

FRESHWATER SCHOOL DISTRICT
County of Humboldt
Eureka, California

MEASURE C GENERAL OBLIGATION BOND OF 2018
PERFORMANCE AUDIT

For the Year Ended June 30, 2019

With

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FRESHWATER SCHOOL DISTRICT

MEASURE C GENERAL OBLIGATION BOND OF 2018
PERFORMANCE AUDIT

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June 30, 2019

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FRESHWATER SCHOOL DISTRICT
MEASURE C GENERAL OBLIGATION BOND OF 2018

INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Citizens' Oversight Committee
Freshwater School District
75 Greenwood Heights Drive
Eureka, California 95503

We have conducted a performance audit of the Freshwater School District (the "District") Measure C General Obligation Bond of 2018 for the year ended June 30, 2019.

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 five of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure C General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. 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 controls of the District to determine the audit procedures that are appropriate for the purpose of providing a conclusion on the District's compliance with the requirements of Proposition 39 as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the District's internal controls.

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INDEPENDENT AUDITOR'S REPORT - CONTINUED

The results of our procedures indicated that, in all significant respects, the District expended Measure C General Obligation Bond funds for the year ended June 30, 2019 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.

David A. Moorme & Co., LLP.

CERTIFIED PUBLIC ACCOUNTANTS
Eureka, California
March 27, 2020

FRESHWATER SCHOOL DISTRICT

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BACKGROUND INFORMATION

California Proposition 39, the Smaller Classes, Safer School, and Financial Accountability Act, was approved by voters on November 7, 2000. Proposition 39 amended the California Constitution in Article XIII A, Section 1(b)(3) to allow the approval of bonded debt by 55 percent of voters, provided that the bond proposition meets the following requirements:

1. Proceeds from the sale of the bonds shall be used 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.
2. The bond proposition includes a list of the specific school facilities projects to be funded, and a certification that the Governing Board of the District evaluated safety, class size reduction, and information technology needs in developing the list.
3. The Governing Board conducts an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.
4. The Governing Board conduct an annual independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for the school facilities projects.

In addition, the California Education Code was amended to include Section 15278, which provided an additional requirement that a school district must establish and appoint members to an independent citizens' oversight committee.

The Freshwater School District Measure C General Obligation Bond of 2018 (the "Bond") was approved by voters on June 5, 2018 to provide \$2.1 million in improvements to the District's facilities. The Bond proceeds are to be used for the purposes as described in the following summary of the proposition on the official ballot:

To repair or replace deteriorating plumbing and sewer systems; repair or replace leaky roofs; modernize, renovate, construct and/or expand aging and outdated school facilities to meet 21st century educational standards, including providing updated furnishings and other equipment to facilitate a modern learning environment; improve student access to computers and modern technology, including providing necessary infrastructure, hardware,

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software, computers, devices and other modern instructional equipment throughout District sites; replace temporary portables with permanent classrooms and facilities; make health, safety and handicapped accessibility improvements to ensure compliance with all applicable laws and regulations; make federal and state-mandated Americans with Disabilities Act (ADA) accessibility upgrades including ensuring site access, parking, staff and student restrooms, relocation of existing electrical devices, drinking fountains, playground equipment, etc. as necessary to ensure adequate accommodations are provided and all legal requirements are met; repair or replaced outdated heating, ventilation and air-conditioning systems; upgrade inadequate electrical systems; construct a new media/technology center for school and community use; improve, rehabilitate and/or construct playgrounds and play structures and other facilities for school and community use, including providing related equipment; abate and remove hazardous materials identified prior to or during construction; repair, replace and/or upgrade paved surfaces, turf, and other grounds and outdoor areas, including to eliminate safety hazards and to facilitate outdoor instruction; upgrade, repair and/or expand school site parking, roadways, grounds and other infrastructure such as utility systems, including installing exterior lighting, repairing pathways, walkways, ADA access ramps, and make landscaping improvements including irrigation.

The sale of the Bond measure occurred on September 20, 2018 in the amount of \$2,097,729. The first expenditures for facilities improvements were charged to the Bond in October 2018. The projects to be funded by the bond proceeds will be upgrades to the plumbing and sewer systems and to modernize and renovate school facilities.

The District maintains a website link on the District's website with general information on the Citizen's Oversight Committee. The District approved the Citizens' Oversight Committee bylaws on August 21, 2018. California Education Code Section 15282(a) requires that the Citizen's Oversight Committee be comprised of at least seven members, with one member who is active in a business organization representing the business community within the District's boundaries, one member who is active in a senior citizen's organization, one member who is active in a bona fide taxpayers' organization, one member who is a parent or guardian of a student enrolled in the District, and one member who is both a parent or guardian of a student enrolled in the District and active in a parent-teacher organization. The District is having difficulty finding community members to serve on the Citizen's Oversight Committee. As of March 27, 2020, the District has only received applications for two of the required committee positions.

The District records all financial activity related to the Bond in Fund 21 (Building Fund). The Building Fund was presented as a major fund in the District's audited financial statements for the year ended June 30, 2019.

