

**PAJARO VALLEY UNIFIED
SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2008**

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

OF SANTA CRUZ COUNTY

WATSONVILLE, CALIFORNIA

JUNE 30, 2008

GOVERNING BOARD

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

ADMINISTRATION

Dorma Baker	Superintendent
Mary Hart	Associate Superintendent, 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, 2008, 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 2007-08* 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, 2008, 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 15, 2008, 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.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2008.

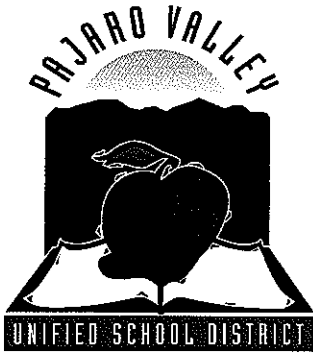
The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 52 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted 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 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 and 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 15, 2008



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, 2008. 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, 2008

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, 2008

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, 2008

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$150.9 million and \$163.6 million for the fiscal years ended June 30, 2008 and 2007, respectively. Of this amount, (\$5.8) million and \$3.4 million were unrestricted for fiscal years ending June 30, 2008 and 2007, 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 2008	Governmental Activities 2007
Current and other assets	\$ 60,474,233	\$ 70,820,903
Capital assets	191,816,278	184,309,266
Total Assets	252,290,511	255,130,169
Current liabilities	22,299,166	20,059,964
Long-term debt	79,109,996	71,478,750
Total Liabilities	101,409,162	91,538,714
Net assets		
Invested in capital assets, net of related debt	133,080,607	135,881,805
Restricted	23,552,891	24,276,323
Unrestricted	(5,752,149)	3,433,327
Total Net Assets	\$ 150,881,349	\$ 163,591,455

The (\$5.8) million in unrestricted deficit in 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 be short by \$5.8 million.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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

	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues		
Charges for services	\$ 1,565,001	\$ 1,665,783
Operating grants and contributions	85,186,214	81,377,540
Capital grants and contributions	874,843	3,884,682
General revenues:		
Federal and state sources	69,244,898	66,553,062
Property taxes	54,238,678	51,569,402
Other general revenues	10,270,147	15,280,192
Total Revenues	<u>221,379,781</u>	<u>220,330,661</u>
Expenses		
Instruction related	174,244,742	158,363,319
Student support services	27,240,666	25,034,104
Administration	9,282,914	8,520,096
Maintenance and operations	17,992,354	17,226,091
Other	5,329,211	8,073,278
Total Expenses	<u>234,089,887</u>	<u>217,216,888</u>
Change in Net Assets	<u>\$ (12,710,106)</u>	<u>\$ 3,113,773</u>

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$234.1 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$54.2 million because \$87.6 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 \$79.5 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, 2008

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 2008	Net Cost of Services 2007
Instruction and instruction related	\$ 108,400,719	\$ 91,698,477
Pupil services	11,030,737	9,694,916
General administration	6,468,720	6,583,695
Maintenance and operations	16,454,427	15,552,469
Other	4,109,226	6,759,326
Totals	\$ 146,463,829	\$ 130,288,883

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$36.4 million, which is a decrease of \$11.3 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 decreased \$0.6 million to \$16.7 million.
2. The Building fund (Bond Fund) has a decrease in fund balance of \$9.5 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 08/09 fiscal year. Each year until completion we will show a decrease in fund balance in the fund. At the end of 07/08 fiscal year, one bond project had not been started. This is the E.A. Hall Gym.
3. Our Non-Major funds decreased by \$1.1 million. The largest components of this net decrease of \$1.1 million were:
 - a. The Deferred Maintenance Fund balance increase because of unspent State and Local revenues over the current year's projects costs.
 - b. The Capital Facilities Fund decreased by \$0.2 million due to use of the funds for modernization project matches, on-going lease payments for portables and various other growth projects within the district being completed.
 - c. The County School Facilities Fund decreased by \$3.7 million due to the financing of the Watsonville High modernization project and Aptos High Cafeteria.
 - d. Other Miscellaneous Funds (i.e.: Adult Education, Charter, and Cafeteria) had an increase of \$1.3 million. The primary increases are in Adult Education and Charters.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

General Fund Budgetary Highlights

Our original adopted budget projected an ending fund balance of \$15.6 million and our final budget projected an ending balance of \$16.6 million. Our actual ending balance at year-end was \$16.7 million, a positive variance of \$61,173 from our final budget. Actual revenues exceeded final budgeted revenues by \$1.1 million excluding on behalf payments. Actual expenditures were \$1.1 million higher than the final budgeted amounts excluding on behalf payments. Other financing sources (uses) generated a positive variance of approximately \$39,179 when comparing actual to final budget.

Our final budget revenues were \$180.7 million; however, actual revenues were \$181.8 million. The variance, \$1.1 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.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2008 and 2007, the District had \$191.8 million and \$184.3 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 \$7.5 million, or 4.1 percent, from last year.

TABLE 4

	Governmental Activities 2008	Governmental Activities 2007
Land	\$ 17,055,144	\$ 17,055,144
Construction in progress	57,166,180	42,204,466
Buildings and improvements	192,694,747	191,617,926
Equipment	4,006,536	2,858,924
Accumulated depreciation	(79,106,329)	(69,427,194)
Totals	\$ 191,816,278	\$ 184,309,266

This year's additions to capital assets of \$17.2 million included several projects such as Watsonville High, Aptos High and Mintie White Bond Projects. These projects included the Watsonville High Gym and Swim complex, Aptos High School Cafeteria and Fine Arts Building, and Mintie White Library.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Several capital projects completions are planned for the 2008-2009 year. We anticipate the completion of Aptos High and Watsonville High Bond projects. Some of these projects are the Watsonville High School Tennis Courts and Aptos High Gym and Water Tank. Funds are available to complete ongoing new construction, modernization and bond projects.

Long-Term Debt

At the end of this year, the District had \$59.5 million in bonds outstanding. The District's long-term debt is summarized below.

TABLE 5

<i>Years ending</i>	2008	2007
Certificates of participation	\$ 3,015,000	\$ 3,105,000
General obligation bonds	59,446,187	59,681,467
Bond premium	889,129	950,241
Accumulated vacation - net	1,554,959	1,584,810
Supplemental employees retirement plan	8,399,208	3,337,248
Capital leases	1,693,746	2,067,264
Other post employment benefits	3,554,227	-
Other	557,540	752,720
Totals	\$ 79,109,996	\$ 71,478,750

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 2007-2008 ARE NOTED BELOW:

The State funding increased 4.53% in fiscal year 2007-2008 and had no deficits. This enabled the district to pay for all step and column increases, and a 14% Health Benefit increase. We were also able to fund the district Music program for an additional year. The district successfully closed the year with its required 3% reserve.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

Other outstanding accomplishment of 2007-2008: Pajaro Valley High School graduated its first senior class. Watsonville High School was able to open its new gymnasium, Aptos High was able to celebrate with its senior class in its new gymnasium, Rio Del Mar Elementary was awarded Distinguished School, many employees were able to retire and take the Early Retirement program developed and offered by the District and we grew approximately 180 ADA.

