

FULLERTON JOINT UNION HIGH SCHOOL DISTRICT

**PROPOSITION 39 GENERAL OBLIGATION BONDS
BOND BUILDING FUND**

MEASURE I

FINANCIAL AND PERFORMANCE AUDITS

June 30, 2017

FULLERTON JOINT UNION HIGH SCHOOL DISTRICT

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June 30, 2017

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**FINANCIAL AUDIT OF MEASURE I
BOND BUILDING FUND**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Measure I Citizens' Oversight Committee
Fullerton Joint Union High School District
Fullerton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Bond Building Fund of the Fullerton Joint Union High School District (the District) as of and for the year ended June 30, 2017, 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 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 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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 presentation of the financial statements.

Board of Trustees
Measure I Citizens' Oversight Committee
Fullerton Joint Union High School District
Fullerton, California

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Bond Building Fund of the District as of June 30, 2017, and the change 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 fairly only the Measure I Bond Building Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2017 or the change in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the fund financial statements. Such missing information, although not a part of the fund financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the fund financial statements is not affected by this missing information.

Board of Trustees
Measure I Citizens' Oversight Committee
Fullerton Joint Union High School District
Fullerton, California

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2017 on our consideration of the District's internal control over the Measure I Bond Building Fund 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 internal control over the Measure I Bond Building Fund 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 the Measure I Bond Building Fund financial reporting and compliance.



CliftonLarsonAllen LLP
Glendora, California
December 5, 2017

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**BALANCE SHEET
June 30, 2017**

Assets

Cash in county treasury	\$ 63,230,957
Accounts receivable	55,905
Due from other funds	26
Total Assets	<u><u>\$ 63,286,888</u></u>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 3,132,470
Total Liabilities	<u>3,132,470</u>

Fund Balance

Restricted	<u>60,154,418</u>
Total Fund Balance	<u>60,154,418</u>
Total Liabilities and Fund Balance	<u><u>\$ 63,286,888</u></u>

See the accompanying notes to the financial statements

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For the Fiscal Year Ended June 30, 2017**

Revenues	
Interest and investment income	\$ 333,965
Total Revenues	<u>333,965</u>
Expenditures	
Salaries	582,340
Benefits	245,792
Supplies	7,762
Other services	373,407
Capital outlay	<u>15,156,487</u>
Total Expenditures	<u>16,365,788</u>
Deficiency of revenues over expenditures	(16,031,823)
Other Financing Sources (Uses)	
Proceeds from sale of bonds	40,000,000
Interfund transfers in	1,591,723
Interfund transfers out	<u>(23,110)</u>
Total Other Financing Sources (Uses)	<u>41,568,613</u>
Net change in fund balance	25,536,790
Fund Balance at Beginning of Year	<u>34,617,628</u>
Fund Balance at End of Year	<u>\$ 60,154,418</u>

See the accompanying notes to the financial statements

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

Financial Reporting Entity

The financial statements include only the Measure I Bond Building Fund of the District used to account for Measure I projects. This fund was established to account for the expenditures of the general obligation bonds issued under the General Obligation Bonds Election of 2014 and is not a complete representation of the Building Fund reported in the Districts' financial statements. These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Fund Structure

The Statement of Revenues, Expenditures and Change in Fund Balance is a statement of financial activities of the Measure I Bond Building Fund related to the current reporting period. Fund expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

Basis of Accounting

The Measure I Bond Building Fund is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the county treasury is recorded at cost, which approximates fair value.

Fund Balance Classification

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the District is bound to honor constraints on the specific purposes for which amounts can be spent. Amounts for which constraints have been placed on

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation are considered restricted. The fund balance of the Measure I Bond Building Fund is therefore classified as restricted.

Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Measure I Bond Building Fund are determined by its measurement focus. The Measure I Bond Building Fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Measure I Bond Building Fund are accounted for in the basic financial statements of the District.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: DEPOSITS – CASH IN COUNTY TREASURY

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. The District is considered an involuntary participant in the investment pool. These pooled funds are carried at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2017 is measured at 99.694% of amortized cost. The District’s deposits in the fund are considered to be highly liquid.

The county is authorized to deposit cash and invest excess funds by California Government Code Sections 53534, 53601, 53635, and 53648. The county is restricted to invest time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county are either secured by federal depository insurance or are collateralized. The county investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 2: DEPOSITS – CASH IN COUNTY TREASURY

The county investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statues and the County Board of Supervisors set forth the various investment policies that the Country Treasurer follow. The method used to determine the value of the participant’s equity withdrawn is based on the book value, which is amortized cost, of the participant’s percentage participation on the date of such withdrawals.

