

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2012 MEASURE L FUND
ANNUAL FINANCIAL REPORT
AND PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2012 MEASURE L FUND
ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

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INDEPENDENT AUDITOR'S REPORT

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

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, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic 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 statements 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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 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 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* in considering the Fund's internal control, over financial reporting and compliance.



Palo Alto, California
December 9, 2016

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**BALANCE SHEET
JUNE 30, 2016**

ASSETS

Deposits and investments	\$ 80,254,426
Total Assets	<u><u>\$ 80,254,426</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Vendors payable	\$ 1,624,613
Due to other funds	<u>59,945</u>
Total Liabilities	<u><u>1,684,558</u></u>

Fund Balance:

Restricted for capital projects funds	<u>78,569,868</u>
Total Fund Balance	<u>78,569,868</u>
Total Liabilities and Fund Balance	<u><u>\$ 80,254,426</u></u>

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

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

REVENUES

Proceeds from sale of bonds	\$ 39,807,277
Interest income	421,425
Total Revenues	<u>40,228,702</u>

EXPENDITURES

Current	
Salaries and benefits	245,176
Materials and supplies	3,513,524
Capital outlay	13,170,189
Total Expenditures	<u>16,928,889</u>

NET CHANGE IN FUND BALANCE	23,299,813
FUND BALANCE - BEGINNING	<u>55,270,055</u>
FUND BALANCE - ENDING	<u>\$ 78,569,868</u>

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

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Encumbrances

The Fund utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

Fund Balance

As of June 30, 2016, 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.

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 during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, consist of the following:

Investment Type	Amortized Cost	Fair Value
Deposits with county treasurer	\$ 80,254,426	\$ 80,366,782

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Investments Authorized Under Debt Agreements - The limitations as they relate to interest rate 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

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 \$80,366,782 with an average maturity of 377 days.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Fair Value Measurement

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive for the same or similar assets

Level 3 inputs – estimates using the best information available when there is little or no market

Uncategorized – Investments in the Santa Cruz County Treasury Investment Pool are not measured using the input levels above because the Fund's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

All of the Fund's investments are in the Santa Cruz County Treasury Investment Pool as of June 30, 2016.

NOTE 3 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects which are partially funded by Measure L:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
AHS Modernization	\$ 3,316,967	Jun 2017
AHS - Freedom Field Upgrade - Ph 1, 2 and 3	415,769	Aug 2018
AJHS Modernization	1,882,950	Jun 2018
Alianza - Relocatables	2,316,862	Dec 2018
Alianza Fire Hydrant and Water Tank	48,938	Dec 2016
Alianza Modernization	1,765,892	Jun 2018
Amesti Modernization	2,061,754	Oct 2018
Ann Soldo Modernization	1,019,242	Oct 2018
Bradley Modernization	843,603	Jun 2018
Calabasas Modernization	1,361,197	Oct 2017
Cesar Chavez MS Modernization	1,497,466	Dec 2018
EA Hall A Wing Modernization	7,657	Apr 2017
EA Hall Track and Field Replacement	2,404,357	May 2017
Freedom Modernization	1,946,030	Oct 2017

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Capital Project	Remaining Construction Commitment	Expected Date of Completion
HA Hyde Modernization	2,065,173	Dec 2017
Hall District Modernization	162,107	Dec 2017
Lakeview MS Modernization	653,866	Dec 2018
Landmark Modernization	35,689	Dec 2018
Linscott Modernization	2,222,878	Jun 2018
MacQuiddy Modernization	1,251,311	Aug 2017
Mar Vista - Reconfigure MPR MOD	1,195,340	Dec 2018
Mar Vista Modernization	1,357,661	Jun 2016
Mintie White - Wing A - Modernization	2,963,407	Dec 2017
Mintie White Other Modernization	275,058	Jun 2018
New School - Modernization	92,328	Dec 2017
Ohlone Modernization	1,482,726	Jan 2018
PV High - Additional Work - MOD	185,935	Dec 2017
PV High New Auditorium	6,217,903	Aug 2018
PV High Upper Fields	9,912,230	Aug 2019
Radcliff Modernization	1,279,627	Oct 2018
Renaissance High Modernization	2,238,827	Aug 2019
RHMS - Modernization	588,867	Dec 2017
RHMS Gym Modernization	459,174	Dec 2019
Rio Del Mar Modernization	940,777	Dec 2017
Starlight Modernization	1,768,065	Dec 2018
Valencia Modernization	645,114	Aug 2017
WCSA Modernization	663,400	Jun 2017
WHS - Modernizations	1,809,471	Aug 2018
	<u>\$ 61,355,621</u>	