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 Watsonville High School opened its new Swimming Pool Complex.

Maintenance and Operations maintained all 33 sites. Transportation transported 4000+ students to school each day with total mileage of 1,057,729 Food Service served 2.0 million breakfast and lunch meals, Technology maintained 8500+ computers connected to the network for use of office work, Student Information system, libraries, technology labs and classroom use. In addition, purchasing processed 6000 purchase orders.

Accounting paid on all the purchase orders as well as reconciled and paid all credit card statements. Payroll processed pay for 4,700+ individuals equating to approximately 42,000+ 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 \$253 million including miscellaneous fund.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2008-2009 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Projections of revenue limit income include a COLA of 5.66% with a deficit of 5.36%
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 140 less than prior year due to the fact Ceiba College Preparatory Academy (new Charter School) is opening.
4. Employee benefits will be increased by 12%.

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, 2008

	Governmental Activities
ASSETS	
Deposits and investments	\$ 39,311,250
Receivables	20,329,646
Prepaid expenses	376,463
Stores inventories	456,874
Capital assets not depreciated	74,221,324
Capital assets, net of accumulated depreciation	117,594,954
Total Assets	252,290,511
LIABILITIES	
Accounts payable	6,084,114
Interest payable	1,003,795
Deferred revenue	3,348,226
Claim liabilities	11,863,031
Current portion of long-term obligations	4,388,633
Noncurrent portion of long-term obligations	74,721,363
Total Liabilities	101,409,162
NET ASSETS	
Invested in capital assets, net of related debt	133,080,607
Restricted for:	
Debt service	1,592,716
Capital projects	1,686,483
Special revenues	8,272,049
Self-Insurance	2,551,849
Legally restricted	9,449,794
Unrestricted	(5,752,149)
Total Net Assets	\$ 150,881,349

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, 2008

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	\$132,767,919	\$ 81,330	\$ 45,233,269	\$ 874,843	\$(86,578,477)
Instruction-related activities:					
Supervision of instruction	21,991,641	10,046	17,327,871	-	(4,653,724)
Instructional library, media, and technology	3,591,319	773	1,507,799	-	(2,082,747)
School site administration	15,893,863	16,435	791,657	-	(15,085,771)
Pupil services:					
Home-to-school transportation	8,012,529	78,019	3,706,678	-	(4,227,832)
Food services	7,448,312	1,335,420	5,535,373	-	(577,519)
All other pupil services	11,779,825	1,257	5,553,182	-	(6,225,386)
Administration:					
Data processing	1,512,160	-	-	-	(1,512,160)
All other administration	7,770,754	21,499	2,792,695	-	(4,956,560)
Plant services	17,992,354	6,598	1,531,329	-	(16,454,427)
Ancillary services	1,419,740	52	52,827	-	(1,366,861)
Community services	1,596	1	367	-	(1,228)
Interest on long-term obligations	3,857,630	-	-	-	(3,857,630)
Other outgo	50,245	13,571	1,153,167	-	1,116,493
Total Governmental Activities	\$234,089,887	\$1,565,001	\$ 85,186,214	\$ 874,843	(146,463,829)
General revenues and subventions:					
Property taxes, levied for general purposes					50,805,294
Property taxes, levied for debt service					3,173,137
Taxes levied for other specific purposes					260,247
Federal and State aid not restricted to specific purposes					69,244,898
Interest and investment earnings					1,185,834
Miscellaneous					9,084,313
Subtotal, General Revenues					133,753,723
Change in Net Assets					(12,710,106)
Net Assets - Beginning					163,591,455
Net Assets - Ending					\$150,881,349

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2008

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 9,211,138	\$ 7,459,884	\$ 11,906,856	\$ 28,577,878
Receivables	17,024,673	-	2,714,718	19,739,391
Due from other funds	940,000	-	83,067	1,023,067
Prepaid expenses	284,095	-	92,368	376,463
Stores inventories	246,541	-	210,333	456,874
Total Assets	\$ 27,706,447	\$ 7,459,884	\$ 15,007,342	\$ 50,173,673
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,970,997	\$ 593,953	\$ 860,555	\$ 5,425,505
Due to other funds	4,083,067	-	940,000	5,023,067
Deferred revenue	2,999,183	-	349,043	3,348,226
Total Liabilities	11,053,247	593,953	2,149,598	13,796,798
Fund Balances:				
Reserved for:				
Grant reservations	8,561,457	-	-	8,561,457
Other reservations	585,636	-	302,701	888,337
Unreserved:				
Designated	6,007,941	-	-	6,007,941
Undesignated, reported in:				
General Fund	1,498,166	-	-	1,498,166
Special revenue funds	-	-	8,272,049	8,272,049
Debt service funds	-	-	2,596,511	2,596,511
Capital projects funds	-	6,865,931	1,686,483	8,552,414
Total Fund Balance	16,653,200	6,865,931	12,857,744	36,376,875
Total Liabilities and Fund Balances	\$ 27,706,447	\$ 7,459,884	\$ 15,007,342	\$ 50,173,673

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2008

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

Total Fund Balance - Governmental Funds **\$ 36,376,875**

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	\$ 270,922,607	
Accumulated depreciation is	<u>(79,106,329)</u>	
Net Capital Assets		191,816,278

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. 250,138

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. (1,003,795)

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. 2,551,849

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	59,446,187	
Unamortized bond premium	889,129	
Certificates of participation	3,015,000	
Capital leases payable	1,693,746	
State building loan	14,000	
Compensated absences (vacations)	1,554,959	
Supplemental employee retirement plan	8,399,208	
OPEB obligations	3,554,227	
Energy service contract	<u>543,540</u>	
Total Long-Term Liabilities		(79,109,996)
Total Net Assets - Governmental Activities		<u><u>\$ 150,881,349</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	General	Building	Nonmajor	Total
	Fund	Fund	Governmental	Governmental
	Funds	Funds	Funds	Funds
REVENUES				
Revenue limit sources	\$ 98,847,572	\$ -	\$ 7,736,091	\$106,583,663
Federal sources	26,423,250	-	10,723,582	37,146,832
Other State sources	54,359,731	-	10,534,779	64,894,510
Other local sources	5,479,973	401,309	6,673,083	12,554,365
Total Revenues	185,110,526	401,309	35,667,535	221,179,370
EXPENDITURES				
Instruction	107,933,844	-	12,676,419	120,610,263
Instruction-related activities:				
Supervision of instruction	17,766,520	-	2,354,405	20,120,925
Instructional library, media and technology	2,927,876	-	447,810	3,375,686
School site administration	11,225,454	-	3,383,934	14,609,388
Pupil services:				
Home-to-school transportation	7,869,284	-	-	7,869,284
Food services	-	-	6,891,040	6,891,040
All other pupil services	10,016,955	-	780,438	10,797,393
Administration:				
Data processing	1,421,365	-	-	1,421,365
All other administration	6,377,063	-	572,967	6,950,030
Plant services	15,277,781	(10,540)	1,644,171	16,911,412
Facility acquisition and construction	1,362,837	9,979,062	5,484,818	16,826,717
Ancillary services	1,334,495	-	-	1,334,495
Community services	1,500	-	-	1,500
Other outgo	50,245	-	-	50,245
Debt service				
Principal	453,124	-	1,255,574	1,708,698
Interest and other	853,213	-	2,233,865	3,087,078
Total Expenditures	184,871,556	9,968,522	37,725,441	232,565,519
Excess (Deficiency) of Revenues Over Expenditures	238,970	(9,567,213)	(2,057,906)	(11,386,149)
Other Financing Sources (Uses)				
Transfers in	30,000	-	1,006,026	1,036,026
Transfers out	(894,929)	-	(111,097)	(1,006,026)
Net Financing Sources (Uses)	(864,929)	-	894,929	30,000
NET CHANGE IN FUND BALANCES	(625,959)	(9,567,213)	(1,162,977)	(11,356,149)
Fund Balance - Beginning	17,279,159	16,433,144	14,020,721	47,733,024
Fund Balance - Ending	\$ 16,653,200	\$ 6,865,931	\$ 12,857,744	\$ 36,376,875

