

**MEASURE S BOND BUILDING FUND OF
ORANGE UNIFIED
SCHOOL DISTRICT**

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
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For the Year Ended June 30, 2018**

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**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2018**

The Orange Unified School District was unified in 1953 under the laws of the State of California. The District operates under a locally-elected seven member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates twenty-seven elementary schools, three middle schools, four high schools, one continuation school, one charter middle school, one community day school, one alternative education program, and one special education site.

On November 8, 2016, the District's voters approved by more than the required 55% favorable vote, Measure S, authorizing the issuance and sale of general obligation bonds, not to exceed \$288,000,000. The passage of Proposition 39 in June 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

The first series of bonds, Election of 2016, Series 2018, was issued on June 27, 2018 for \$188,000,000 with interest rates ranging from 3.00% to 5.00%. The principal balance outstanding at June 30, 2018 amounted to \$188,000,000.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure S including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Oversight Committee had the following members as of June 30, 2018, all of whom were appointed by the District's Board of Education with two year terms of office:

Name	Representation	Title	Education Code Section
Bill Campbell	Representative at Large	Member	15282(a)
Carolyn Cavecche	Bona Fide Taxpayers' Association	Member	15282(a)(3)
Diana Fascenelli	Parent Representative	Member	15282(a)(4)
Trevor O'Neil	Business Organization Representative	Member	15282(a)(1)
Jennifer Schuerger	Parent-Teacher Organization & Parent Representative	Member	15282(a)(5)
Mrunal Shah	Representative at Large	Member	15282(a)
William Utter	Senior Citizens' Organization Representative	Member	15282(a)(2)

INDEPENDENT AUDITORS' REPORT

Measure S Citizens' Bond Oversight Committee and
Governing Board Members of the
Orange Unified School District
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure S Bond Building Fund of Orange Unified School District (the "District"), as of and for the year ended June 30, 2018, 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.

Auditors' 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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.

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

Christy White, CPA

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Heather Daud Rubio

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LOS ANGELES

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure S Bond Building Fund of Orange Unified School District, as of June 30, 2018, and the 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 1A, the financial statements present only the Measure S Bond Building Fund and do not purport to, and do not present fairly the financial position of the Orange Unified School District, as of June 30, 2018, the changes 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018, on our consideration of the District'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 specific to the Measure S Bond Building Fund. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report of Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have issued our performance audit dated November 29, 2018, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure S Bond Building Fund. That report is an integral part of our audit of the Measure S Bond Building Fund of Orange Unified School District, as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
November 29, 2018

FINANCIAL SECTION

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2018**

ASSETS	
Cash and cash equivalents	\$ 190,444,301
Total Assets	\$ 190,444,301
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 1,460,557
Due to other funds	12,730,450
Total Liabilities	14,191,007
Fund Balance	
Restricted for:	
Capital projects	176,253,294
Total Fund Balance	176,253,294
Total Liabilities and Fund Balance	\$ 190,444,301

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2018**

REVENUES	
Interest income	\$ -
Total Revenues	<u>-</u>
EXPENDITURES	
Facilities acquisition and construction	9,792,103
Total Expenditures	<u>9,792,103</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,792,103)</u>
OTHER FINANCING SOURCES / USES	
Interfund transfer-in	8,730,000
Interfund transfer-out	(12,730,450)
Proceeds from long-term debt	188,000,000
Total Other Financing Sources / Uses	<u>183,999,550</u>
Net Change in Fund Balance	174,207,447
Fund Balance, July 1, 2017	<u>2,045,847</u>
Fund Balance, June 30, 2018	<u>\$ 176,253,294</u>

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

On November 8, 2016 the District voters authorized \$288,000,000 in general obligation bonds (Measure S) to repair and modernize aging high school classrooms, labs and school facilities, including deteriorated roofs, plumbing, and electrical systems, complete earthquake safety retrofits, improve campus safety/security, and upgrade career training facilities, science labs, libraries, and technology that support student achievement in math, science, engineering and skilled trades.

An oversight committee to the District's Governing Board and Superintendent, called the Citizens' Oversight Committee (COC), was established pursuant to the requirements of State law and the provisions of the Measure S bond. The COC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The COC provides oversight and advises the public whether the District is spending the Measure S Bond funds for school capital improvements within the scope of projects outlined in the Measure S Bond project list. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measure S activity.

The statements presented are for the individual Measure S Bond Building Fund of the District and are not intended to be a complete presentation of the District's financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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 are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Orange County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in Measure S Bond Building Fund is considered restricted.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Fund Balance (continued)

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as cash in county treasury for \$190,444,301.

Policies and Practices

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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – The District 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.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

General Authorizations (continued)

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Agency Obligations	5 years	None	25%
Local Agency Obligations	5 years	15%	10%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	270 days	40%	5%
Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	1 year	40%	10-15%
Reverse Repurchase Agreements	92 days	20%	10%
Local Agency Investment Fund (LAIF)	N/A	10%	10%
Corporate Medium-Term Notes	5 years	30%	5%
Money Market Mutual Funds	N/A	15%	10%
Bond Funds	N/A	2.5%	2.5%
Pass-Through Securities	5 years	20%	5%

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury.

