642	\$ 123,499,929
Accretion to date	1,812,180		
Total general obligation bonds	\$ 59,681,467		

State and Public School Building Loans

The Watsonville Charter School received \$70,000 in loans from the State with an interest rate of 1.61 percent. State school building loans outstanding as of June 30, 2007, are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 14,000	\$ 423	\$ 14,423
2009	14,000	109	14,109
Total	\$ 28,000	\$ 532	\$ 14,109

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, 2007, the principal balance outstanding was \$1,515,000. 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, 2007, the principal balance outstanding was \$1,590,000. During the current year the District redeemed \$55,000 of the outstanding certificates.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
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	105,000	102,209	207,209
2013-2017	595,000	449,881	1,044,881
2018-2022	740,000	321,747	1,061,747
2023-2027	805,000	156,847	961,847
2028-2032	475,000	43,313	518,313
Subtotal	<u>\$ 3,105,000</u>	<u>\$ 1,515,262</u>	<u>\$ 4,620,262</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$1,584,810.

Capital Leases

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

	Portable Classrooms	Porter Building	Bus and SIS System	VoIP
Balance, July 1, 2006	\$ 45,536	\$ 831,307	\$ -	\$ -
Additions	-	-	1,023,394	432,450
Payments	22,768	92,368	-	-
Balance, July 1, 2007	<u>\$ 22,768</u>	<u>\$ 738,939</u>	<u>\$ 1,023,394</u>	<u>\$ 432,450</u>

	Cafeteria Portables	Van	7 Year Portable	Total
Balance, July 1, 2006	\$ -	\$ 69,103	\$ 116,131	\$ 1,062,077
Additions	71,615	-	-	1,527,459
Payments	-	69,103	38,711	222,950
Balance, July 1, 2007	<u>\$ 71,615</u>	<u>\$ -</u>	<u>\$ 77,420</u>	<u>\$ 2,366,586</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2008	\$ 424,564
2009	494,231
2010	455,520
2011	311,370
2012	311,370
2013-2017	369,531
Total	2,366,586
Less: Amount Representing Interest	299,322
Present Value of Minimum Lease Payments	<u>\$ 2,067,264</u>

Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2008	\$ 181,180
2009	181,180
2010	181,180
2011	181,180
Total	<u>\$ 724,720</u>

Supplemental Employees Retirement Plan (SERP)

The Supplemental Employees Retirement Plan balances outstanding as of June 30, 2007, are as follows:

Year Ending June 30,	2004 Plan	2006 Plan	Total
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>\$ 1,271,552</u>	<u>\$ 2,065,696</u>	<u>\$ 3,337,248</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2007, the amount on deposit to service the defeased debt outstanding but removed from the Long Term Debt Obligations amounted to \$38,831,391.

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	220,690	-	160,663	381,353	-
Prepaid expenditures	283,613	-	115,136	398,749	-
Restricted programs	8,697,384	-	-	8,697,384	-
Total Reserved	9,256,687	-	275,799	9,532,486	-
Unreserved					
Designated					
Economic uncertainties	5,350,742	-	-	5,350,742	-
Other designation	758,861	-	-	758,861	-
Total Designated	6,109,603	-	-	6,109,603	-
Undesignated	1,912,869	16,433,144	13,744,922	32,090,935	4,069,192
Total Unreserved	8,022,472	16,433,144	13,744,922	38,200,538	4,069,192
Total	\$17,279,159	\$16,433,144	\$14,020,721	\$47,733,024	\$4,069,192

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 \$2,717,300 were recognized for retirees' health care benefits.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The accumulated future liability for the existing retirees of the District at June 30, 2007, amounts to approximately \$9,615,948. 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, 2007, 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.