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, 2008

Total Net Change in Fund Balances - Governmental Funds \$ (11,356,149)

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

\$ (9,679,135)

Capital outlays

17,186,147

Net Expense Adjustment

7,507,012

In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount and does not affect the statement of activities.

(82,775)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was higher than the amounts earned by \$29,851.

29,851

Amortization of bond premium is a revenue source 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.

373,518

Payment of the principal of certificates of participation 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.

90,000

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.

1,050,000

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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.	(16,944)
Accreted interest on capital appreciation bonds 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.	(814,720)
Contributions to the retiree benefit trust fund are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the statement of activities as an expense. The actual amount of the contribution was less than the annual required contribution.	(3,554,227)
Issuance of supplemental employee retirement plan (SERP) is not recorded in the governmental funds, but it increases the long-term liabilities in the statement of net assets and increases expenditures in the statement of activities.	(6,214,160)
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.	(1,130,004)
Change in Net Assets of Governmental Activities	\$ (12,710,106)

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 10,733,372
Receivables	340,117
Due from other funds	4,000,000
Total Current Assets	15,073,489
LIABILITIES	
Current Liabilities	
Accounts payable	658,609
Claim liabilities	11,863,031
Total Current Liabilities	12,521,640
NET ASSETS	
Unrestricted	2,551,849
Total Net Assets	\$ 2,551,849

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, 2008

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	<u>\$ 36,200,868</u>
OPERATING EXPENSES	
Payroll costs	167,628
Other operating cost	<u>37,416,430</u>
Total Operating Expenses	<u>37,584,058</u>
Operating Income	<u>(1,383,190)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	283,186
Transfers out	<u>(30,000)</u>
Total Nonoperating Revenues (Expenses)	<u>253,186</u>
Change in Net Assets	<u>(1,130,004)</u>
Total Net Assets - Beginning	<u>3,681,853</u>
Total Net Assets - Ending	<u><u>\$ 2,551,849</u></u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 38,250,872
Cash payments for insurance claims	(33,860,885)
Net Cash provided by Operating Activities	<u>4,389,987</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers Out	(30,000)
Net Cash provided by Noncapital Financing Activities	<u>(30,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	283,186
Net increase in Cash and Cash Equivalents	4,643,173
Cash and Cash Equivalents - Beginning	6,090,199
Cash and Cash Equivalents - Ending	<u>\$ 10,733,372</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ (1,383,190)
Changes in assets and liabilities:	
Receivables	(340,117)
Due from other funds	2,390,121
Accrued liabilities	3,773,323
Due to other fund	(50,150)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,389,987</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Retiree Benefits Trust	Scholarship Trust	Agency Funds
ASSETS			
Deposits and investments	\$ 2,265,760	\$ 2,070,632	\$ 642,926
Total Assets	<u>2,265,760</u>	<u>2,070,632</u>	<u>\$ 642,926</u>
LIABILITIES			
Accounts payable	-	267,900	\$ -
Due to student groups	-	-	642,926
Total Liabilities	<u>-</u>	<u>267,900</u>	<u>\$ 642,926</u>
NET ASSETS			
Unreserved	2,265,760	1,802,732	
Total Net Assets	<u>\$ 2,265,760</u>	<u>\$ 1,802,732</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, 2008

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
Private donations	\$ -	\$ 135,315
District contributions	2,636,409	-
Investment income (loss)	(75,832)	84,796
Total Additions	<u>2,560,577</u>	<u>220,111</u>
DEDUCTIONS		
Benefit payments	2,502,865	-
Scholarships awarded	-	278,523
Total Deductions	<u>2,502,865</u>	<u>278,523</u>
Change in Net Assets	57,712	(58,412)
Net Assets - Beginning	<u>2,208,048</u>	<u>1,861,144</u>
Net Assets - Ending	<u>\$ 2,265,760</u>	<u>\$ 1,802,732</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, 2008

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 have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of 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 Schools Association For Excess Risk (SAFER), School Alliance for Workers' Compensation Excess II (SAWCXII), public entity risk pools Benefit Liability Excess Fund (BeLiEF) that provides insurance coverages to the District. 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 was for a period of ten years and has been reviewed and continued annually, 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, 2008

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 is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Charter Schools Fund This fund may be used by authorizing Districts to account separately for the activities of District-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Adult Education Fund The Adult Education Fund is used to account separately for federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for federal, State, and local resources to operate the food service program (*Education Code* sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education*

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Code sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* sections 15125-15262).

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626. Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has only one internal service fund, which is Self-Insurance fund.

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

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

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function and excludes fiduciary activity. 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. Eliminations have been made to minimize the double counting of internal activities.

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, 2008

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, 2008, 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, 2008

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, 2008

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, 2008

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, 2008

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 Principles

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires 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 established 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.

This Statement provided 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 has implemented the provisions of this Statement for the fiscal year ended June 30, 2008. Refer to Note 11 for further information.

In July 2004, GASB issued GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2008.

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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).

In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. The District implemented the requirements of this Statement in the notes to the financial statements.

In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Adoption of this pronouncement is not anticipated to have an impact on the District's financial statements.

In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. Adoption of this pronouncement is not anticipated to have an impact on the District's financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 28,577,878
Proprietary fund	10,733,372
Fiduciary funds	4,979,318
Total Deposits and Investments	<u>\$ 44,290,568</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 3,076,969
Cash in revolving	55,000
Investments	41,158,599
Total Deposits and Investments	<u>\$ 44,290,568</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, 2008

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool, U.S. Government bonds and mutual funds are not required to be rated, nor have they been rated as of June 30, 2008.