The pool sponsor’s annual financial report may be obtained from the County of Orange Auditor-Controller’s Office, Hall of Finance and Records, 12 Civic Center Plaza, Room 200, Santa Ana, California, 92702.

NOTE 3: BONDED DEBT

On November 4, 2014, the voters approved the issuance of bonds, not to exceed \$175,000,000, to upgrade classrooms, science labs, sites, facilities; repair roofs, floors, plumbing, heating, ventilation, and electrical systems; improve student safety and security; upgrade career training facilities and technology infrastructure.

On October 28, 2015 the District issued \$42,500,000 of 2015 General Obligation Bonds, Series A. A premium received of \$2,557,423 is included in the net carrying balance of the debt in the District’s financial statements and is amortized using the straight-line method over the life of the debt.

On April 26, 2017, the District issued \$40,000,000 of 2017 General Obligation Bonds, Series B. A premium received of \$2,198,565 is included in the net carrying balance of the debt in the District’s financial statements and is amortized using the straight-line method over the life of the debt.

The outstanding general obligation bonded debt of the District at June 30, 2017 is:

General Obligation Bonds	Date of Issue	Date of Maturity	Interest Rate %	Amount of Original Issue	Outstanding June 30, 2017
Series A	10/28/2015	8/1/2040	2.5-5.0	\$ 42,500,000	\$ 42,500,000
Series B	04/26/2017	8/1/2041	3.3-5.0	40,000,000	40,000,000
Total				<u>\$ 82,500,000</u>	<u>\$ 82,500,000</u>

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 3: BONDED DEBT

The annual debt service requirements to maturity as of June 30, 2017 are as follows:

Year Ending June 30,	Principal	Interest
2018	\$ 4,290,000	\$ 2,826,605
2019	4,790,000	2,985,513
2020	3,780,000	2,771,263
2021	1,685,000	2,651,438
2022	1,855,000	2,579,738
2023-2027	8,475,000	11,693,188
2028-2032	13,420,000	9,197,819
2033-2037	19,205,000	6,408,656
2038-2041	25,000,000	2,418,806
Total	<u>\$ 82,500,000</u>	<u>\$ 43,533,026</u>

NOTE 4: PURCHASE COMMITMENTS

As of June 30, 2017, the District was committed under various capital expenditure purchase agreements for Measure I bond projects totaling approximately \$60 million.



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**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
Measure I Citizens' Oversight Committee
Fullerton Joint Union High School District
Fullerton, California

We have audited, 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, the financial statements of the Measure I Bond Building Fund of the Fullerton Joint Union High School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements as listed in the table of contents, and have issued our report thereon dated December 5, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

**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***

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 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 District’s financial statements of the Measure I Bond Building Fund 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 non-compliance 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.



CliftonLarsonAllen LLP
Glendora, California
December 5, 2017

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017**

There were no findings related to the financial audit of the Measure I Bond Building Fund for the year ended June 30, 2017.

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
MEASURE I BOND BUILDING FUND**

**SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
June 30, 2017**

2016-001 Closing Procedures: Construction Year-End Accruals

Criteria: Audit adjustments may indicate, at a minimum, a reportable deficiency in the year-end closing process.

Condition: During the 2015-16 audit it was noted that a number of construction expenditures for work performed prior to the fiscal year end were not recorded in the appropriate period.

Context: In November of 2014, the District passed Measure I, a Capital Facilities General Obligation Bond and issued its first series of bonds in October of 2015. A number of construction projects began in the 2015-16 fiscal year and were expected to cross fiscal years. Expenditures from those projects incurred in 2015-16 but not paid prior to June 30th should be recorded as year-end accounts payable accrual. Although the majority of expenditures were appropriately accrued, certain expenditures were not. In addition, amounts held as retention pending completion of projects should have been accrued and were not included in the accrual estimates.

Effect: The District did not accurately report construction expenditures in the appropriate fiscal year in accordance with generally accepted accounting principles. This resulted in an audit adjustment to the building fund of \$496,464 and to the deferred maintenance fund of \$869,900.

