

SONOMA VALLEY UNIFIED SCHOOL DISTRICT

MEASURE E BOND FUND

AUDIT REPORT

For the Fiscal Year Ended June 30, 2018

* * *



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
For the Fiscal Year Ended June 30, 2018

Table of Contents

| | <u>Page No.</u> |
|--|-----------------|
| FINANCIAL SECTION: | |
| Independent Auditor’s Report | 1 - 2 |
| Financial Statements: | |
| Measure E Bond Fund Balance Sheet..... | 3 |
| Measure E Bond Fund Statement of Revenues, Expenditures and Changes in Fund Balance | 4 |
| Notes to the Basic Financial Statements | 5 - 12 |
| SUPPLEMENTARY INFORMATION: | |
| Program Statements: | |
| Measure E Bond Fund Statement of Actual Expenditures From Inception through the Fiscal Year Ended June 30, 2018 | 14 |
| Notes to Program Statements | 15 - 16 |
| Schedule of Findings and Recommendations | 18 |
| Schedule of Prior Year Findings and Recommendations | 19 |
| OTHER INDEPENDENT AUDITOR’S REPORTS: | |
| Internal Control: | |
| 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 <i>Government Auditing Standards</i> | 21 - 22 |
| Performance and Compliance: | |
| Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on the Measure E Bond Program..... | 23 - 25 |

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Measure E Citizens' Oversight Committee and
Governing Board Members
Sonoma Valley Unified School District

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure E Bond Fund of the Sonoma Valley Unified School 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

The Sonoma Valley Unified School District's 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 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 District'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 District'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure E Bond Fund of the Sonoma Valley 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.



Other Matters

As discussed in Note 1, the financial statements present only the Measure E Bond Fund and do not purport to, and do not, present fairly the financial position of the Sonoma Valley Unified School District, as of June 30, 2018, and 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sonoma Valley Unified School District's Measure E Bond Fund financial statements. The program statements as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the bond fund financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated November 26, 2018 on our consideration of the Sonoma Valley Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sonoma Valley Unified School District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 28, 2019 on our consideration of the Measure E Bond Fund compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure E Bond Fund for the fiscal year ended June 30, 2018 and should be considered in assessing the results of our financial audit.

C & A LLP

January 28, 2019
San Jose, California

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Balance Sheet
June 30, 2018

Assets

Cash and investments \$ 47,732,794

Total Assets \$ 47,732,794

Liabilities and Fund Balance

Liabilities:

 Accounts payable \$ 106,849

Total Liabilities 106,849

Fund balance:

 Restricted for capital projects 47,625,945

Total Fund Balance 47,625,945

Total Liabilities and Fund Balance \$ 47,732,794

The notes to the financial statements are an integral part of this statement.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2018

| | |
|--|-----------------------------|
| Revenues: | |
| Interest earnings | <u>\$ 551,378</u> |
| Total revenues | <u>551,378</u> |
| Expenditures: | |
| Supplies and materials | 14,164 |
| Contract services | 101,355 |
| Capital outlay | 2,574,462 |
| Bond issuance cost | <u>235,452</u> |
| Total expenditures | <u>2,925,433</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,374,055)</u> |
| Other financing sources (uses): | |
| Proceeds from sale of bonds | <u>50,000,000</u> |
| Net change in fund balance | <u>47,625,945</u> |
| Fund balance beginning | <u>-</u> |
| Fund balance ending | <u><u>\$ 47,625,945</u></u> |

The notes to the financial statements are an integral part of this statement.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees.

In 2016-17, an advisory committee to the District's Governing Board and Superintendent, called the Measure E Citizens' Oversight Committee was established. The purpose of the committee is to inform the public concerning the expenditure and uses of the District's bond measure revenues. The Committee's legal charge is to actively review and report on the expenditure of taxpayer money for school construction in accordance with voter approved projects.

The financial statements presented are for the Measure E Bond Fund and are not intended to be a complete presentation of the District's financial position on operations.

C. Basis of Presentation

Fund Financial Statements:

Fund financial statements report detailed information about the District. The Building Fund is a governmental fund and is presented as a major fund in the District's combined financial statements. The Building Fund is used to account for proceeds from the sale of real property and account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds such as Measure E general obligation bonds.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances for the Measure E Bond Fund presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows of resources from unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred inflows of resources.

Expenditures:

On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final 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.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

These budgets are revised by the District's governing board and District superintendent 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.