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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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	Cost	Fair Value	Weighted Average Maturity in Years
U.S. Government	\$ 19,900	\$ 26,945	0.00
Mutual Funds	1,808,560	1,808,560	0.00
County Pool	39,323,094	39,328,890	0.57
Total	<u>\$ 41,151,554</u>	<u>\$ 41,164,395</u>	

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 (unless so waived by the governmental unit). 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. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's bank balance of \$1,986,739 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District is exposed to custodial credit risk related to investments in the Santa Cruz County pool and the District's investments in mutual funds related to the trust fund of the retiree benefits because these investments are held by the counter party's name and not registered in the name of the District.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Proprietary Funds
Federal Government				
Categorical aid	\$ 6,723,818	\$ 926,868	\$ 7,650,686	\$ -
State Government				
Apportionment	4,193,059	790,483	4,983,542	-
Categorical aid	3,494,543	781,022	4,275,565	-
Lottery	1,094,837	84,459	1,179,296	-
Other Local Sources	1,518,416	131,886	1,650,302	340,117
Total	<u>\$ 17,024,673</u>	<u>\$ 2,714,718</u>	<u>\$ 19,739,391</u>	<u>\$ 340,117</u>

Additional long-term receivables include \$250,138 for a special education settlement with payments expected to be received annually over the next three years.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 17,055,144	\$ -	\$ -	\$ 17,055,144
Construction in Progress	42,204,466	14,961,714	-	57,166,180
Total Capital Assets Not Being Depreciated	59,259,610	14,961,714	-	74,221,324
Capital Assets Being Depreciated:				
Buildings and Improvements	191,617,926	1,076,821	-	192,694,747
Furniture and Equipment	2,858,924	1,147,612	-	4,006,536
Total Capital Assets Being Depreciated	194,476,850	2,224,433	-	196,701,283
Less Accumulated Depreciation:				
Buildings and Improvements	67,478,902	9,318,681	-	76,797,583
Furniture and Equipment	1,948,292	360,454	-	2,308,746
Total Accumulated Depreciation	69,427,194	9,679,135	-	79,106,329
Capital Assets Being Depreciated, Net Governmental Activities Capital Assets, Net	125,049,656	(7,454,702)	-	117,594,954
	<u>\$ 184,309,266</u>	<u>\$ 7,507,012</u>	<u>\$ -</u>	<u>\$ 191,816,278</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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

Governmental Activities

Instruction	\$ 5,460,492
Supervision of Instruction	940,083
Instructional Library & Media	157,718
School Site Administration	682,575
Home to School Transportation	367,666
Food Services	321,961
All Other Pupil Services	504,472
Anciliary Services	62,350
Community Services	70
All General Administration	324,717
Data Processing Services	66,409
Plant Services	790,622
Total Depreciation Expense - All Activities	<u>\$ 9,679,135</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, 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	\$ -	\$ 83,067	\$ 4,000,000	\$ 4,083,067
Non-Major Governmental Funds	940,000	-	-	940,000
Total	<u>\$ 940,000</u>	<u>\$ 83,067</u>	<u>\$ 4,000,000</u>	<u>\$ 5,023,067</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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfer From	Transfer To			Total
	General Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 30,000	\$ 30,000
Non-Major Governmental Funds	894,929	111,097	-	1,006,026
Total	<u>\$ 894,929</u>	<u>\$ 111,097</u>	<u>\$ 30,000</u>	<u>\$ 1,036,026</u>

The General Fund transferred to the Deferred Maintenance Fund for State Match.	\$ 650,000
The General Fund transferred to the Charter Schools Fund for District contribution.	143,769
The General Fund transferred to the Adult Education Fund for District contribution.	101,160
The Adult Education Fund transferred to Capital Facilities Fund for construction projects.	111,097
The Self Insurance Fund transferred to the General Fund for cost reimbursement.	30,000
Total	<u>\$ 1,036,026</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Vendor payables	\$ 2,457,492	\$ 593,953	\$ 403,286	\$ 3,454,731	\$ 117,774	\$ 267,900
State apportionment	624,598	-	-	624,598	-	-
Salaries and benefits	888,907	-	457,269	1,346,176	540,835	-
Total	<u>\$ 3,970,997</u>	<u>\$ 593,953</u>	<u>\$ 860,555</u>	<u>\$ 5,425,505</u>	<u>\$ 658,609</u>	<u>\$ 267,900</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 440,417	\$ 319,850	\$ 760,267
State categorical aid	1,296,461	-	1,296,461
Other local	1,262,305	29,193	1,291,498
Total	<u>\$ 2,999,183</u>	<u>\$ 349,043</u>	<u>\$ 3,348,226</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2007 the District issued \$17,750,000 Tax and Revenue Anticipation Notes bearing interest at 4.25 percent. The notes were issued to supplement cash flow. Repayment requirements are that 50 percent of principal and interest be deposited with a Fiscal Agent by January 31, 2008, and the remaining 50 percent of principal and interest due on account by April 30, 2008. By April 30, 2008, the District had placed 100 percent of the required 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.

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, 2007	Accretion/ Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	\$59,681,467	\$ 814,720	\$1,050,000	\$ 59,446,187	\$ 1,230,000
Bond premium	950,241	-	61,112	889,129	61,112
State school building loans	28,000	-	14,000	14,000	14,000
Certificates of participation	3,105,000	-	90,000	3,015,000	95,000
Accumulated vacation - net	1,584,810	-	29,851	1,554,959	-
Capital leases	2,067,264	-	373,518	1,693,746	412,309
Energy service contract	724,720	-	181,180	543,540	181,180
Other Post Employment Benefits	-	3,554,227	-	3,554,227	-
Supplemental employees retirement benefits	3,337,248	6,214,160	1,152,200	8,399,208	2,395,032
Total	<u>\$71,478,750</u>	<u>\$10,583,107</u>	<u>\$2,951,861</u>	<u>\$ 79,109,996</u>	<u>\$ 4,388,633</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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2007	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2008
2005	2023	3-5.31%	\$ 40,215,000	\$ 39,615,000	\$ -	\$ 1,050,000	\$ 38,565,000
2005	2030	3-5.31%	18,254,288	20,066,467	814,720	-	20,881,187
				<u>\$ 59,681,467</u>	<u>\$ 814,720</u>	<u>\$ 1,050,000</u>	<u>\$ 59,446,187</u>

Debt Service Requirements to Maturity

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	1,970,000	1,822,251	3,792,251
2014-2018	13,650,000	7,310,253	20,960,253
2018-2023	21,175,654	3,549,828	24,725,482
2024-2028	10,300,803	18,769,197	29,070,000
2029-2030	3,792,830	9,312,170	13,105,000
Sub Total	<u>56,819,287</u>	<u>\$ 48,815,572</u>	<u>\$ 105,634,859</u>
Accretion to date	2,626,900		
Total general obligation bonds	<u>\$ 59,446,187</u>		

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, 2008, are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 14,000	\$ 109	\$ 14,109

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008, the principal balance outstanding was \$1,485,000. 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, 2008, the principal balance outstanding was \$1,530,000. During the current year the District redeemed \$60,000 of the outstanding certificates.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 95,000	\$ 119,271	\$ 214,271
2010	100,000	115,996	215,996
2011	100,000	112,614	212,614
2012	105,000	109,009	214,009
2013	110,000	105,088	215,088
2014-2018	620,000	456,841	1,076,841
2019-2023	775,000	314,884	1,089,884
2024-2028	720,000	141,000	861,000
2029-2032	390,000	32,200	422,200
Subtotal	<u>\$ 3,015,000</u>	<u>\$ 1,506,903</u>	<u>\$ 4,521,903</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$1,554,959.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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, 2007	\$ 22,768	\$ 738,939	\$ 1,023,394	\$ 432,450
Payments	22,768	92,368	112,244	144,150
Balance, July 1, 2008	<u>\$ -</u>	<u>\$ 646,571</u>	<u>\$ 911,150</u>	<u>\$ 288,300</u>