Cause: The 2015-16 fiscal year was the first closing cycle for the Measure I Capital Facilities program. As such, an entire Facilities & Construction Department was formed with new staff members along with new individuals in the Business Services Department. This led to a miscommunication between the Facilities & Construction and Business Services departments on the year-end closing timeline causing certain expenditures to be omitted from the 2015-16 accruals.

Recommendation: Implement a process to communicate the year-end closing timeline and to verify the year-end accrual for construction activity performed prior to June 30th is complete and includes amounts withheld under contract terms as retention.

Current Status: Implemented.

PERFORMANCE AUDIT OF MEASURE I BONDS FUNDS



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Measure I Citizens' Oversight Committee
Fullerton Joint Union High School District
Fullerton, California

We have conducted a performance audit of the Fullerton Joint Union High School District (the District) Measure I bond funds for the year ended June 30, 2017.

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 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 on page 17 of this report which includes determining the District's compliance with the performance requirements for the Proposition 39 Measure I bond funds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution. Management is responsible for the District's compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal control of the District to determine if internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution. Accordingly, we do not express any assurance on internal control.

The results of our tests indicated that, in all significant respects, the District expended Measure I bond funds for the fiscal year ended June 30, 2017, only for the specific projects developed by the District's Board of Trustees, and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

A handwritten signature in black ink that reads 'CliftonLarsonAllen LLP'.

CliftonLarsonAllen LLP
Glendora, California
December 5, 2017

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
PERFORMANCE AUDIT OF MEASURE I**

June 30, 2017

BACKGROUND INFORMATION

In November 2000 the voters of the State of California approved Proposition 39 authorizing the issuance of general obligation bonds by California public school districts and community colleges, under certain circumstances and subject to certain conditions. In November 2014, a general obligation bond proposition (Measure I) of the Fullerton Joint Union High School District was approved by the voters of the District. Measure I authorizes the District to issue up to \$175 million of general obligation bonds to finance various capital projects, and related costs, as specified in the bond measure provisions of Measure I.

Pursuant to the requirements of Proposition 39, and related state legislation, the Governing Board of the District established a Citizens' Bond Oversight Committee and appointed its initial members. The principal purpose of the Citizens' Bond Oversight Committee, as set out in state law, is to inform the public as to the expenditures of the proceeds of the bonds issued pursuant to the Measure I bond authorization. The Citizens' Bond Oversight Committee is required to issue at least one report annually as to its activities and findings.

Section 1(b)(3)(C) of Article XIII A of the California Constitution requires the District to conduct an annual independent performance audit to ensure that the proceeds of the bonds deposited into the Measure I bond fund have been expended only for the authorized bond projects.

OBJECTIVES

The objectives of our performance audit were to:

- Determine the expenditures charged to the Measure I Bond Building Fund.
- Determine whether expenditures charged to the Measure I Bond Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure I in November 2014.
- Determine that amounts expended on salaries and benefits were only to the extent employees perform work associated with the Measure I projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

SCOPE OF THE AUDIT

The scope of our performance audit covered the fiscal period from July 1, 2016 to June 30, 2017. The propriety of expenditures for capital projects and maintenance projects funded through other state or local funding sources, other than the proceeds of the bonds, were not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2017, were not reviewed or included within the scope of our audit or in this report.

**FULLERTON JOINT UNION HIGH SCHOOL DISTRICT
PERFORMANCE AUDIT OF MEASURE I**

June 30, 2017

PROCEDURES PERFORMED

- We identified the expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.
- We selected a judgmental sample of expenditures for supplies, services and capital outlay considering all projects for the year ended June 30, 2017. Our sample included 70 transactions totaling \$13,335,129.
 - We reviewed the actual invoices and supporting documentation to determine that expenditures charged to projects were:
 - Supported by invoices with evidence of proper approval and documentation of receipt of goods or services;
 - Supported by proper bid documentation, as applicable;
 - Were properly expended on the authorized bond projects as listed on the voter-approved bond project list.
- We selected a judgmental sample of salaries and benefits for the year ended June 30, 2017. Our sample of expenditures for salaries and benefits included \$582,293 in payroll expenses.
 - We reviewed the payroll register and job description to determine that the amounts expended on salaries and benefits were only to the extent employees perform work associated with the Measure I bond projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures of the funds held in the Measure I Bond Building Fund and that such expenditures were made on authorized bond projects. Further it was noted that the funds held in the Measure I Bond Building Fund and expended by the District, were used for salaries and benefits only to the extent allowable.