Litigation

The Fund is not currently a party to any legal proceedings.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - GENERAL 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 Position in the Government-Wide financial statements of the Pajaro Valley Unified School District.

The following provides information on the outstanding general obligation bonds specific to 2012 Measure L:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding June 30, 2015	Issuance	Redeemed	Outstanding June 30, 2016	
2013	2048	3.00%-5.00%	\$ 68,540,000	\$ 65,210,000	\$ -	\$ 875,000	\$ 64,335,000	
2013	2038	0.63%-5.12%	11,460,000	11,445,000	-	40,000	11,405,000	
2016	2045	2.00%-5.00%	40,000,000	-	40,000,000	-	40,000,000	
				<u>\$ 76,655,000</u>	<u>\$ 40,000,000</u>	<u>\$ 915,000</u>	<u>\$ 115,740,000</u>	

In accordance with the ballot language, a portion of the Election 2012, Series A General Obligation Bonds was used to refund the existing 2002 and 2005 certificates of participation in the amount of \$1,269,323 and \$1,205,000, respectively.

Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be recorded in a separate Bond Interest and Redemption Fund (BIR). The required debt service payments on the bonds will be disbursed from the BIR as well. The BIR will be maintained by the Santa Cruz County Controller's Office. The BIR is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

The bonds mature through 2048 as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 1,075,000	\$ 4,265,714	\$ 5,340,714
2018	1,470,000	5,220,359	6,690,359
2019	1,635,000	5,190,907	6,825,907
2020	540,000	5,142,495	5,682,495
2021	170,000	5,122,779	5,292,779
2022-2026	1,985,000	25,483,289	27,468,289
2027-2031	6,875,000	24,600,249	31,475,249
2032-2036	15,290,000	21,999,929	37,289,929
2037-2041	27,285,000	16,973,594	44,258,594
2042-2046	43,945,000	8,666,156	52,611,156
2047-2048	15,470,000	671,075	16,141,075
Total	<u>\$ 115,740,000</u>	<u>\$ 123,336,547</u>	<u>\$ 239,076,547</u>

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - SUBSEQUENT EVENTS

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet dated December 9, 2016 which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

INDEPENDENT AUDITOR'S REPORT



**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, CA

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, 2016, and have issued our report thereon dated December 9, 2016.

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 Pajaro Valley Unified School 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 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 Standard*.

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 black ink that reads "Davsinek Thine Day & Co, LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
December 9, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2016**

None reported.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2012 MEASURE L FUND
PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

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

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, 2016.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the Fund'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. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund'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 Fund's internal control.

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.

A handwritten signature in black ink that reads 'Vavrinek, Trine, Day & Co., LLP'.

Palo Alto, California
December 9, 2016

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PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2012 MEASURE L FUND

JUNE 30, 2016

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 and third 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.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

2012 MEASURE L FUND

JUNE 30, 2016

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 expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of 2012 Measure L.
2. Determine whether salary transactions, charged to the Fund were in support of 2012 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, 2015 to June 30, 2016. 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, 2016, were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1, 2015 through June 30, 2016, for the Fund. Within the fiscal year audited, we obtained the actual invoices 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 2012 Measure L's approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2015 and ending June 30, 2016, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included 65 non-payroll transactions of \$12,155,234 and 1 payroll transaction of \$41,568, totaling \$12,196,802. These represent 72 percent of the total expenditures of \$16,928,889.
3. We verified that funds from the 2012 Measure L Fund were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Pajaro Valley Unified School District has properly accounted for the expenditures held in the 2012 Measure L Fund and that such expenditures were made for authorized Bond projects.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

None reported.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2012 MEASURE L FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.