	Cafeteria Portables	7 Year Portable	Total
Balance, July 1, 2007	\$ 71,615	\$ 77,420	\$ 2,366,586
Payments	14,323	38,711	424,564
Balance, July 1, 2008	<u>\$ 57,292</u>	<u>\$ 38,709</u>	<u>\$ 1,942,022</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2009	\$ 494,231
2010	455,520
2011	311,370
2012	311,370
2013	184,802
2014-2018	184,729
Total	<u>1,942,022</u>
Less: Amount Representing Interest	248,276
Present Value of Minimum Lease Payments	<u>\$ 1,693,746</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Energy Service Contract

The Energy Service Contract has minimum lease payments as follows:

Year Ending June 30,	Payment
2009	\$ 181,180
2010	181,180
2011	181,180
Total	<u>\$ 543,540</u>

Supplemental Employees Retirement Plan (SERP)

The Supplemental Employees Retirement Plan balances outstanding as of June 30, 2008, are as follows:

Year Ending June 30,	2004 Plan	2006 Plan	2007 Plan	Total
2009	\$ 635,776	\$ 516,424	\$ 1,242,832	\$ 2,395,032
2010	-	516,424	1,242,832	1,759,256
2011	-	516,424	1,242,832	1,759,256
2012	-	-	1,242,832	1,242,832
2013	-	-	1,242,832	1,242,832
Subtotal	<u>\$ 635,776</u>	<u>\$ 1,549,272</u>	<u>\$ 6,214,160</u>	<u>\$ 8,399,208</u>

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, 2008, the amount on deposit to service the defeased debt outstanding that was removed from the Long Term Debt Obligations amounted to \$38,313,498.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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
Reserved				
Revolving cash	\$ 55,000	\$ -	\$ -	\$ 55,000
Stores inventory	246,541	-	210,333	456,874
Prepaid expenditures	284,095	-	92,368	376,463
Restricted programs	8,561,457	-	-	8,561,457
Total Reserved	9,147,093	-	302,701	9,449,794
Unreserved				
Designated				
Economic uncertainties	5,479,819	-	-	5,479,819
Other designation	528,122	-	-	528,122
Total Designated	6,007,941	-	-	6,007,941
Undesignated	1,498,166	6,865,931	12,555,043	20,919,140
Total Unreserved	7,506,107	6,865,931	12,555,043	26,927,081
Total	\$ 16,653,200	\$ 6,865,931	\$ 12,857,744	\$ 36,376,875

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Pajaro Valley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of quantify retirees and beneficiaries currently receiving benefits, quantify terminated plan members entitled to but not yet receiving benefits, and quantify active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (PVFT), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, FEA, CSEA and the unrepresented groups. For fiscal year 2007-08, the District contributed \$2,636,408 to the plan, all of which was used for current premiums (approximately 100% percent of total premiums incurred by retirees plus one eligible dependent).

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 6,190,633
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	6,190,633
Contributions made	2,636,407
Increase in net OPEB obligation	3,554,226
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 3,554,226</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 was as follows:

Year Ended June 30, 2008	Annual Required Contribution	Amount Contributed	Percentage Contributed	Net OPEB Obligation
2008	\$ 6,190,633	\$ 2,636,407	42.59%	\$ 3,554,226

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

In the March 1, 2007, actuarial valuation, the Entry age normal actuarial cost method was used. The actuarial assumptions included a 7% percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare, dental, and vision cost trend rates were averaged at 4% percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2008, was 29 years. The actuarial value of assets was not determined in this actuarial valuation.

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, 2008, the District contracted with Schools Association For Excess Risk 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.

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

Insurance Program / Company Name	Type of Coverage	Limits
Pajaro Valley Unified School District Workers' Compensation Self-Insurance Program	Workers' Compensation	\$ 500,000
School Alliance Workers' Compensation Excess	Excess Workers' Compensation	State Statutory Limit
Benefit Liability Excess Fund	Excess Medical	\$ 260,000
Schools Association For Excess Risk	Excess Liability	\$ 20,000,000
Schools Association For Excess Risk	Excess Property	\$ 250,000,000

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, 2008

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, 2006 to June 30, 2008:

Liability Balance, July 1, 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
Claims and changes in estimates	37,415,921
Claims payments	(33,230,705)
Liability Balance, June 30, 2008	\$ 11,863,031
Assets available to pay claims at June 30, 2008	\$ 14,414,880

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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$6,831,967, \$6,589,272, \$6,288,467, respectively, and equal 100 percent of the required contributions for each year.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

CalPERS

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 95811.

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 2007-2008 was 9.306 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, 2008, 2007, and 2006, were \$2,694,851, \$2,467,327, and \$2,300,967, 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 (CalSTRS or CalPERS) 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 CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$3,737,435, \$3,604,560 and \$3,439,423, respectively, for 2008, 2007 and 2006 (4.517 percent of salaries subject to CalSTRS for 2008, 2007 and 2006, respectively). No contributions were made for CalPERS for the year ended June 30, 2008, 2007 and 2006, 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 actual 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, 2008

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, 2008.

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, 2008.

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Radcliff	\$ 123,404	1/31/2009
Landmark	171,446	8/9/2008
Pajaro Valley High WERC	76,781	8/9/2008
Aptos Jr. High	294	8/9/2008
Rolling Hills	3,656	8/9/2008
Pajaro Middle	15,130	8/9/2008
Rio Del Mar	8,401	8/9/2008
MacQuiddy	62,491	8/9/2008
Bradley	104,855	8/9/2008
E.A. Hall Middle	73,932	8/9/2008
Aptos High	39,417	1/31/2009
Watsonville High	50,523	1/31/2009
E.A. Hall Middle	2,286,451	1/31/2010
AHS	1,020,248	3/31/2009
WHS	3,544,208	9/30/2009
	<u>\$ 7,581,237</u>	

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 15 PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Schools Association For Excess Risk (SAFER), School Alliance for Workers' Compensation Excess II (SAWCXII), Benefit Liability Excess Fund (BeLiEF) public entity risk pools. The District pays an annual premium to the applicable entity for its property and liability coverage, excess workers' compensation and excess medical insurance. 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. During the year ended June 30, 2008, the District made payments of \$290,417 to SAWCXII for excess workers' compensation insurance, \$1,298,398 to Belief for excess medical insurance and \$724,978 to SAFER for excess property and liability insurance.