NOTE 12 - 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, 2007, 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:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation	State Statutory Limits
School Alliance Workers' Compensation Excess	Excess Workers' Compensation	Limit Varies
Schools Excess Liability Fund	Excess Property and Liability	Limits vary depending on type of loss

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2005 to June 30, 2007:

Liability Balance, July 1, 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
Claims and changes in estimates	31,525,743
Claims payments	(31,525,743)
Liability Balance, June 30, 2007	\$ 7,677,815
Assets available to pay claims at June 30, 2007	\$ 11,359,668

NOTE 13 - 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 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$6,589,272, \$6,288,467, \$5,872,570, respectively, and equal 100 percent of the required contributions for each year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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. At Pajaro Valley Unified School District, the district contributes the 7.0 percent on their behalf. 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 2006-2007 was 9.124 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, 2007, 2006, and 2005, were \$2,467,327, \$2,300,967, and \$2,285,245, 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 \$3,604,560, \$3,439,423 and \$3,211,883, respectively, for 2007, 2006 and 2005 (4.517 percent of salaries subject to STRS for 2007, 2006 and 2005, respectively). No contributions were made for PERS for the year ended June 30, 2007, 2006 and 2005, respectively. 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, 2007

NOTE 14 - 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, 2007.

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, 2007.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Radcliff	\$ 99,106	6/30/2008
Landmark	250,767	6/30/2008
Pajaro Valley High WERC	73,817	6/30/2008
Aptos Jr. High	282	6/30/2008
Rolling Hills	3,508	6/30/2008
Renaissance	1,737	6/30/2008
Pajaro Middle	14,517	6/30/2008
Rio Del Mar	8,401	6/30/2008
MacQuiddy	59,960	6/30/2008
Bradley	100,608	6/30/2008
E.A. Hall Middle	70,938	6/30/2008
Aptos High	9,375,824	6/30/2008
Watsonville High	4,751,109	6/30/2008
Watsonville Schools	13,830	6/30/2008
E.A. Hall Middle	2,291,228	6/30/2008
Mintie White	1,148	6/30/2008
AHS	755,289	6/30/2008
WHS	3,119,215	6/30/2008
	<u>\$ 20,991,284</u>	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 15 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 16 - SUBSEQUENT EVENTS

The District issued \$17,750,000 of Tax and Revenue Anticipation Notes dated July 6, 2007. The notes mature on June 30, 2008, and yield 4.25 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, 2008, and the remaining 50 percent of principal and interest due on account by April 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances-Favorable
	(GAAP Basis)			(Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$100,748,548	\$100,605,352	\$100,991,374	\$ 386,022
Federal sources	24,840,421	25,519,841	26,208,672	688,831
Other State sources	36,630,060	43,337,613	48,696,857	5,359,244
Other local sources	3,539,502	4,831,795	5,755,738	923,943
Total Revenues ¹	165,758,531	174,294,601	181,652,641	7,358,040
EXPENDITURES				
Instruction	94,337,760	97,557,077	103,395,705	(5,838,628)
Instruction-related activities:				
Supervision of instruction	15,188,559	15,820,232	15,873,035	(52,803)
Instructional library, media, and technology	2,610,589	3,186,240	3,338,327	(152,087)
School site administration	11,810,813	11,645,736	10,213,023	1,432,713
Pupil services:				
Home-to-school transportation	6,003,647	6,332,118	6,364,145	(32,027)
All other pupil services	10,581,263	10,230,208	10,280,754	(50,546)
Administration:				
Data processing	1,384,991	1,369,076	1,272,983	96,093
All other administration	4,952,285	5,747,394	7,493,169	(1,745,775)
Plant services	13,924,286	14,594,050	15,107,311	(513,261)
Facility acquisition and construction	82,840	681,177	334,910	346,267
Ancillary services	1,290,295	1,403,217	1,369,787	33,430
Community services	-	-	8,200	(8,200)
Other outgo	3,131,984	3,364,932	3,374,298	(9,366)
Debt service				
Principal	331,188	364,796	1,363,382	(998,586)
Interest	625,375	933,586	56,465	877,121
Total Expenditures ¹	166,255,875	173,229,839	179,845,494	(6,615,655)
Excess (Deficiency) of Revenues Over Expenditures	(497,344)	1,064,762	1,807,147	742,385
Other Financing Sources (Uses)				
Transfers in	282,369	282,369	50,000	(232,369)
Other sources	-	406,043	1,317,466	911,423
Transfers out	(1,374,619)	(1,323,154)	(1,070,536)	252,618
Net Financing Sources (Uses)	(1,092,250)	(634,742)	296,930	931,672
NET CHANGE IN FUND BALANCES	(1,589,594)	430,020	2,104,077	1,674,057
Fund Balance - Beginning	15,175,082	15,175,082	15,175,082	-
Fund Balance - Ending	\$ 13,585,488	\$ 15,605,102	\$ 17,279,159	\$ 1,674,057

¹ On behalf payments of \$3,204,400 in the General Fund 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, 2007

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	\$ 127,800
Priority 5, Adult Secondary Education	84.002A	13978	13,725
English Literacy & Civics Education	84.002A	14109	77,292
California Alternative Performance Assessment	84.369	14488	22,629
Department of Rehab: Workability II	84.158	10006	230,203
No Child Left Behind			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	5,568,514
Title I-Program Improvement District Intervention	84.010	14581	217,457
Title I-Reading First Program	84.357	14328	1,134,030
Title I-Migrant Ed (Regular and Summer Program) ¹	84.011	13174	4,938,094
Title I-Even Start Family Literacy	84.213	14331	241,500
Title I-Even Start Migrant Ed	84.214	10030	291,861
Title I-Comprehensive School Reform Demonstration	84.010	13966	45,264
Title II-Teacher Quality ¹	84.367	14341	1,033,726
Title II-Enhancing Education Through Technology			
Formula Grants	84.318	14335	48,463
Competitive Grants	84.318	14368	336,253
Title II-CA Mathematics and Science Partnerships	84.366	14512	175,633
Title III-Immigrant Education ¹	84.365	14346	36,381
Title III-Limited English Proficiency Student ¹	84.365	10084	1,150,752
Title IV-Drug-Free Schools	84.186	14347	100,296
Title IV-21st Century Community Centers Learning	84.287	14349	3,058,718
Title V-Innovative Education Strategies	84.298A	14354	22,732
Title X McKinney-Vento Homeless Assistance	84.196	13697	130,000
Safe and Drug Free Schools ¹	84.184	³	2,269,297
Even Start Family Literacy	84.213	14381	15,000
LEA	²	³	320,626

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Special Education (IDEA) ¹			
Basic Local Assistance Entitlement ¹	84.027	13379	3,191,299
Preschool Grants ¹	84.173	13430	180,842
Preschool Local Entitlement ¹	84.027A	13682	334,925
Preschool Staff Development ¹	84.173A	13431	2,000
Early Intervention Grants	84.181	13761	246,523
Title III-Bilingual Education Discretionary Grants	84.290	10008	356,469
Vocational Programs (Carl Perkins Act)			
Vocational and Applied Sex Bias	84.048	13570	14,676
Vocational and Applied Tech Secondary	84.048	13924	174,609
Subtotal			<u>26,107,589</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Child Development			
Quality Improvement Activities	93.575	13942	8,356
School-Age Child Care Resource Contracts	93.575	13941	1,670
Head Start	93.600	10016	5,743,842
Medi-Cal Billing Option	93.778	10013	319,901
Subtotal			<u>6,073,769</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Clusters ¹			
National School Lunch Program ¹	10.555	13396	3,550,921
National School Breakfast ¹	10.553	13390	22,054
Meal Supplements ¹	10.556	13528	283,334
Especially Needy Breakfast ¹	10.553	13526	563,233
Child and Adult Care Food Program	²	23165	197,412
Commodity grants at fair market value ^{1,4}	10.565	³	337,538
Subtotal			<u>4,954,492</u>
Total Expenditures of Federal Awards			<u>\$37,135,850</u>

¹ Tested as a major program

² Catalog number not available

³ Pass-Through Entity Identifying Number not available

⁴ Not recorded in the financial statements

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2007

ORGANIZATION

The Pajaro Valley Unified School District was established in 1964 and consists of an area comprising approximately 150 square miles. The District operates sixteen elementary, six middle, three high schools, two community day school, one continuation high school, an adult education school, three childcare centers, a migrant center and five charter schools.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Doug Keegan	President	2008
Kim Turley	Vice President	2010
Libby Wilson	Member	2010
Karen Osmundson	Member	2008
Sandra Nichols	Member	2008
Willie Yahiro	Member	2010
Leslie L. DeRose	Member	2010

ADMINISTRATION

Dr. Mary Anne Mays	Interim Superintendent
Mary Hart	Associate Superintendent, Business

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2007

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,307	1,314
First through third	3,935	3,950
Fourth through sixth	3,788	3,796
Seventh and eighth	2,475	2,475
Opportunity schools	11	12
Home and hospital	2	3
Community day schools	15	16
Special education	301	303
Total Elementary	11,834	11,869
SECONDARY		
Regular classes	4,581	4,539
Continuation education	168	168
Home and hospital	5	6
Community day schools	69	64
Special education	159	158
Total Secondary	4,982	4,935
Total K-12	16,816	16,804
CLASSES FOR ADULTS		
Concurrently enrolled	19	18
Not concurrently enrolled	1,161	1,127
Adults in correctional facilities	36	36
Total Classes for Adults	1,216	1,181
CHARTER SCHOOL		
Resident	1,158	1,157
Non-Resident	86	86
Total Charter Schools	1,244	1,243
Grand Total	19,276	19,228
SUMMER SCHOOL		Hours of Attendance
Elementary		747,903
High school		335,160
Total Hours		1,083,063

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2007

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2006-2007 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,500	36,000	36,000	180	In compliance
Grades 1 - 3	42,000	50,400	50,400	180	In compliance
Grades 4 - 6	52,500	54,000	54,068	180	In compliance
Grades 7 - 8	52,500	54,000	54,152	180	In compliance
Grades 9 - 12	64,800	64,800	64,916	180	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, 2007

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

	General Fund
FUND BALANCE	
Balance, June 30, 2007, Unaudited Actuals	\$ 17,136,677
Decrease in:	
Accounts receivable	142,482
Balance, June 30, 2007, Audited Financial Statement	<u>\$ 17,279,159</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 175,632,127	\$ 181,652,641	\$ 166,035,818	\$ 154,201,428
Other sources and transfers in	156,173	1,367,466	50,000	-
Total Revenues and Other Sources	175,788,300	183,020,107	166,085,818	154,201,428
Expenditures	176,287,497	179,845,494	165,083,127	152,252,505
Other uses and transfers out	1,202,715	1,070,536	1,024,278	284,119
Total Expenditures and Other Uses	177,490,212	180,916,030	166,107,405	152,536,624
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,701,912)	\$ 2,104,077	\$ (21,587)	\$ 1,664,804
ENDING FUND BALANCE	\$ 15,577,247	\$ 17,279,159	\$ 15,175,082	\$ 15,196,669
AVAILABLE RESERVES ²	\$ 7,050,438	\$ 7,263,611	\$ 8,401,932	\$ 9,602,179
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	3.97%	4.09%	5.15%	6.43%
LONG-TERM DEBT	\$ 66,971,930	\$ 71,478,750	\$ 71,328,399	\$ 65,211,856
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	16,679	16,816	16,878	17,190

The General Fund balance has increased by \$2,082,490 over the past two years. The fiscal year 2007-2008 budget projects a decrease of \$1,701,912. 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 2007-2008 fiscal year. Total long-term obligations have increased by \$6,266,894 over the past two years.

Average daily attendance has decreased by 374 over the past two years. Additional decline of 137 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 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 \$3,204,400, \$3,045,901 and \$3,211,883 in the General Fund have been excluded from the calculation of available reserves percentage for fiscal years ending June 30, 2007, 2006, and 2005, respectively.

⁴ Excludes Adult Education and Charter Schools ADA.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXCESS SICK LEAVE JUNE 30, 2007

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Pajaro Valley Unified School District does not provide more than 12 sick leave days in a school year to any superintendent, other high level administrator, teacher who is CalSTRS member.