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OBJECTIVES

The objectives of our performance audit were to determine whether the District expended Bond proceeds in compliance with the provisions of Article XIII A, Section 1(b)(3) of the California Constitution, and that the expenditures were only for the purposes and projects approved by the District's Governing Board and voters, as listed on the official ballot for the proposition.

SCOPE OF THE AUDIT

The scope of our performance audit covered the year ended June 30, 2019, and included all expenditures of the Bond proceeds, as listed in the detailed general ledger for the District's Fund 21 (Building Fund).

METHODOLOGY

We obtained the Building Fund's detailed general ledger and financial activity reports prepared by the District for the year ended June 30, 2019, and performed the following procedures:

1. We reviewed the list of projects being performed, and verified that the list is consistent with the projects and purposes listed in the official ballot for the Bond proposition.
2. We verified that the District is accounting for the bond proceeds and expenditures in a separate capital outlay fund (the Building Fund), that the District established a separate debt service fund (the Bond Interest and Redemption Fund), and that proceeds from the issuance of the Bond were deposited into the Building Fund and the Bond Interest and Redemption Fund.
3. We selected a sample of expenditures from the Building Fund for the year ended June 30, 2019 and reviewed supporting invoices and other documents to ensure that the expenditures were allowable costs under the provisions of the Bond and Article XIII A, Section 1(b)(3) of the California Constitution. Our sample of expenditures included a total of 24 expenditures totaling \$1,051,846, comprising 99.5 percent of total Building Fund expenditures for the year ended June 30, 2019.
4. We verified that there were no expenditures of the Bond proceeds for teacher or administrative salaries, or for general District operating expenditures.
5. We reviewed documentation of the establishment of the Bond Oversight Committee

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to verify that the Committee was established in accordance with the provisions of Education Code Section 15278.

6. We interviewed members of District management regarding the establishment of the Citizen's Oversight Committee.

7. We prepared a summary of Bond Proceeds and Uses of Bond Funds.

SUMMARY OF BOND PROCEEDS AND USES OF BOND FUNDS

	For The Year Ended June 30, 2019
Bond Proceeds:	
Face value of bonds	\$ 2,097,729
Bond premium (discount)	62,884
Transfer to Debt Service Fund	(19,026)
Net bond proceeds in bond Building Fund	<u>2,141,587</u>
Interest income	<u>24,120</u>
Total Sources of Bond Funds	<u>2,165,707</u>
Uses of Bond Funds:	
<u>General/Planning</u>	
Bond issuance costs	173,012
Planning and reporting costs	16,500
<u>School Site Modernization</u>	
Architectural services	324,523
Geotechnical engineering services	20,857
Asbestos abatement services	6,850
Inspection services	43,250
Construction	471,918
Total Expenditures	<u>1,056,910</u>
Total Sources Over (Under) Expenditures	<u>1,108,797</u>
Unexpended Proceeds at Year-End	<u><u>\$ 1,108,797</u></u>

CONCLUSION

The results of our procedures indicate that, for the items tested, the District has properly

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accounted for the expenditures of the Bond, the expenditures were for allowable costs and were in accordance with the approved projects list, and no expenditures of Bond proceeds were made for teacher or administrator salaries or for general operating expenditures. Our audit does not provide a legal determination on the District's compliance with specific requirements.

The results of our procedures disclosed an instance of noncompliance regarding the requirements for the Bond Oversight Committee, which is described in Management Comment 2019-1 below. Our conclusion on the District's compliance with requirements regarding the District's expenditures of the Bond fund proceeds is not modified with respect to this matter.

MANAGEMENT COMMENTS AND RECOMMENDATIONS

2019-1: Citizens' Oversight Committee Membership

Finding

The Citizens' Oversight Committee is required by California Education Code Section 15282 to include a minimum of seven members, with at least one member each from the following groups:

1. A member active in a business organization representing the business community located within the District's boundaries.
2. A member active in a senior citizens' organization.
3. A member active in a bona fide taxpayers' organization.
4. A member who is a parent or guardian of a child enrolled in the District
5. A member who is both a parent or guardian of a child enrolled in the District and active in a parent-teacher organization.

The District has not been able to fill any positions noted above. This is due to a limited number of individuals who are willing to serve on the committee. The District is continuing its efforts to fill the positions.

Recommendation

We recommend that the District continue its efforts to fill the required positions of the Citizens' Oversight Committee.

Views of Responsible Officials and Corrective Action Plan

District management agrees with the recommendation, and will adhere to the corrective action plan described in the "District's Corrective Action Plan" section of this report.

FRESHWATER

SUPERINTENDENT SI TALTY
BOARD OF TRUSTEES:
REBECCA BAUGH
MICHELLE COLLINS
AUDREY DIEKER
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GRETCHEN MILLER



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ELEMENTARY AND CHARTER MIDDLE SCHOOL

DISTRICT'S CORRECTIVE ACTION PLAN

For The Year Ended June 30, 2019

FINDING 2019-1: Bond Oversight Committee

Name of contact person: Si Talty, Superintendent

Corrective Action: The District will continue its efforts to fill the required positions needed to have a Citizens' Oversight Committee.

Proposed Completion Date: As Soon As Possible