SANTA CRUZ CITY SCHOOLS

MEASURE A GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT

June 30, 2022

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Education
and Citizens' Bond Oversight Committee
Santa Cruz City Schools
Soquel, California

We have conducted a performance audit of the Santa Cruz City Schools (the "District") Measure A General Obligation Bond funds for the year ended June 30, 2022.

We conducted our performance audit in accordance with *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 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 on page 3 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure A General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIIIA of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Santa Cruz City Schools' compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Santa Cruz City Schools to determine the audit procedures that are appropriate for the purpose of providing a conclusion on the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our procedures indicated that, in all significant respects, Santa Cruz City Schools expended Measure A General Obligation Bond funds for the year ended June 30, 2022 only for the specific projects developed by the District's Governing Board and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution.

Crowe LLP

Crowe LLP

Sacramento, California
December 14, 2022

LEGISLATIVE HISTORY

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, "for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities", upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

SANTA CRUZ CITY SCHOOLS MEASURE A GENERAL OBLIGATION BONDS

On November 8, 2016, the electorate of Santa Cruz City Schools' approved the $140,000,000 Measure A General Obligation Bonds, with greater than 55% of the votes in favor. The summarized text of the ballot language was as follows:

> *"To upgrade local middle and high school classrooms, science labs, career training facilities, and technology infrastructure to support student achievement in math, science, engineering, English, social studies, visual/performing arts, technology, and skilled trades; acquire, renovate, construct/equip classrooms, sites/facilities; and improve school safety, security and disabled access"*

All bond expenditures are subject to review by a Citizens' Oversight Committee which reports to the public, as provided in Education Code Section 15278 *et seq.*

The financial activity related to the Measure A General Obligation Bonds is recorded in the Fund 21 (Building Fund) in the District's audited financial statements.

In February 2017, the District issued General Obligation Bonds, Election 2016 Series A, in the amount of $56,000,000. Repayment of the bonds is made from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The Bonds bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through August 2042.

In July 2019, the District issued General Obligation Bonds, Election 2016 Series B, in the amount of $42,000,000. Repayment of the bonds is made from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The Bonds bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through August 2045.

In November 2021, the District issued Election of 2016, Series C General Obligation Bonds (Series C High School GO Bonds) totaling $42,000,000. The Series C High School GO Bonds were issued to finance the renovation, construction and improvement of school facilities. The Series B High School GO Bonds bear interest at rates ranging from 2.0% to 4.0% and are scheduled to mature through August 1, 2040.

OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure A General Obligation Bond funds for the year ended June 30, 2022 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Education, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure A General Obligation Bond project expenditures for the year ended June 30, 2022 (the "List"). A total of $9,496,944 in expenditures from July 1, 2021 through June 30, 2022 were identified.

METHODOLOGY

We performed the following procedures to the List of Measure A General Obligation Bond project expenditures for the year ended June 30, 2022:

- Verified the mathematical accuracy of the List.
- Vouched the List to total bond expenditures as reported by the District in the District's Measure A General Obligation Bond financial statements for the year ended June 30, 2022.
- Selected a sample of 26 expenditures totaling $3,318,312. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented approximately 35% of the total expenditure value. Verified that the funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects. Verified that the funds which were used to pay for salaries of district employees were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our procedures indicated that, in all significant respects, Santa Cruz City Schools expended Measure A General Obligation Bond funds for the year ended June 30, 2022 only for the specific projects developed by the District’s Board of Education and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution.