

WILLOWS UNIFIED SCHOOL DISTRICT
Office of the Superintendent

Date: April 5, 2018

Request For Placement on Board Agenda:

[] ACTION [X] INFORMATION

**AGENDA TOPIC: Measure B Bond Building Fund
 Financial and Performance Audit Report
 For period ending June 30, 2017**

PRESENTER: Debby Beymer, Director of Business Services

Information:

Review of Independent Auditors Report on Measure B for period ending June 30, 2017.

Findings:

There was one finding with regard to the second phase of the Willows High School roofing project that was completed in July/August of 2016.

As noted in the auditor's report, the district was certain they were in compliance under the CUPPCCA regulations as the 2nd phase of this project was under the \$175,000.00 threshold. However, since the contractor issued their contract for the additional work as a "change order", the auditors felt that this needed to be listed as an audit finding.

Internal controls have been put in place as outlined in the auditor's report to prevent this type of miscommunication happening in the future.

**MEASURE B BOND BUILDING FUND OF
WILLOWS UNIFIED SCHOOL DISTRICT
FINANCIAL AND PERFORMANCE AUDIT REPORT**
FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

San Diego

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**MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**MEASURE B BOND BUILDING FUND
 WILLOWS UNIFIED SCHOOL DISTRICT
 INTRODUCTION AND CITIZENS' OVERSIGHT COMMITTEE MEMBER LISTING
 JUNE 30, 2017**

Willows Unified School District was established in 1966. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school, one intermediate school, one high school, and one continuation school.

On November 8, 2016, voters passed ballot Measure B, authorizing the issuance of \$8,000,000 of general obligation bonds. The issue of the general obligation bonds (Series A) occurred on March 28, 2017, for a principal amount of \$8,000,000. The funds were deposited into the Glenn County Treasury. All warrants are pre-audited and processed by the Glenn County Office of Education. All Measure B building funds are accounted for in Fund 21 of the District's general ledger.

Measure B was a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures.

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 B including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

As of June 30, 2017, the Citizens' Oversight Committee was comprised of the following members:

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Jim Lambert	Chair	Member At-Large
Janet Perez	Vice Chair	Member At-Large
Dennis Asbury	Member	Member of a Senior Citizens Organization
Sylvia Hoenike	Member	Member of a Taxpayer Organization
David McDonald	Member	Parent
Jamie Millen	Member	Business Representative
Michelle Thomas	Member	Parent
Natalie Wolder	Member	Parent Active in PTA

INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure B Citizens' Oversight Committee of the
Willows Unified School District
Willows, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure B Bond Building Fund of Willows Unified School District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure B Bond Building Fund of Willows Unified School District, as of June 30, 2017, 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 B Bond Building Fund and do not purport to, and do not present fairly the financial position of the Willows Unified School District, as of June 30, 2017, 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 March 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 B 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 March 29, 2018, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure B Bond Building Fund. That report is an integral part of our audit of the Measure B Bond Building Fund of Willows Unified School District, as of and for the year ended June 30, 2017, and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
March 29, 2018

FINANCIAL SECTION

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
BALANCE SHEET
JUNE 30, 2017

ASSETS	
Cash and investments	\$ 6,364,344
Accounts receivable	21,990
Total Assets	<u>6,386,334</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 306,059
Due to other funds	58,463
Total Liabilities	<u>364,522</u>
 FUND BALANCE	
Restricted for Measure B Projects	<u>6,021,812</u>
Total Liabilities and Fund Balance	<u>\$ 6,386,334</u>

The accompanying notes are an integral part of the financial statements.

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

REVENUES	
Local revenues - interest	\$ 21,989
Total Revenues	<u>21,989</u>
EXPENDITURES	
Facilities acquisition and construction	1,819,214
Bond issuance costs	180,963
Total Expenditures	<u>2,000,177</u>
Excess (Deficiency) of Revenues	
Over (Under) Expenditures	<u>(1,978,188)</u>
OTHER FINANCING SOURCES	
Proceeds from long-term debt	8,000,000
Total Other Financing Sources	<u>8,000,000</u>
Net Change in Fund Balance	<u>6,021,812</u>
Fund Balance, July 1, 2016	<u>-</u>
Fund Balance, June 30, 2017	<u>\$ 6,021,812</u>

The accompanying notes are an integral part of the financial statements.

**MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Willows Unified School District was established in 1966. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school, one intermediate school, one high school, and one continuation school.

On November 8, 2016, voters passed ballot Measure B, authorizing the issuance of \$8,000,000 of general obligation bonds. The issue of the general obligation bonds (Series A) occurred on March 28, 2017, for a principal amount of \$8,000,000. The funds were deposited into the Glenn County Treasury. All warrants are pre-audited and processed by the Glenn County Office of Education. All Measure B building funds are accounted for in Fund 21 of the District's general ledger.

Because the Bond required only 55% of the vote in accordance with Proposition 39 (Article XIII of the California State Constitution), the District was required to establish a citizens' bond oversight committee and to conduct a financial and performance audit.

The Committee's oversight goals include ensuring expenditures are within the language of the ballot measure and advising the District's Governing Board on various projects. The citizens' oversight committee must include, among others, representation of a bona fide taxpayers association, a business organization, and a senior citizens organization. No District employees or vendors are allowed to serve on the citizens' oversight committee.

The fund financial statements are for the Measure B Bond Building Fund. Since this is just one component of the district, these financial statements are not intended to be a complete presentation of the District's financial position or results of operations. Accordingly, these fund statements do not include a government wide financial statement, management discussion and analysis or related organizational disclosures. The audited financial statements of Willows Unified School District include the Measure B Bond Building Fund activities, related debt and disclosures as well as the management discussion and analysis.

An advisory committee to the District's Governing Board and Superintendent, the Measure B Citizens' Oversight Committee ("COC") was established pursuant to the requirements of state law and the provisions of Measure B. The purpose of the COC is to inform the public concerning the use of bond proceeds. 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 as to whether the District is spending the Measure B Bond Building funds for school capital improvements within the scope of projects outlined in the Measure B Project List. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measure B activity.

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The statements presented are for the individual Measure B Bond Building Fund of the District as issued by the District, through Glenn County, and are not intended to be a complete presentation of the District's financial position or results of operations.

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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 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. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

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.

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the Measure B Bond Building Fund maintains its cash in the Glenn 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 B Bond Building Fund is considered restricted.

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.

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2017 consist of the following:

Investment in county treasury	\$	6,364,344
Total cash and investments	\$	6,364,344

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 B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

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:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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, 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 Glenn County Investment Pool with an amortized book value of \$6,364,344, which approximated fair value.

MEASURE B BOND BUILDING FUND
 WILLOWS UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS, continued
 JUNE 30, 2017

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, 2017, the pooled investments in the County Treasury were not rated.

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 an 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 Glenn 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, 2017 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	<u>\$ 6,364,344</u>
Total fair market value of investments	<u>\$ 6,364,344</u>

**MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017**

NOTE 3 – INTERFUND PAYABLES

Interfund payables for the year ended June 30, 2017 consisted of a payable due from the Building Fund to the Bond Interest & Redemption Fund to properly record sources related to general obligation bond issuance in the amount of \$58,463.

NOTE 4 – ACCOUNTS PAYABLE

Accounts Payable at June 30, 2017 consist of the following:

Construction costs payable	306,059
Total accounts payable	\$ 306,059

NOTE 5 – MEASURE B GENERAL OBLIGATION BONDS

In the election held November 8, 2016, the voters authorized the District to issue and sell \$8,000,000 of principal amount of general obligation bonds. The Series A Bonds are being issued to finance the repair, upgrading, acquisition, construction, and equipping of District sites and facilities.