The District maintains an investment with the Orange County Investment Pool with a fair value of approximately \$189,624,428 and an amortized book value of \$190,444,301. The weighted average maturity for this pool as of June 30, 2018 was 302 days.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated AAAM.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to Measure S asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Orange County Treasury Investment Pool are not measured using the input levels above because the District'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.

The District's fair value measurements at June 30, 2018 were as follows:

	Uncategorized
Investment in county treasury	\$ 189,624,428
Total fair market value of investments	\$ 189,624,428

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 3 – CONSTRUCTION COMMITMENTS

As of June 30, 2018, the District had construction commitments as follows:

	Remaining Construction Commitment	Expected Date of Completion
Capital Projects		
Canyon HS Science Center	\$ 2,823,708	December 2021
El Modena HS Science Center	1,484,635	May 2020
Orange HS Science Center	8,217,331	March 2020
Villa Park HS Science Center	1,887,422	December 2020
FD21 IP Surveillance Camera and Security System	77,288	September 2018
	<u>\$ 14,490,384</u>	

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable amounting to \$1,460,557 as of June 30, 2018 is related to construction expenditures.

NOTE 5 – MEASURE S GENERAL OBLIGATION BONDS

As of June 30, 2018, the principal balance outstanding on the District’s Measure S general obligation bonds is indicated as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 1, 2017	Additions	Deductions	Outstanding June 30, 2018
2016 Series 2018	6/27/2018	8/1/2047	3.00-5.00%	\$ 188,000,000	\$ -	\$ 188,000,000	\$ -	\$ 188,000,000
				Unamortized Premium	-	7,120,226	-	7,120,226
					<u>\$ -</u>	<u>\$ 195,120,226</u>	<u>\$ -</u>	<u>\$ 195,120,226</u>

Election of 2016, Series 2018

On June 27, 2018, Series 2018 bonds were issued for \$188,000,000, with stated interest rates of 3.00% to 5.00%. Interest on the current interest bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2019, through final maturity at August 1, 2047. Principal of the current interest bonds is payable on August 1 in each of the years and in the amounts as per the repayment schedule. The principal balance outstanding at June 30, 2018 amounted to \$188,000,000.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 5 – MEASURE S GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ -	\$ 4,062,236	\$ 4,062,236
2020	7,615,000	7,583,548	15,198,548
2021	2,520,000	6,979,625	9,499,625
2022	-	6,916,625	6,916,625
2023	-	6,916,625	6,916,625
2024 - 2028	5,210,000	34,106,625	39,316,625
2029 - 2033	16,000,000	31,540,625	47,540,625
2034 - 2038	30,685,000	27,132,944	57,817,944
2039 - 2043	49,470,000	20,474,269	69,944,269
2044 - 2048	76,500,000	8,153,800	84,653,800
	<u>\$ 188,000,000</u>	<u>\$ 153,866,922</u>	<u>\$ 341,866,922</u>

NOTE 6 – INTERFUND ACTIVITIES

As of June 30, 2018, the Special Reserve Fund for Capital Outlay Projects transferred to the Building Fund as an advance for construction expenses. The total amount of the interfund transfer-in was \$8,730,000. The Building Fund transferred the Special Reserve Fund for Capital Outlay Projects as a repayment of the advances received in the 2016-17 and 2017-18 school year. The total amount of interfund transfer out was \$12,730,450.

As of June 30, 2018, the Building Fund owed the Special Reserve Fund for Capital Outlay Projects a total amount of \$12,730,450 for repayment of construction advancement.

NOTE 7 – MEASURE S – EXPENDITURES BY SITE

Site	Program Management		Construction		Amount
	Fess		Management Fees	All Other	
Canyon High School	\$ 256,360	\$	\$ 391,024	\$ 2,556,932	\$ 3,204,316
El Modena High School	154,079		299,649	1,407,528	1,861,256
Orange High School	197,547		260,885	2,355,124	2,813,556
Villa Park High School	171,980		371,897	1,369,098	1,912,975
Total	\$ 779,966	\$	\$ 1,323,455	\$ 7,688,682	\$ 9,792,103

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2018**

NOTE 8 – MEASURE S – EXPENDITURES BY OBJECT

Expenditure	Object Code	Amount
Services and Other Operating Expenditures	5000-5999	\$ 42,726
Capital Outlay	6000-6999	<u>9,749,377</u>
TOTAL EXPENDITURES		<u>\$ 9,792,103</u>

**OTHER INDEPENDENT AUDITORS'
REPORTS**

**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**

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Independent Auditors' Report

Measure S Citizens' Bond Oversight Committee and
Governing Board Members of the
Orange Unified School District
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure S Bond Building Fund of Orange Unified School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Orange Unified School District's basic financial statements of the Measure S Bond Building Fund, and have issued our report thereon dated November 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orange Unified School 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 of the Measure S Bond Building Fund, but not for the purpose of expressing an opinion on the effectiveness of Orange Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Orange Unified School 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 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.