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2007

<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, 2007

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund balance, beginning	\$ (63,854)	\$ (8,528)	\$ 406,929	\$ 546,402	\$ 2,004	\$ 882,953
Revenues ¹	1,483,216	1,631,250	1,615,777	3,623,487	524,440	8,878,170
Expenditures ¹	(1,365,129)	(1,628,679)	(1,734,624)	(3,402,558)	(525,399)	(8,656,389)
Fund balance, ending	<u>\$ 54,233</u>	<u>\$ (5,957)</u>	<u>\$ 288,082</u>	<u>\$ 767,331</u>	<u>\$ 1,045</u>	<u>\$1,104,734</u>

¹ On-behalf payments of \$165,695 have been excluded from the revenues and expenditures for fiscal year ending June 30, 2007.

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, 2007**

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

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

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.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

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.

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) **JUNE 30, 2007**

NOTE 1 - PURPOSE OF SCHEDULES

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, 2007

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	\$ 1,450,874	\$ 662,879	\$ 611,036	\$ 713,270	\$ 4,071,641
Receivables	660,102	270,069	510,825	829,202	-
Due from other funds	845,200	317,562	9,023	37,012	-
Prepaid expenses	22,768	92,368	-	-	-
Stores inventories	-	-	-	160,663	-
Total Assets	\$ 2,978,944	\$ 1,342,878	\$ 1,130,884	\$ 1,740,147	\$ 4,071,641
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 42,273	\$ 400,227	\$ 671,224	\$ 91,020	\$ 46,825
Due to other funds	1,831,937	131,985	223,736	1,311,989	597
Deferred revenue	-	42,985	209,977	-	-
Total Liabilities	1,874,210	575,197	1,104,937	1,403,009	47,422
Fund Balances:					
Reserved for:					
Other reservations	22,768	92,368	-	160,663	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	1,081,966	675,313	25,947	176,475	4,024,219
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	1,104,734	767,681	25,947	337,138	4,024,219
Total Liabilities and Fund Balances	\$ 2,978,944	\$ 1,342,878	\$ 1,130,884	\$ 1,740,147	\$ 4,071,641

See accompanying note to supplementary information - unaudited.

Retiree Benefits Special Reserve Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 1,519	\$ 1,322,049	\$ 3,323,211	\$ 2,520,834	\$ 31,045	\$ 14,708,358
-	-	889,171	-	-	3,159,369
-	40,751	1,166	-	-	1,250,714
-	-	-	-	-	115,136
-	-	-	-	-	160,663
<u>\$ 1,519</u>	<u>\$ 1,362,800</u>	<u>\$ 4,213,548</u>	<u>\$ 2,520,834</u>	<u>\$ 31,045</u>	<u>\$ 19,394,240</u>
\$ -	\$ 16,069	\$ 4,465	\$ 750	\$ -	\$ 1,272,853
1,519	314,923	31,018	-	-	3,847,704
-	-	-	-	-	252,962
<u>1,519</u>	<u>330,992</u>	<u>35,483</u>	<u>750</u>	<u>-</u>	<u>5,373,519</u>
-	-	-	-	-	275,799
-	-	-	-	-	5,983,920
-	-	-	2,520,084	31,045	2,551,129
-	1,031,808	4,178,065	-	-	5,209,873
<u>-</u>	<u>1,031,808</u>	<u>4,178,065</u>	<u>2,520,084</u>	<u>31,045</u>	<u>14,020,721</u>
<u>\$ 1,519</u>	<u>\$ 1,362,800</u>	<u>\$ 4,213,548</u>	<u>\$ 2,520,834</u>	<u>\$ 31,045</u>	<u>\$ 19,394,240</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, 2007