The official question on the ballot was as follows:

“To modernize Willows schools, upgrade safety systems, improve infrastructure and accessibility, replace portables with permanent classrooms, and make other repairs to outdated facilities, shall Willows Unified School District be authorized to issue \$8,000,000 in bonds at legal interest rates, using no Capital Appreciation Bonds (CABs) and requiring a responsible duration and repayment cost, with a Citizens’ Oversight Committee and annual audits to ensure funds are only spent improving local classrooms and facilities, and not for any other purpose?”

There has been one issuance under this election. Series A was issued on March 28, 2017 for \$8,000,000 with interest rates ranging from 2.00% to 5.00%. The issuance consisted of current interest serial bonds. The principal balance outstanding on June 30, 2017 amounted to \$8,000,000.

MEASURE B BOND BUILDING FUND
WILLOWS UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2017

NOTE 5 – MEASURE B GENERAL OBLIGATION BONDS (continued)

The bonded debt is paid through the *ad valorem* property taxes through Glenn County and the debt liability is carried on the Willows Unified School District’s Government Wide financial statements.

The 2017 Series A general obligation bonds outstanding were as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ -	\$ 231,597	\$ 231,597
2019	215,000	285,350	500,350
2020	160,000	280,800	440,800
2021	170,000	275,850	445,850
2022	185,000	270,525	455,525
2023 - 2027	1,160,000	1,256,700	2,416,700
2028 - 2032	1,620,000	1,051,044	2,671,044
2033 - 2037	2,185,000	743,238	2,928,238
2038 - 2041	2,305,000	236,550	2,541,550
Total	\$ 8,000,000	\$ 4,631,654	\$ 12,631,654

NOTE 6 – EXPENDITURES & OTHER FINANCING USES

The following table presents the expenditure amounts by project for the year ended June 30, 2017:

Project Sites & Other Uses	Amount
Willows High School	\$ 1,570,841
Bond Issuance Costs	180,963
Murdock Elementary	161,560
Willows Intermediate	44,608
District Office	42,205
Total	\$ 2,000,177

**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**

Independent Auditors' Report

Governing Board Members and
Measure B Citizens' Oversight Committee of the
Willows Unified School District
Willows, 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 B Bond Building Fund of Willows Unified School District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Willows Unified School District's basic financial statements of the Measure B Bond Building Fund, and have issued our report thereon dated March 29, 2018.

Internal Control over Financial Reporting

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

Christy White Associates

San Diego, California
March 29, 2018

REPORT ON PERFORMANCE

Independent Auditors' Report

Governing Board Members and
Measure B Citizens' Oversight Committee of the
Willows Unified School District
Willows, California

Report on Performance

We have audited Willows Unified School District's compliance with the performance audit procedures described in the *2016-17 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 Willows Unified School District's Measure B Bond Building Fund for the fiscal year ended June 30, 2017, 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 Willows Unified School District's Measure B 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 *2016-17 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 Willows 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 Willows Unified School District's compliance with those requirements.

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Opinion on Performance

In our opinion, based on the fieldwork described in the accompanying performance audit results following this Report on Performance, the District did not comply with all the compliance requirements for Measure B as listed and tested in the performance audit results and is described in the accompanying schedule of findings and questioned costs as item #2017-001.

Procedures Performed

In connection with the performance audit referred to above, we selected and tested transactions and records to determine Willows Unified School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Measure B Bond Building Fund. Additional agreed upon procedures relating the Measure B 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
March 29, 2018

**WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

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 B Bond Building Fund as of and for the fiscal year ended June 30, 2017.

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 B Bond Building Fund and reviewed supporting documentation to ensure funds were properly expended on specific project(s) listed in the text of the Measure B ballot.

We tested approximately \$1 million of non-personnel expenditures or 50% of total 2016-17 Measure B Bond Building Fund expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure B ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

Based on our review of expenditure information, we noted that there were no salaries or benefits charged to the Measure B Bond Building Fund during the fiscal year ended June 30, 2017. Audit procedures over personnel expenditures was not applicable.

The previous Report on Performance is an integral part of the above performance audit results.

**WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

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 facilities site walks.

