

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J
GENERAL OBLIGATION BOND
AUDIT REPORT**

JUNE 30, 2012

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J
GENERAL OBLIGATION BOND
FINANCIAL REPORT**

JUNE 30, 2012

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

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JUNE 30, 2012**

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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 (the Fund) of the Pajaro Valley Unified School District, as of and for the year ended June 30, 2012, 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 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 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, 2012, and the results of its operations 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 3, 2012, 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* and should be considered in conjunction with this report in considering the results of our audit.

Palo Alto, California
December 3, 2012

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash and investments	\$ 78,639
Total Assets	<u>\$ 78,639</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to other funds	\$ 78,639
Total Liabilities	<u>78,639</u>

FUND BALANCE

Fund balances	-
Total Fund Equity	<u>-</u>

Total Liabilities and Fund Balance	<u>\$ 78,639</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, 2012**

REVENUES

Interest income	\$	797
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EXPENDITURES

Current Expenditures

North Zone - Services and operating expenditures	57,292
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South/Central Zone - Services and operating expenditures	<u>216,543</u>
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Total Operating Expenses	<u>273,835</u>
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EXCESS OF EXPENDITURES OVER REVENUES	(273,038)
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FUND BALANCE, BEGINNING OF YEAR	<u>273,038</u>
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FUND BALANCE, END OF YEAR	<u><u>\$ -</u></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**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Pajaro Valley Unified School District 2002 Measure J General Obligation Bond Fund (the 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 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 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 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.

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 are liquidated at June 30 since they do not constitute expenditures or liabilities.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Fund Balance - Governmental Funds

As of June 30, 2012, fund balance of the Bond fund is classified as restricted.

Restricted – 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.

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.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Adoption of the statement is not expected to materially impact the Fund's financial statement.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. Adoption of the statement is not expected to materially impact the Fund's financial statement.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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 schedule below:

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

Investment in County Treasury - The Fund is considered to be an involuntary participant in an external investment pool as the Fund is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the Fund’s investment in the pool is reported in the accounting financial statements at amounts based upon the Fund’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 is, the greater the sensitivity of its fair value to changes in the market interest rates is. The Fund 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, 2012 was \$74,455 and the weighted average maturity of the pool was 399 days.

NOTE 3 – LONG-TERM OBLIGATIONS

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	Interest Accretion	Redeemed	Balance at End Of Year
5/1/2005	8/1/2023	3.00-5.31%	\$40,215,000	\$34,650,000	\$ -	\$1,610,000	\$ 33,040,000
5/1/2005	8/1/2030	3.00-5.31%	\$18,254,458	23,511,068	1,066,745	145,000	24,432,813
				<u>\$58,161,068</u>	<u>\$ 1,066,745</u>	<u>\$ 1,755,000</u>	<u>\$ 57,472,813</u>

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Debt Service Requirements to Maturity

The general obligation bonds mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 1,970,000	\$ 1,822,251	\$ 3,792,251
2014	2,200,000	1,720,626	3,920,626
2015	2,445,000	1,607,344	4,052,344
2016	2,710,000	1,480,000	4,190,000
2017	2,990,000	1,333,763	4,323,763
2018-2022	19,713,064	4,203,338	23,916,402
2023-2027	13,104,117	15,028,483	28,132,600
2028-2030	5,757,106	13,567,894	19,325,000
Subtotal	<u>50,889,287</u>	<u>\$ 40,763,699</u>	<u>\$ 91,652,986</u>
Accretion	6,583,526		
Total general obligation bonds	<u>\$ 57,472,813</u>		

NOTE 4 – INTEREST INCOME

The Fund earned \$797 in interest income for fiscal year ending June 30, 2012.

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***

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 Pajaro Valley Unified School District (the District) 2002 Measure J Bond Fund (the Fund), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012. 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 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 over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, 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 the Fund 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, and the Citizen's Bond Oversight Committee, 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 3, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2012**

None reported.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

None reported.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

**2002 MEASURE J
GENERAL OBLIGATION BOND
PERFORMANCE AUDIT REPORT**

JUNE 30, 2012

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J
GENERAL OBLIGATION BOND FUND**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees and
Citizen's 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), Measure J General Obligation Bond fund (the Fund) for the year ended June 30, 2012.

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 District's compliance with the performance requirements as referred to in Measure J and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District'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 Measure J and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure J General Obligation Bond funds only for the specific projects approved by the voters, in accordance with Measure J and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Palo Alto, California
December 3, 2012

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

JUNE 30, 2012

AUTHORITY FOR ISSUANCE

The Measure J 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 2002 general obligation bonds were authorized by an election of the registered voters of the Pajaro Valley Unified School District held on November 5, 2002. The total amount authorized was \$58,250,000. The proceeds are to be used for the financing of site improvements and modernization of school facilities. 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.

PURPOSE OF ISSUANCE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond measure submitted at the Election, which include upgrading classrooms and libraries, providing safety improvements, modernizing lighting, roofs, windows, and plumbing, providing for energy efficiency and technology upgrades and removing hazardous materials.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. 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, Measure J 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 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.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

JUNE 30, 2012

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 Proposition 39.
2. Determine whether salary transactions, charged to the Fund were in support of Measure J and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2011 to June 30, 2012. 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, 2012 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 fiscal year ended June 30, 2012 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 Measure J as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2011 and ending June 30, 2012, 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 transactions totaling \$271,337. This represents 99 percent of the total expenditures of \$273,835.
3. We verified that funds from the 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 Fund and that such expenditures were made for authorized Bond projects.

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
2002 MEASURE J GENERAL OBLIGATION BOND FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

None reported.