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variances-Favorable
	(GAAP Basis)		Actual	(Unfavorable)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	\$97,765,297	\$98,824,311	\$ 98,847,572	\$ 23,261
Federal sources	26,197,761	25,925,843	26,423,250	497,407
Other State sources	48,314,434	50,784,444	51,015,109	230,665
Other local sources	3,354,635	5,124,373	5,479,973	355,600
Total Revenues ¹	175,632,127	180,658,971	181,765,904	1,106,933
EXPENDITURES				
Instruction	102,258,316	104,478,605	104,589,222	(110,617)
Instruction-related activities:				
Supervision of instruction	17,869,508	18,218,449	17,766,520	451,929
Instructional library, media, and technology	2,613,548	3,061,318	2,927,876	133,442
School site administration	11,688,210	11,607,686	11,225,454	382,232
Pupil services:				
Home-to-school transportation	7,097,577	7,788,940	7,869,284	(80,344)
All other pupil services	10,141,394	10,270,506	10,016,955	253,551
Administration:				
Data processing	1,395,515	1,095,354	1,421,365	(326,011)
All other administration	5,661,789	5,657,624	6,377,063	(719,439)
Plant services	14,115,940	14,882,722	15,277,781	(395,059)
Facility acquisition and construction	842,859	680,114	1,362,837	(682,723)
Ancillary services	1,288,300	1,357,653	1,334,495	23,158
Community services	10,189	500	1,500	(1,000)
Other outgo	45,000	50,245	50,245	-
Debt service				
Principal	453,623	452,987	453,124	(137)
Interest	805,729	839,292	853,213	(13,921)
Total Expenditures ¹	176,287,497	180,441,995	181,526,934	(1,084,939)
Excess (Deficiency) of Revenues Over Expenditures	(655,370)	216,976	238,970	21,994
Other Financing Sources (Uses)				
Transfers in	156,173	227,355	30,000	(197,355)
Other sources	-	24,876	-	(24,876)
Transfers out	(1,202,715)	(1,156,339)	(894,929)	261,410
Net Financing Sources (Uses)	(1,046,542)	(904,108)	(864,929)	39,179
NET CHANGE IN FUND BALANCES				
Fund Balance - Beginning	17,279,159	17,279,159	17,279,159	-
Fund Balance - Ending	\$15,577,247	\$16,592,027	\$ 16,653,200	\$ 61,173

¹ On behalf payments of \$3,344,622 in the General Fund are excluded in the actual revenues and expenditures, but have been included in the basic financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
March 1, 2007	\$ 2,208,048	\$ 52,884,097	\$ 50,676,049	4.18%	\$ 114,434,798	44.28%

SUPPLEMENTARY INFORMATION

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education Act:			
Adult Basic Education & ESL	84.002A	14508	\$ 131,121
Priority 5, Adult Secondary Education	84.002	13978	14,789
English Literacy & Civics Education	84.002A	14109	89,858
California Alternative Performance Assessment	84.369	14488	24,056
No Child Left Behind Act:			
Title I-Basic Grants Low-Income and Neglected	84.010	14329	5,287,688
Title I-Reading First Program	84.357	14328	1,105,510
Title I-Migrant Ed (Regular and Summer Program)	84.011	14326	5,002,488
Title I-Even Start Family Literacy	84.213	14331	207,000
Title I-Even Start Migrant Ed	84.214	14768	314,486
Title II-Teacher Quality	84.367	14341	1,321,621
Title II-Enhancing Education Through Technology			
Formula Grants	84.318	14334	43,692
Competitive Grants	84.318	14368	572,463
Title II-CA Mathematics and Science Partnerships	84.366	14512	808,644
Title III-Immigrant Education	84.365	14346	206,689
Title III-Limited English Proficiency Student	84.365	10084	476,288
Title IV-Drug-Free Schools	84.186	14347	103,758
Title IV-21st Century Community Centers Learning	84.287	14535	2,793,355
Title V-Innovative Education Strategies	84.298A	14354	57,600
Title X McKinney-Vento Homeless Assistance	84.196	14332	104,985
Safe and Drug Free Schools	84.186	14378	2,527,969
Even Start Technical Assistance	84.213	14381	23,333
LEA	84.000	2	331,187

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Individuals with Disability Act:			
Basic Local Assistance Entitlement	84.027	13379	3,216,473
Preschool Grants	84.173	13430	180,612
Preschool Local Entitlement	84.027A	13682	337,567
Preschool Staff Development	84.173A	13431	1,015
Early Intervention Grants	84.181	23761	246,523
Workability II	84.158	10006	216,994
Title III-Bilingual Education Discretionary Grants	84.290	10008	285,543
Vocational Programs (Carl Perkins Act)			
Vocational and Applied Sex Bias	84.048	13923	17,974
Vocational and Applied Tech Secondary	84.048	13924	138,549
Subtotal			<u>26,189,830</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Child Development			
Quality Improvement Activities	93.575	13979	3,412
School-Age Child Care Resource Contracts	93.575	13941	2,000
Head Start	93.600	10016	5,350,570
Medi-Cal Billing Option	93.778	10013	469,188
Subtotal			<u>5,825,170</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child Nutrition Act:			
National School Lunch Program	10.555	13396	3,919,476
National School Breakfast	10.553	13390	6,681
Meal Supplements	10.553	13390	374,432
Especially Needy Breakfast	10.553	13526	622,988
Child and Adult Care Food Program	10.558	23165	208,255
Commodity grants at fair market value ³	10.555	13396	304,695
Subtotal			<u>5,436,527</u>
Total Expenditures of Federal Awards			<u>\$37,451,527</u>

¹ Catalog number not available

² Pass-Through Entity Identifying Number not available

³ Not recorded in the financial statements

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

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>
Kim Turley	President	2010
Leslie De Rose	Vice President	2010
Libby Wilson	Member	2010
Karen Osmundson	Member	2008
Sandra Nichols	Member	2008
Willie Yahiro	Member	2010
Doug Keegan	Member	2008

ADMINISTRATION

Dorma Baker	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, 2008

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,341	1,347
First through third	3,974	3,993
Fourth through sixth	3,854	3,858
Seventh and eighth	2,475	2,476
Home and hospital	5	6
Community day schools	24	26
Special education	318	323
Total Elementary	11,991	12,029
SECONDARY		
Regular classes	4,624	4,567
Continuation education	160	165
Home and hospital	2	3
Community day schools	71	72
Special education	163	163
Total Secondary	5,020	4,970
Total K-12	17,011	16,999
CLASSES FOR ADULTS		
Concurrently enrolled	11	11
Not concurrently enrolled	1,031	1,096
Adults in correctional facilities	44	47
Total Classes for Adults	1,086	1,154
CHARTER SCHOOL		
Resident	1,232	1,241
Non-Resident	82	82
Total Charter Schools	1,314	1,323
Grand Total	19,411	19,476
SUMMER SCHOOL		Hours of Attendance
Elementary		803,931
High school		257,180
Total Hours		1,061,111

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2008

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-2008 Actual Minutes	Number of Days Traditional Calendar *	Status
Kindergarten	31,500	36,000	36,000	179	Complied
Grades 1 - 3		50,400			
Grade 1	42,000		50,476	179	Complied
Grade 2	42,000		50,476	179	Complied
Grade 3	42,000		50,476	179	Complied
Grades 4 - 6		54,000			
Grade 4	52,500		54,030	179	Complied
Grade 5	52,500		54,068	179	Complied
Grade 6	52,500		54,142	179	Complied
Grades 7 - 8		54,000			
Grade 7	52,500		54,142	179	Complied
Grade 8	52,500		54,142	179	Complied
Grades 9 - 12		64,800			
Grade 9	64,800		64,746	179	Did Not Comply
Grade 10	64,800		64,746	179	Did Not Comply
Grade 11	64,800		64,746	179	Did Not Comply
Grade 12	64,800		64,746	179	Did Not Comply

* The District filed Form J13-A requesting a waiver and an allowance of attendance for emergency conditions due to hazardous fire that occurred during regular school days. The District is also in the process for filing for a waiver related to the minutes noncompliance of Watsonville High School. See State Compliance findings for further information.

