

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J
GENERAL OBLIGATION BOND FUND
FINANCIAL REPORT
JUNE 30, 2010**

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2002 MEASURE J GENERAL OBLIGATION BOND FUND

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizen's Bond Oversight Committee
Pajaro Valley Unified School District
Watsonville, California

We have audited the accompanying financial statements of the 2002 Measure J General Obligation Bond Fund of the Pajaro Valley Unified School District, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the 2002 Measure J General Obligation Bond Fund, and do not purport to, and do not, present fairly the financial position and results of operations of the Pajaro Valley Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2002 Measure J General Obligation Bond fund of Pajaro Valley Unified School District as of June 30, 2010, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 23, 2010

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J GENERAL OBLIGATION BOND FUND
BALANCE SHEET
JUNE 30, 2010**

ASSETS

Cash and investments	\$ 2,603,931
Due from other funds	50,096
Total Assets	<u>\$ 2,654,027</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 93,196
Due to other funds	57,259
Total Liabilities	<u>150,455</u>

FUND BALANCE

Fund balances	
Undesignated	<u>2,503,572</u>

Total Liabilities and Fund Balance	<u>\$ 2,654,027</u>
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The accompanying notes are an integral part of these financial statements.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J GENERAL OBLIGATION BOND FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

REVENUES

Interest income	\$ 29,348
Total Revenues	<u>29,348</u>

EXPENDITURES

Current Expenditures	
North Zone - Services and operating expenditures	204,369
South/Central Zone - Services and operating expenditures	<u>2,014,885</u>
Total Operating Expenses	<u>2,219,254</u>

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (2,189,906)

FUND BALANCE, BEGINNING OF YEAR 4,693,478

FUND BALANCE, END OF YEAR \$ 2,503,572

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2002 MEASURE J GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Pajaro Valley Unified School District 2002 Measure J General Obligation Bond Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Pajaro Valley Unified School District Bond Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Bond fund of the Pajaro Valley Unified School District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2002. The authorized issuance amount of the bonds is \$58,250,000. The first series of bonds in the amount of \$39,995,542 were sold in April 2002. The first series was refinanced in 2005 with the 2005 General Obligation Refunding Bonds. The face value of the 2005 refunding series was \$40,215,000. The second series in the amount of \$18,254,458 was sold in 2005. These financial statements are not intended to present fairly the financial position and results of operations of the Pajaro Valley Unified School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Bond Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Pajaro Valley Unified School District Bond fund are accounted for under the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on general long-term debt, which is recognized when due.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. No amounts were reserved or designated at June 30, 2010.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2002 MEASURE J GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Supplemental taxes for repayment of bond proceeds are collected by the County of Santa Cruz from all taxable property within the District and deposited in the Bond Interest and Redemption Fund of the District. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10, and April 10, respectively. The County of Santa Cruz bills and collects the taxes for the District. The District recognizes tax revenues when received.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE #2 – INVESTMENTS

Investments Authorized Under Debt Agreements - The debt agreement limits investments to the Santa Cruz County Investment Pool. The Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
County Pooled Investment Funds	N/A	None	None

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

**2002 MEASURE J GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 is, the greater the sensitivity of its fair value to changes in the market interest rates is. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury pool. The fair value of the deposits for the Bond Fund with the County Treasurer at June 30, 2010 was \$2,610,389 and the weighted average maturity of the pool was 208 days.

NOTE #3 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consists of the following:

Vendor Payable	<u>\$ 93,196</u>
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NOTE #4 – LONG-TERM DEBT

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Assets in the Government-Wide financial statements of the Pajaro Valley Unified School District.

General obligation bonds have been issued and are outstanding as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Balance at Beginning Of Year	Addition and Interest Accretion	Redeemed	Balance at End Of Year
May, 2005	8/1/2023	3.00-5.31%	\$40,215,000	\$37,395,000	\$ -	\$1,300,000	\$ 36,095,000
May, 2005	8/1/2030	3.00-5.31%	\$18,254,458	21,803,722	406,870	85,000	22,125,592
				<u>\$59,198,722</u>	<u>\$ 406,870</u>	<u>\$1,385,000</u>	<u>\$ 58,220,592</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Debt Service Requirements

The general obligation bonds mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 1,560,000	\$ 1,990,382	\$ 3,550,382
2012	1,755,000	1,912,976.00	3,667,976
2013	1,970,000	1,822,251.00	3,792,251
2014	2,200,000	1,720,626.00	3,920,626
2015	2,445,000	1,607,344	4,052,344
2016-2020	16,630,000	5,754,814.00	22,384,814
2021-2025	17,815,873	8,542,078.00	26,357,951
2026-2030	9,828,414	21,316,586.00	31,145,000
Subtotal	54,204,287	\$ 44,667,057	\$ 98,871,344
Accretion	4,016,305		
Total general obligation bonds	\$ 58,220,592		

NOTE #5 – INTEREST INCOME

The Bond fund earned \$29,348 in interest income for fiscal year ending June 30, 2010.

NOTE #6 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2010, the Bond Fund had the following commitments with respect to unfinished capital projects:

Description	Estimated Completion Date	Amount
E.A. Hall Middle	6/30/2011	\$ 2,226,378
Aptos High	6/30/2011	253,938
Watsonville High	6/30/2011	23,256
		<u>\$ 2,503,572</u>