F. 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. All encumbrances are liquidated on June 30.

G. Assets, Liabilities, and Equity

1. Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the 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.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

2. Cash and Cash Equivalents

The District's cash deposits are considered to be cash on hand and cash in banks. Cash and Cash Equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date.

3. Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

4. Long-Term Obligations

In the Measure E Bond Fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

5. Fund Balance Classifications

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Nonspendable* includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- *Restricted* includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

- *Assigned* includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and the Assistant Superintendent of Business Services.
- *Unassigned* includes positive fund balance that has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

6. Accounting Estimates

The presentation 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 reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Summary of Deposits

A summary of deposits as of June 30, 2018, is as follows:

| <u>Description</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|---|----------------------------|-----------------------|
| Cash in county treasury investment pool | \$47,732,794 | \$ 47,346,158 |
| Total Cash and Investments | <u>\$47,732,794</u> | <u>\$ 47,346,158</u> |

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The District has the following recurring fair value measurements as of June 30, 2018:

- Investments in the Sonoma 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.

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.

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.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, custodial 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, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the Sonoma County Investment Pool. The pool has a fair value of approximately \$2.443 billion and an amortized book value of \$2.463 billion. The average weighted maturity for this pool is 553 days.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Sonoma County Investment Pool is governed by the County's general investment policy. The investment with the Sonoma County Investment Pool is rated at least AA by Moody's Investor Service.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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.

NOTE 3 - MEASURE E GENERAL OBLIGATION BOND

Through elections, the District received authorization to issue general obligation bonds (GOB) that requires the county to levy annual ad valorem taxes for the payment of interest and principal on the bonds. Bond proceeds are used to help prevent budget cuts, improve student achievement and college/job preparation by making neighborhood schools energy efficient through the installation of solar panels, energy efficient windows, and by implementing water conservation improvements. This will create savings that will be used to improve classrooms, upgrade technology, modernize and equip classrooms, libraries, computer and science labs, as well as support career/technical education.

In 2018, the District issued \$50,000,000 in 2016 General Obligation Bonds, Series 2017, with an interest rate of 2-4% to finance specific constructions, repairs and improvement projects. The County Treasurer levies annual ad valorem taxes for required debt service payments.

The following schedule summarizes the District’s Measure E Bond Fund general obligation bonds as of June 30, 2018:

| Bond | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds | | | Bonds |
|--------------------------------|------------|---------------|---------------|----------------|---------------------------|---------------|----------|---------------------------|
| | | | | | Outstanding July 01, 2017 | Issued | Redeemed | Outstanding June 30, 2018 |
| 2016 GOB, Series 2017 | 2018 | 2047 | 2-4% | \$ 50,000,000 | \$ - | \$ 50,000,000 | \$ - | \$ 50,000,000 |
| Total General Obligation Bonds | | | | | \$ - | \$ 50,000,000 | \$ - | \$ 50,000,000 |

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

The following is a summary of the annual debt service requirements as of June 30, 2018:

| Year Ending June 30 | Principal | Interest | Total |
|---------------------|----------------------|----------------------|----------------------|
| 2019 | \$ 4,000,000 | \$ 1,573,514 | \$ 5,573,514 |
| 2020 | 2,650,000 | 1,614,175 | 4,264,175 |
| 2021 | 2,895,000 | 1,516,525 | 4,411,525 |
| 2022 | - | 1,458,625 | 1,458,625 |
| 2023 | - | 1,458,625 | 1,458,625 |
| 2024-2028 | - | 7,293,125 | 7,293,125 |
| 2029-2033 | 3,195,000 | 7,110,700 | 10,305,700 |
| 2034-2038 | 8,440,000 | 6,212,725 | 14,652,725 |
| 2039-2043 | 11,690,000 | 4,513,450 | 16,203,450 |
| 2044-2048 | 17,130,000 | 1,720,663 | 18,850,663 |
| Total Debt Service | <u>\$ 50,000,000</u> | <u>\$ 34,472,127</u> | <u>\$ 84,472,127</u> |

NOTE 4 - COMMITMENTS

Through January 28, 2019, the date on which the financial statements were available to be issued, the District had encumbered \$6,344,411 of the Measure E Bond proceeds to be spent on capital projects in the fiscal year ended June 30, 2019.