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, 2008

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

	Internal Service Fund
FUND BALANCE	
Balance, June 30, 2008, Unaudited Actuals	\$ 5,947,291
Increase in:	
Claim liabilities	(3,395,442)
Balance, June 30, 2008, Audited Financial Statement	<u>\$ 2,551,849</u>

	Retiree Benefits Fund
FUND BALANCE	
Balance, June 30, 2008, Unaudited Actuals	\$ 2,357,200
Decrease in:	
Investments	(91,440)
Balance, June 30, 2008, Audited Financial Statement	<u>\$ 2,265,760</u>

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget) 2009 ¹	2008	2007	2006
GENERAL FUND				
Revenues	\$ 168,794,948	\$ 185,110,526	\$ 181,652,641	\$ 166,035,818
Other sources and transfers in	50,000	30,000	1,367,466	50,000
Total Revenues and Other Sources	168,844,948	185,140,526	183,020,107	166,085,818
Expenditures	170,287,705	184,871,556	179,845,494	165,083,127
Other uses and transfers out	101,160	894,929	1,070,536	1,024,278
Total Expenditures and Other Uses	170,388,865	185,766,485	180,916,030	166,107,405
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,543,917)	\$ (625,959)	\$ 2,104,077	\$ (21,587)
ENDING FUND BALANCE	\$ 15,109,283	\$ 16,653,200	\$ 17,279,159	\$ 15,175,082
AVAILABLE RESERVES ²	\$ 6,405,520	\$ 6,977,985	\$ 7,263,611	\$ 8,401,932
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	3.76%	3.83%	4.09%	5.15%
LONG-TERM DEBT	\$ 74,721,363	\$ 79,109,996	\$ 71,478,750	\$ 71,328,399
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	16,928	17,011	16,816	16,878

The General Fund balance has increased by \$1,478,118 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$1,543,917. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past year, but anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have increased by \$7,781,597 over the past two years.

Average daily attendance has increased by 133 over the past two years. Decline of 83 ADA is anticipated during fiscal year 2008-2009.

¹ Budget 2009 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 \$3,344,622, \$3,204,400 and \$3,439,423 in the General Fund have been excluded from the calculation of available reserves percentage for fiscal years ending June 30, 2008, 2007, and 2006, 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, 2008

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 or a 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, 2008**

<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, 2008**

	Linscott Elementary	Watsonville School of Arts	Pacific Coast Charter School	Alianza Elementary	Academic Vocational	Total
Fund balance, beginning	\$ 54,233	\$ (5,957)	\$ 288,082	\$ 767,331	\$ 1,045	\$ 1,104,734
Revenues ¹	1,495,472	1,849,225	1,882,477	4,067,027	538,443	9,832,644
Expenditures ¹	(1,358,362)	(1,872,820)	(1,566,243)	(3,708,312)	(538,892)	(9,044,629)
Fund balance, ending	<u>\$ 191,343</u>	<u>\$ (29,552)</u>	<u>\$ 604,316</u>	<u>\$1,126,046</u>	<u>\$ 596</u>	<u>\$1,892,749</u>

¹ On-behalf payments of \$178,727 have been excluded from the revenues and expenditures for fiscal year ending June 30, 2008.

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, 2008**

Grantor/Program	Revenue	Expenditures
First 5 Monterey	\$ 127,429	\$ 127,429

See accompanying note to supplementary information.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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, 2008**

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.

SUPPLEMENTARY INFORMATION - UNAUDITED

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2008

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	\$ 1,017,513	\$ 1,010,874	\$ 435,616	\$ 294,858	\$ 4,800,544
Receivables	911,479	265,434	665,782	872,023	-
Due from other funds	-	83,067	-	-	-
Prepaid expenses	-	92,368	-	-	-
Stores inventories	-	-	-	210,333	-
Total Assets	\$ 1,928,992	\$ 1,451,743	\$ 1,101,398	\$1,377,214	\$ 4,800,544
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 36,243	\$ 165,554	\$ 442,739	\$ 139,472	\$ 27,090
Due to other funds	-	-	-	925,000	-
Deferred revenue	-	10,724	338,319	-	-
Total Liabilities	36,243	176,278	781,058	1,064,472	27,090
Fund Balances:					
Reserved for:					
Other reservations	-	92,368	-	210,333	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	1,892,749	1,183,097	320,340	102,409	4,773,454
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	1,892,749	1,275,465	320,340	312,742	4,773,454
Total Liabilities and Fund Balances	\$ 1,928,992	\$ 1,451,743	\$ 1,101,398	\$1,377,214	\$ 4,800,544

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 1,215,433	\$ 535,507	\$ 2,565,466	\$ 31,045	\$ 11,906,856
-	-	-	-	2,714,718
-	-	-	-	83,067
-	-	-	-	92,368
-	-	-	-	210,333
<u>\$ 1,215,433</u>	<u>\$ 535,507</u>	<u>\$ 2,565,466</u>	<u>\$ 31,045</u>	<u>\$ 15,007,342</u>
\$ 44,163	\$ 5,294	\$ -	\$ -	\$ 860,555
15,000	-	-	-	940,000
-	-	-	-	349,043
<u>59,163</u>	<u>5,294</u>	<u>-</u>	<u>-</u>	<u>2,149,598</u>
-	-	-	-	302,701
-	-	-	-	8,272,049
-	-	2,565,466	31,045	2,596,511
1,156,270	530,213	-	-	1,686,483
<u>1,156,270</u>	<u>530,213</u>	<u>2,565,466</u>	<u>31,045</u>	<u>12,857,744</u>
<u>\$ 1,215,433</u>	<u>\$ 535,507</u>	<u>\$ 2,565,466</u>	<u>\$ 31,045</u>	<u>\$ 15,007,342</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2008

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Revenue limit sources	\$ 7,736,091	\$ -	\$ -	\$ -
Federal sources	-	235,768	5,355,982	5,131,832
Other State sources	2,040,664	3,535,283	3,079,948	417,462
Other local sources	90,846	253,488	408,138	1,372,554
Total Revenues	9,867,601	4,024,539	8,844,068	6,921,848
EXPENDITURES				
Current				
Instruction	5,767,664	1,889,008	5,019,747	-
Instruction-related activities:				
Supervision of instruction	148,132	561,753	1,644,520	-
Instructional library, media, and technology	160,091	61,265	226,454	-
School site administration	2,825,279	489,420	69,235	-
Pupil services:				
Food services	-	-	24,797	6,866,243
All other pupil services	10,781	-	769,657	-
Administration:				
All other administration	-	130,548	362,418	80,001
Plant services	259,893	144,700	323,991	-
Facility acquisition and construction	-	15,386	108,856	-
Debt service				
Principal	47,832	122,280	-	-
Interest and other	3,683	92,458	-	-
Total Expenditures	9,223,355	3,506,818	8,549,675	6,946,244
Excess (Deficiency) of				
Revenues Over Expenditures	644,246	517,721	294,393	(24,396)
Other Financing Sources (Uses)				
Transfers in	143,769	101,160	-	-
Transfers out	-	(111,097)	-	-
Net Financing Sources (Uses)	143,769	(9,937)	-	-
NET CHANGE IN FUND BALANCES	788,015	507,784	294,393	(24,396)
Fund Balance - Beginning	1,104,734	767,681	25,947	337,138
Fund Balance - Ending	\$ 1,892,749	\$ 1,275,465	\$ 320,340	\$ 312,742