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Internal Control over Financial Reporting (continued)

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 Orange Unified School District 's financial statements of the Measure S 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



San Diego, California
November 29, 2018

REPORT ON PERFORMANCE

Independent Auditors' Report

Measure S Citizens' Bond Oversight Committee and
Governing Board Members of the
Orange Unified School District
Orange, California

Report on Performance

We have audited Orange Unified School District's compliance with the performance audit procedures described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on Orange Unified School District's Measure S Bond Building Fund for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to local school construction bonds.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of Orange Unified School District's Measure S Bond Building Fund based on our performance audit of the types of compliance requirements referred to above. We conducted our performance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the performance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the local school construction bonds noted on the following page occurred. An audit includes examining, on a test basis, evidence about Orange Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our performance audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Orange Unified School District's compliance with those requirements.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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Opinion on Performance

In our opinion, Orange Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Measure S Bond Building Fund noted below for the year ended June 30, 2018.

Procedures Performed

In connection with the performance audit referred to above, we selected and tested transactions and records to determine Orange Unified School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Measure S Bond Building Fund. Additional agreed upon procedures relating the Measure S Bond Building Fund may also be included.

The results of the procedures performed and the related results are further described in the accompanying performance audit results following this Report on Performance.

Christy White Associates

San Diego, California
November 29, 2018

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – FINANCIAL AUDIT PROCEDURES AND RESULTS

Financial Statements

As mentioned in the Report on Financial Statements, we have issued an unmodified opinion over the financial statements of the Measure S Bond Building Fund as of and for the fiscal year ended June 30, 2018.

Internal Control Evaluation

We tested internal controls over financial reporting and compliance with laws, regulations, or provisions of contracts or agreements and have determined through our inquiry of management and our evaluation of District processes that no significant deficiencies were noted.

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS

Facility Project Expenditures

We selected a representative sample of expenditures charged to the Measure S Bond Building Fund and reviewed supporting documentation to ensure funds were properly expended on specific project(s) listed in the text of the Measure S ballot.

We tested approximately \$2.2 million of non-personnel expenditures or 22% of total 2017-18 Measure S Bond Building Fund expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure S ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

Based on review of expenditure information, we noted that there were no salaries or benefits charged to the Measure S Bond Building Fund during the fiscal year ended June 30, 2018. Audit procedures over personnel expenditures were not applicable.

Facilities Site Walk

We verified that funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects by review of supporting documentation as previously noted under Facility Project Expenditures but also through performance of a facilities site walk.

A facilities site walk was performed for the newly constructed bus stop at Orange High School. Based on our site walk, the project for the school sites appear to be successfully completed and funds appear to be expended for authorized bond projects.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Contract and Bid Procedures

We reviewed a listing of contracts awarded during the fiscal year ended June 30, 2018 and selected a sample to ensure that contracts for public projects followed appropriate bidding procedures per applicable Public Contract Code. Additionally, we reviewed overall expenditures by vendor in order to determine if multiple projects under the applicable bidding threshold were identified to suggest any possible bid-splitting.

From a sample of two (2) contracts awarded during the year, we noted that applicable bidding procedures were followed and that contracts were appropriately awarded to the lowest responsible bidder for Portable Building Demo at Orange High School and Increment #1 (utility upgrades/infrastructure) for the Science Center. Based on our review of overall expenditures and projects by vendor, no instances or possible indications of bid-splitting were identified. The District appears to be properly reviewing projects and applying appropriate procedures over contract and bidding procedures.

Contracts and Change Orders

We reviewed a listing of contracts and change orders during the fiscal year ended June 30, 2018 and selected a sample to ensure that change orders were properly approved and in accordance with District policies. Additionally, cumulative change orders for any given contract were reviewed to ensure that total change orders did not exceed ten percent of the total original contract.

We reviewed two (2) of sixteen (16) change orders for the Villa Park and El Modena High School Science Center Project and verified that the total of the change orders did not exceed ten percent of the total contract. All change orders were properly reviewed and approved by management and the governing board in accordance with District policy.

Citizens' Bond Oversight Committee (CBOC)

In accordance with Assembly Bill (AB) 1908 and Education Code (Ed Code) Section 15278, the District is required to establish a bond oversight committee for Proposition 39 bonds to include one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers' association, parent/guardian of a child enrolled in the District and a parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. Additionally, no employee or official of the District shall be appointed to the citizens' oversight committee.

We found that the District successfully compiled a CBOC with an active member from each of the required representations. No members of the CBOC are also an employee, official, vendor or consultant of the District. Refer to the Introduction and CBOC Member Listing for a listing of current members as of June 30, 2018.

**MEASURE S BOND BUILDING FUND
ORANGE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

PART I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS	<u>Unmodified</u>
Type of auditors’ report issued	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to the financial statements?	<u>No</u>
 PERFORMANCE AUDIT	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditor’s report issued on performance for local school construction bonds:	<u>Unmodified</u>

PART II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements in 2017-18.

PART III – PERFORMANCE AUDIT FINDINGS

There were no findings or recommendations related to local school construction bonds in 2017-18.

PART IV – PRIOR AUDIT FINDINGS

There were no findings and recommendations during the year ended June 30, 2017.