



Financial and Performance Audits
2012 Measure L Fund
June 30, 2020

Pajaro Valley Unified School District

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Financial Audit
2012 Measure L Fund
June 30, 2020

Pajaro Valley Unified School District



Independent Auditor's Report

Governing Board and Citizens' Bond Oversight Committee
Pajaro Valley Unified School District
Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pajaro Valley Unified School District's (District) 2012 Measure L Fund (Fund), as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2012 Measure L Fund of the Pajaro Valley Unified School District at June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of specific to Measure L Fund are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2021, on our consideration of the Fund'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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
April 21, 2021

Pajaro Valley Unified School District
2012 Measure L Fund
Balance Sheets
June 30, 2020

Assets	
Cash and cash equivalents	\$ 40,666,785
Due from other funds of the District	143,865
Total Assets	<u>\$ 40,810,650</u>
Liabilities and fund balances	
Liabilities	
Accounts payable	\$ 1,454,094
Total Liabilities	<u>\$ 1,454,094</u>
Fund Balance	
Restricted for capital projects	39,356,556
Total Fund Balance	<u>39,356,556</u>
Total Liabilities and Fund Balance	<u>\$ 40,810,650</u>

Pajaro Valley Unified School District
 2012 Measure L Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 June 30, 2020

Revenues		
Interest income		\$ 916,420
Total Revenues		<u>916,420</u>
Expenditures		
Current		
Salaries and benefits		514,022
Supplies		496,113
Design and engineering and consultants		775,208
Capital projects		<u>18,220,954</u>
Total Expenditures		<u>20,006,297</u>
Deficiency of Revenues Over Expenditures		<u>(19,089,877)</u>
Other Financing Uses:		
Transfers out		<u>(1,897,467)</u>
Net Financing Uses		<u>(1,897,467)</u>
Net Change in Fund Balance		(20,987,344)
Fund Balance - Beginning		<u>60,343,900</u>
Fund Balance - Ending		<u><u>\$ 39,356,556</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Pajaro Valley Unified School District's (District) 2012 Measure L Fund (the Fund) conforms to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

The financial statements include the financial activities of the 2012 Measure L Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Bonds Election of 2012. These financial statements are not intended to present fairly the financial position and results of operations of the District as a whole, in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, 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

The Fund is accounted for using a 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Deposits and Investments

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.

Fund Balance

As of June 30, 2020, fund balance of the Fund was classified as restricted which is defined as amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments with County Treasurer as of June 30, 2020, are in the amount of \$40,666,785.

Investment in County Treasury

The District, including the Fund, 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.

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 is to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is approximately \$40,666,785 with an average maturity of 243 days.

Note 3 - Commitments and Contingencies

As of June 30, 2020, the District had the \$10,416,173 in commitments with respect to the unfinished capital projects which are partially funded by Measure L.



Independent Auditor's Report
June 30, 2020

Pajaro Valley Unified School District



**Independent Auditor's 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 and Citizens' Bond Oversight Committee
Pajaro Valley Unified School District
Watsonville, California

We have audited, in accordance with the 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, the accompanying financial statements of the Pajaro Valley Unified School District's (District) 2012 Measure L Fund (the Fund), as of and for the year ended June 30, 2020, and have issued our report thereon dated April 21, 2021.

As discussed in Note 1, the financial statements present only the Fund specific to 2012 Measure L, and are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
April 21, 2021

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



Performance Audit
2012 Measure L Fund
June 30, 2020

Pajaro Valley Unified School District



Independent Auditor's Report on Performance

Governing Board and Citizens' Oversight Committee
Pajaro Valley Unified School District
Watsonville, California

We were engaged to conduct a performance audit of the Pajaro Valley Unified School District (the District), 2012 Measure L Fund (the Fund) for the year ended June 30, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution and Appendix A contained in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District expended 2012 Measure L Funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than this specified party.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Menlo Park, California
April 21, 2021

Authority for Issuance

The 2012 Measure L Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of Santa Cruz and Monterey Counties, pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on February 27, 2013.

The District received authorization at an election held on November 6, 2012, to issue bonds of the District in an aggregate principal amount not to exceed \$150,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2012 Authorization). The Bonds represent the first, second, third, and fourth series of the authorized bonds to be issued under the 2012 Authorization.

Purpose of Issuance

The Tax-Exempt Bonds are being issued to (i) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, (ii) fund a portion of interest payments on the Tax-Exempt Bonds, (iii) prepay all of (a) the District's outstanding Certificates of Participation (2005 Financing Project) and (b) the District's remaining lease payments under a Fixed Rate Real Property Lease/Purchase Agreement dated as of January 4, 2010 between the District and the Pajaro Valley Unified School District Financing corporation, and (iv) pay the costs of issuing the Tax-Exempt Bonds.

The Taxable Bonds are being issued to (i) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, (ii) finance endowments for voter-approved technology upgrades and small repairs, and (iii) pay the costs of issuing the Taxable Bonds.

Authority for the Audit

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizen's bond oversight committee.

4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

Objectives of the Audit

1. Determine whether bond proceeds have been segregated and deposited in a separate Fund (Measure L Fund).
2. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure L.
3. Determine whether salary transactions, charged to the Fund were in support of Measure L and not for District general administration or operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2020. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2019, were not reviewed or included within the scope of our audit or in this report.

Procedures Performed

We verified that Measure L proceeds are accounted for in a separate account within the Building Fund. We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2020, for the Fund. Within the fiscal year audited, we obtained the actual invoices, purchase orders, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure L as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.
2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes, including transfers out.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2019 through June 30, 2020 from Measure L.
 - c. We selected all expenditures that were individually significant expenditures. Individually significant expenditures were identified as individual transactions (expenditures) that exceeded approximately two percent of the total expenditures incurred.
 - d. For all items below the individually significant threshold identified in item 2c, judgmentally selected expenditures based on risk assessment and consideration of coverage of all object codes, including transfers out, and projects for period starting July 1, 2019 and ending June 30, 2020.

3. Our sample included transactions totaling \$18,625,252. This represents 93 percent of the total expenditures of \$20,006,297.
4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.
5. We determined that the District has met the compliance requirement of Measure L if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the Districts.

Conclusion

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Fund (Measure L) and that such expenditures were made for authorized Bond projects.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.