See accompanying note to supplementary information - unaudited

Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,736,091
-	-	-	-	-	10,723,582
712,339	-	722,944	26,139	-	10,534,779
173,532	1,018,907	151,900	3,203,718	-	6,673,083
885,871	1,018,907	874,844	3,229,857	-	35,667,535
-	-	-	-	-	12,676,419
-	-	-	-	-	2,354,405
-	-	-	-	-	447,810
-	-	-	-	-	3,383,934
-	-	-	-	-	6,891,040
-	-	-	-	-	780,438
-	-	-	-	-	572,967
445,914	469,673	-	-	-	1,644,171
340,722	497,158	4,522,696	-	-	5,484,818
-	35,462	-	1,050,000	-	1,255,574
-	3,249	-	2,134,475	-	2,233,865
786,636	1,005,542	4,522,696	3,184,475	-	37,725,441
99,235	13,365	(3,647,852)	45,382	-	(2,057,906)
650,000	111,097	-	-	-	1,006,026
-	-	-	-	-	(111,097)
650,000	111,097	-	-	-	894,929
749,235	124,462	(3,647,852)	45,382	-	(1,162,977)
4,024,219	1,031,808	4,178,065	2,520,084	31,045	14,020,721
\$ 4,773,454	\$ 1,156,270	\$ 530,213	\$ 2,565,466	\$ 31,045	\$ 12,857,744

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

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, 2008, which collectively comprise Pajaro Valley Unified School District's basic financial statements and have issued our report thereon dated December 15, 2008. 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 15, 2008



**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, 2008. 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, 2008.

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, 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 15, 2008



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, each major fund, and the aggregate remaining fund information of Pajaro Valley Unified School District as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. 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 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
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
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	Procedures in Audit Guide	Procedures Performed
Classroom Teacher Salaries	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
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
Mathematics and Reading Professional Development	4	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	Yes
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Not Applicable
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, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Pajaro Valley Unified School District had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Our audit does not provide a legal determination on Pajaro Valley Unified School District's compliance with the State laws and regulations referred to above.

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 15, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2008

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)	<u>No</u>
Identification of major programs:	

<u>84.287</u>	<u>Title IV-21st Century Community Centers Learning</u>
<u>93.600</u>	<u>Head Start</u>
<u>10.555</u>	<u>Child Nutrition Clusters</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,123,546</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>Qualified</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2008-1 **Code**

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the activities of the associated student body accounts (ASB).

Condition

During our visit at Watsonville High School, we noted that no revenue potentials/sales analysis was prepared. Revenue potential and sales analysis enables the ASB to track cash collections for all items sold. It is a simple calculation that compares the amounts that should have been collected to the cash deposited in the bank.

Questioned costs

None.

Context

Through inquiry and testwork of ASB, we noticed that revenue potential/sales analysis was not prepared for dance events.

Effect

Revenue potentials enable the ASB to control their cash collections insuring that all items sold have been collected in cash or returned back to the ASB's inventory. If those calculations were not performed, sales and related cash collections could be misstated.

Recommendation

We recommend that the ASB prepare revenue potential/sale analysis for fund raising events.

District Response

An outline has been provided to every school site that has an ASB. This outline informs the ASB staff and Advisors of the proper procedures to follow. Also sample forms have been provided to make compliance easier. The District will meet with all sites to verify that the sites are in compliance.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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

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

2008-2 Code 40000 – State Compliance

Criteria or Specific Requirements

The California Department of Education requires the District to comply with its early release policy for the After School Education and Safety (ASES) program (the program). ASES requires districts to operate programs a minimum of 15 hours per week and until 6:00 p.m., beginning immediately upon conclusion of the regular school day.

Condition

We were unable to confirm students' release from the sites because the District did not maintain records showing early release from the program. The District indicated that the records have been shredded and therefore we were unable to conclude as to whether certain students were released before 6:00 PM in accordance with the early release policy were in compliance with that policy.

Questioned Costs

The District received \$5,723,730 in funding from the State for this program.

Context

Although the District had adopted an early release policy, we found no evidence indicating that the guardians of the students authorized their early release.

Effect

Failure to comply with its own early release policy could cause the District to lose funding for the After School Education and Safety program.

Cause

The district did not administer their ASES program as required by State.

Recommendation

We recommend the district to review requirements for ASES to ensure that they are in compliance with such requirements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

District Response

All ASES sites have signed early release forms on file for every student authorizing early release and all sites are in operation until 6:00 p.m. The department destroys the forms prior to starting the new year. In the future, the District will save previous year's signed early release forms and site schedules for the recommended retention period.

2008-3 Code 40000 – State Compliance

Criteria or Specific Requirements

District must offer the minimum number of minutes as set for by the Education Code. The required amount of instructional minutes offered for each grade level pursuant to the provisions of subdivision (a)(1) of Education Code Section 47612.5 and subdivision (a)(3) of Education Code Section 46201, are as set forth below:

Kindergarten	36,000 minutes
Grades 1 through 3	50,400 minutes
Grades 4 through 8	54,000 minutes
Grades 9 through 12	64,800 minutes

Condition

During out testing of specific requirements related to instructional minutes, we noticed that Watsonville High School did not meet the minimum required instructional minutes. We recalculated 64,746 instructional minutes for the site, which is short of the minimum requirement by 54 minutes.

Questioned Costs

The Watsonville High School grade 9 through 12 regular education classes generated 1,902 ADA. The 54 minutes shortage in minutes amounts to 1.6 ADA penalty as set forth by Education Code 46201 (d). However, as stated below and as set forth with in Education Code 46206, the District is in the process of filing for a waiver with the California Department of Education.

Effect

The District could potentially lose funding for the amount set forth above.

Cause

The appropriate level of monitoring was not administered by the proper departments to detect the school's non compliance with instructional minutes requirements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

STATE AWARD FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

We recommend that administrators become familiar with the instructional minutes requirements for each grade level and insure that schools meet the minimum requirement before school is initiated.

District Response

Per Ed Code 46206, the District can and will submit a request for a waiver to allow WHS to make up the minutes they were short in each of the 2 preceding years. The District has reviewed the instructional minutes for WHS for the 08/09 school year and they have in excess of the 64,800 required plus the additional 54 minutes. The request for waiver will be submitted upon receipt of the final audit report.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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

None reported.

Federal Award Findings

None reported.

State Award Findings

None reported.