Facilities site walks were performed for projects at Willows High School. We toured the school site of Willows High School and physically observed the newly installed roof on all school buildings. The auditor also noted the newly painted school buildings with a two tone color. Based on our site walks, the projects for the school sites appear to be successfully completed and funds appear to be expended for authorized bond projects.

Contract and Bid Procedures

We reviewed a listing of contracts awarded during the fiscal year ended June 30, 2017 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) of four (4) 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 the Willows High School project and the Murdock Elementary project.

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, 2017 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.

As described in Finding #2017-001, we reviewed a total of one (1) change order for the Willows High School Roofing Project and noted that the change order exceeded ten percent of the original contract price. The change order was not submitted to the governing board for formal board approval. Consequently, the board was not able to discuss whether the project should be re-bid.

The previous Report on Performance is an integral part of the above performance audit results.

**WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
AUDIT PROCEDURES AND RESULTS, continued
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS (continued)

Citizen Oversight Committee

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 citizens' oversight committee with an active member from each of the required representations. No members of the citizens' oversight committee are also employees, official, vendor or consultant of the District. Refer to the Introduction and Citizens' Oversight Committee Member Listing for a listing of current members as of June 30, 2017.

The previous Report on Performance is an integral part of the above performance audit results.

WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017

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>
 STATE PERFORMANCE	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditor’s report issued on performance for local school construction bonds:	<u>Unmodified</u>

WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS, continued
FOR THE YEAR ENDED JUNE 30, 2017

PART II – FINANCIAL STATEMENT FINDINGS

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.

There were no findings related to the financial statements in 2016-17.

**WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
STATE PERFORMANCE FINDING
FOR THE YEAR ENDED JUNE 30, 2017**

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.

FINDING #2017-001: CONTRACTS AND CHANGE ORDERS

Criteria: *Public Contract Code (PCC) Section 20118.4* allows the governing board to authorize a change or alteration not exceeding ten percent of the original contract price. For any change order exceeding 10% of the original contract price, the governing board should determine whether it is necessary to re-bid the project. In addition, sound internal controls require the District to submit any change orders to the governing board for formal approval.

Condition: Upon review of a change order issued during the 2016-17 fiscal year, we determined that the Superintendent authorized a change order exceeding 10% of the original contract price and did not seek approval from the governing board.

- The district entered into a contract with George Roofing in the amount of \$538,000.
- The change order issued was in the amount of \$162,734 or 30% of the original contract with George Roofing.

Effect: If the district does not consistently follow PCC, then the authorization of change orders by the Superintendent without the formal approval of the governing board may cause the district to circumvent the bidding process. This may end up causing the District to pay more for services or products and be out of compliance with PCC. In addition, the risk for fraud and material misstatement is increased.

Cause: The district thought that George Roofing would be the lowest option as they were 22% lower than the next closest bid on the initial bid and also 22% lower than the next closest bidder on a previous roofing project. Also, the District thought they were in compliance under CUPCAA since the additional work was under the \$175,000 threshold.

Perspective/Context: Audit of 1 change order authorized resulted in the deficiencies noted above.

Recommendation: We recommend that the district review their procedures in authorizing change orders to ensure that the aggregate change order amount does not exceed ten percent of the original contract price. Should the aggregate change order amount exceed ten percent of the original contract, management should seek approval from the governing board and allow the board the opportunity to consider whether the project should be re-bid.

District Response: The District obtained subsequent board approval of the George Roofing change order on March 8, 2018. All future change orders will be taken to the governing board for approval. Change orders that fall under the 10% threshold of the original bid amount may be awarded by the Superintendent with subsequent board approval. Change orders that exceed the 10% threshold shall be taken to the board for formal discussion to determine if the project should be rebid, and or formally approved prior to the award.

WILLOWS UNIFIED SCHOOL DISTRICT
MEASURE B BOND BUILDING FUND
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

PART IV – PRIOR AUDIT FINDINGS

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.

The Measure B Bond Building Fund was not active in the 2015-16 fiscal year.