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 3,518,168	\$ 2,848,473	\$ -	\$ -
Federal sources	-	218,817	5,753,868	4,616,955
Other State sources	1,805,083	429,232	2,358,970	347,119
Other local sources	3,449,551	280,115	139,280	1,579,391
Total Revenues	8,772,802	3,776,637	8,252,118	6,543,465
EXPENDITURES				
Current				
Instruction	5,346,452	2,060,987	5,504,461	-
Instruction-related activities:				
Supervision of instruction	67,454	547,221	1,169,624	-
Instructional library, media, and technology	128,116	-	30,578	-
School site administration	2,950,156	489,888	66,960	-
Pupil services:				
Food services	-	-	19,727	6,321,641
All other pupil services	20,113	-	883,061	-
Administration:				
All other administration	43,362	82,589	237,859	76,083
Plant services	229,016	95,656	348,755	-
Facility acquisition and construction	-	1,480,841	-	-
Debt service				
Principal	34,304	114,286	-	-
Interest and other	3,110	97,177	-	65,853
Total Expenditures	8,822,083	4,968,645	8,261,025	6,463,577
Excess (Deficiency) of				
Revenues Over Expenditures	(49,281)	(1,192,008)	(8,907)	79,888
Other Financing Sources (Uses)				
Transfers in	211,062	101,160	8,314	-
Other sources	60,000	-	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	271,062	101,160	8,314	-
NET CHANGE IN FUND BALANCES	221,781	(1,090,848)	(593)	79,888
Fund Balance - Beginning	882,953	1,858,529	26,540	257,250
Fund Balance - Ending	\$ 1,104,734	\$ 767,681	\$ 25,947	\$ 337,138

See accompanying note to supplementary information - unaudited

Deferred Maintenance Fund	Retiree Benefit Special Reserve Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,366,641
-	-	-	-	-	-	10,589,640
731,823	-	6,539	3,770,417	27,260	-	9,476,443
175,386	21,094	1,811,062	176,059	3,113,267	-	10,745,205
907,209	21,094	1,817,601	3,946,476	3,140,527	-	37,177,929
-	-	-	-	-	-	12,911,900
-	-	-	-	-	-	1,784,299
-	-	-	-	-	-	158,694
-	-	-	-	-	-	3,507,004
-	-	-	-	-	-	6,341,368
-	-	-	-	-	-	903,174
-	-	-	-	-	-	439,893
303,406	-	451,524	-	-	-	1,428,357
36,284	-	2,448,582	464,671	-	-	4,430,378
-	-	33,941	-	600,000	-	782,531
-	-	4,769	-	2,159,600	-	2,330,509
339,690	-	2,938,816	464,671	2,759,600	-	35,018,107
567,519	21,094	(1,121,215)	3,481,805	380,927	-	2,159,822
750,000	-	-	-	-	-	1,070,536
-	-	-	-	-	-	60,000
-	(417,299)	-	-	-	-	(417,299)
750,000	(417,299)	-	-	-	-	713,237
1,317,519	(396,205)	(1,121,215)	3,481,805	380,927	-	2,873,059
2,706,700	396,205	2,153,023	696,260	2,139,157	31,045	11,147,662
\$ 4,024,219	\$ -	\$ 1,031,808	\$ 4,178,065	\$ 2,520,084	\$ 31,045	\$ 14,020,721

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

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

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

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, 2007, which collectively comprise Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated December 14, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pajaro Valley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pajaro Valley Unified School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended 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

Palo Alto, California
December 14, 2007



**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, 2007. 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, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pajaro Valley Unified School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined 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 and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Pajaro Valley Unified School District
Watsonville, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pajaro Valley Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. 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 2006-07*, 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 the 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:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	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	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) 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
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	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 for testing.

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 and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
December 14, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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>84.027, 84.173</u>	<u>Special Education Cluster</u>
<u>84.011</u>	<u>Migrant Education</u>
<u>10.555, 10.553, 10.559</u>	<u>Child Nutrition Cluster</u>
<u>84.184</u>	<u>Safe and Drug Free Schools</u>
<u>84.365</u>	<u>English Language Acquisition Grants</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,114,076</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

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

Financial Statement Findings

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.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

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.

Current Status:

Implemented.