NOTE 5 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date on which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

SUPPLEMENTARY INFORMATION

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Statement of Actual Expenditures
From Inception Through the Fiscal Year Ended June 30, 2018

| Project Description | Fiscal Year Ended | |
|--|--------------------------|------------------|
| | June 30, 2018 | |
| Adele Gym Renovation | \$ | 6,492 |
| Altimira Track and Field | | 40,806 |
| Building Improvements | | 420 |
| CBO - Audit Fees | | 18,901 |
| Classroom Furniture - Districtwide | | 7,818 |
| Classroom Furniture - Dunbar | | 4,855 |
| Creekside High Modernization | | 95 |
| Dunbar Bathroom Improvements | | 5,610 |
| Dunbar Septic System Replacement and Site Lighting | | 5,902 |
| El Verano MPR and Portable Relocation | | 20,223 |
| Flowery MPR Modernization | | 10,937 |
| Flowery Staff Parking | | 28,129 |
| Sassarini Field Improvements | | 95 |
| Sassarini Site Lighting and Security | | 17,442 |
| Sonoma Charter Portable Replacement Phase 1 | | 3,685 |
| Sonoma Valley High School Ag Farm Phase 2 | | 8,632 |
| Sonoma Valley High School CTE Renovations | | 23,846 |
| Sonoma Valley High School Library Renovations | | 132,469 |
| Sonoma Valley High School New Pool | | 2,490 |
| Sonoma Valley High School Roofing and HVAC Replacement Phase 1 | | 2,302,053 |
| Sonoma Valley High School Track and Field Renovations | | 49,081 |
| Bond Issuance Cost | | 235,452 |
| Grand Total | \$ | 2,925,433 |

The notes to the supplementary information are an integral part of this statement.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to Program Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - THE PROGRAM

In November 2000, California voters passed Proposition 39, which allows school districts to issue general obligation bonds with 55% voter approval (instead of two-thirds of the votes), if the intent and purpose of the bonds is to reduce class sizes and to modernize/replace school facilities. Along with the passage of Proposition 39, additional requirements are also added to ensure accountability over the usage of the bond proceeds, which includes conducting annual financial and performance audits.

The Sonoma Valley Unified School District passed Measure E on November 2016, with 55% of District voters approving the measure. The governing board then appointed a Citizens' Oversight Committee to ensure accountability over the issuance and expenditures of bond proceeds. The bond oversight committee holds quarterly meetings to ensure that bond proceeds are expended in accordance with the bond project list and to obtain updates from the bond manager in regard to the progress of projects funded with bond proceeds.

The Sonoma Valley Unified School District successfully sold all of the bonds authorized by the capital program under Measure "E", which authorized \$120 million in bonds to be sold over time.

All projects funded by the issuance of Measure E general obligation bonds are subject to review by the District's Board of Trustees and by an independent Citizens' Oversight Committee. The District will also provide many public forums to present progress and seek input from community members, parents, and staff.

NOTE 2 - ORGANIZATION

Sonoma Valley Unified School District was established in 1901 and encompasses an area of approximately 900 square miles. There were no changes in the boundaries of the District during the current year. The District currently operates five elementary schools, two middle schools, one high school, and a continuation high school.

The board of Education for the fiscal year ended June 30, 2018, was comprised of the following members:

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|------------------------|----------------|---------------------|
| Salvador Picazo Chavez | Member | November 2018 |
| Nicole Abate Ducarroz | Vice President | November 2018 |
| John Kelly | Clerk | November 2018 |
| Dan Gustafson | Member | November 2018 |
| Britta Johnson | President | November 2018 |

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Notes to Program Statements
For the Fiscal Year Ended June 30, 2018

NOTE 3 - CITIZENS' OVERSIGHT COMMITTEE

Duties of the committee include ensuring that bond revenues are expended only 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. The committee must also ensure that no funds are used for any teacher or administrative salaries or other school operation expenses.

Furthermore, the committee is authorized to receive and review copies of the annual independent performance audit and the annual independent financial audit required by Article XIII A, Section 1(b)(3)(C) and Article XIII A, Section 1(b)(3)(D), respectively, of the California Constitution.

The Committee was formed by the Board trustees, which met one time in the last fiscal year. The Citizens' Oversight Committee was comprised of the following members as of June 30, 2018:

| <u>Name</u> | <u>Title</u> |
|-----------------|---|
| Berger, Kevin | At-large Community Member |
| Hilliard, Sally | Senior Citizens Organization |
| McNairy, Chris | Parent and Active in a School Organization |
| Staggs, Havard | Senior Citizens Organization |
| Gruendle, Jay | Parent and At-large member |
| Storck, Jamie | Bonafide Taxpayer Organization/Local Business |

**SCHEDULE OF FINDINGS
AND
RECOMMENDATIONS**

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

Our tests resulted in the following finding:

Finding 2018-001: 30000 - Account Payable Accrual

Criteria: According to Generally Accepted Accounting Principles (GAAP) all expenses should be recognized when incurred.

Condition: During our testwork over the District's accounts payable, we noted that the District incorrectly included \$516,220 and excluded \$98,008.

Effect: The District's accounts payable was overstated by \$418,212.

Cause: During year end process, the District did not review the final accrual balances to ensure that all invoices for services provided and expenditures incurred as of June 30, were included in accounts payable.

Recommendation: We recommend management review the District's process of capturing invoices for services provided before year-end and paid after year-end for inclusion in accounts payable.

Corrective Action Plan: This error was caused by three (3) entries related to large facility projects which were occurring through the year-end process. The District will review all closing entries with our County Office of Education to ensure that proper system processes have been performed correctly to produce the appropriate entries.

SONOMA VALLEY UNIFIED SCHOOL DISTRICT
Measure E Bond Fund
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

There were no prior year findings and recommendations to be reported.

**OTHER INDEPENDENT
AUDITOR'S REPORTS**



**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***

Measure E Citizens' Oversight Committee and
Governing Board Members
Sonoma Valley Unified School District

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 E Bond Fund of the Sonoma Valley Unified School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Sonoma Valley Unified School District's Measure E Bond Fund financial statements, and have issued our report thereon dated January 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sonoma Valley 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, but not for the purpose of expressing an opinion on the effectiveness of the Sonoma Valley Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sonoma Valley 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 District'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. We consider the deficiency described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness: see finding 2018-001.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sonoma Valley Unified School District's financial statements are free from 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*.

District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

January 28, 2019
San Jose, California



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE
MEASURE E BOND PROGRAM**

Measure E Citizens’ Oversight Committee and
Governing Board Members
Sonoma Valley Unified School District

Compliance

We have audited the Sonoma Valley Unified School District's (the District) compliance with Measure E of the November 2016 election, as approved under Proposition 39, and with the performance requirements referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the District’s management.

Auditor’s Responsibility

Our responsibility is to express an opinion on the District’s compliance with the laws and regulations identified above based on our audit. We conducted our audit of compliance 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 noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the laws and regulations have occurred. An audit includes examining, on a test basis, evidence supporting the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of the District’s compliance with those requirements.

Audit Objectives

Our audit includes the following objectives:

1. To obtain reasonable assurance that the proceeds of the sale of the Measure E Bond Fund were only used for the purposes set forth in the ballot measure and not for any other purpose, such as teacher and administrative salaries.
2. To obtain reasonable assurance that the Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will relieve overcrowding, repair local schools and improve student safety conditions of the District.



3. To obtain reasonable assurance that the District complied with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, the enactment of AB 1908 (Chapter 44, Statutes of 2000) and the bond measure. Management is responsible for the District's compliance with these requirements.

Scope and Methodology

To meet the objectives of our performance audit, procedures we performed included, but were not limited to, the following scope and methodology:

1. We documented and tested controls over financial reporting and compliance specific to the Measure E Bond Fund which included inquires about budgetary controls, separation of duties, account coding, timekeeping, pay rates and procurement.
2. We verified that bond proceeds were deposited in the District's name and invested in accordance with applicable legal requirements.
3. We selected the one and only contract and verified its compliance with bid requirements, and that invoices were paid within the contract terms and with board approval.
4. We tested payments made to the architectural service companies and reviewed the terms of contracts.
5. We tested approximately 95% of the 2017-18 expenditures to ensure they were valid, allowable and accurate.
6. We verified that the funds used to pay the salaries of district employees were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.
7. We verified that the District was in compliance with Assembly Bill 1908 and Ed Code Section 15278, where the District is required to establish a bond oversight committee for Proposition 39 bonds that includes one active member from each of the following sectors: a business organization, senior citizens' organization, bona fide taxpayer's association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association.
8. We verified the Citizens' Oversight Committee met pursuant to Education Code Section 15280.

Results of Procedures Performed

We did not identify any exceptions to the procedures performed above, nor any exceptions to other tests that we conducted related to the Measure E Bond Fund. Our audit of compliance was made for the purposes set forth in the Objectives section of this report and wouldn't not necessarily disclose all instances of noncompliance.



Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Measure E Bond program for the fiscal year ended June 30, 2018.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the standards referred to above. Accordingly, this report is not suitable for any other purpose.

C & A LLP

January 28, 2019
San Jose, California