

CAMBRIAN SCHOOL DISTRICT

2014 MEASURE I FUND

**ANNUAL FINANCIAL REPORT
AND PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2017**

CAMBRIAN SCHOOL DISTRICT

**2014 MEASURE I FUND
ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2017**

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

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JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens' Oversight Committee
Cambrian School District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Cambrian School District's (District) 2014 Measure I Fund (the Fund), as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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 previously present fairly, in all material respects, the financial position of the 2014 Measure I Fund of the District at June 30, 2017, and the respective changes in financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial activities of the 2014 Measure I Fund, as of June 30, 2017, and are not intended to present fairly the financial position and the results of operations of the District in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, on our consideration of the Fund'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. 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 District's 2014 Measure I Fund internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 21, 2017

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**BALANCE SHEET
JUNE 30, 2017**

ASSETS

Cash and investments	\$ 3,435,612
Interest receivable	12,996
Total Assets	<u><u>\$ 3,448,608</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Vendors payable	\$ 570,292
Due to other funds	2,775
Total Liabilities	<u>573,067</u>

FUND BALANCE

Fund balance	
Restricted for capital projects	2,875,541
Total Liabilities and Fund Balance	<u><u>\$ 3,448,608</u></u>

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

**CAMBRIAN UNION SCHOOL DISTRICT
2014 MEASURE I FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Interest	\$ 34,049
Contribution from the District for solar project	102,710
Total Revenues and Other Sources	<u>136,759</u>

EXPENDITURES

Current Expenditures	
Classified salaries	82,633
Employee benefits	30,337
Equipment	418,018
Services	17,843
Capital Outlay	7,226,997
Total Expenditures	<u>7,775,828</u>

EXCESS OF EXPENDITURES OVER REVENUES	(7,639,069)
Fund Balance - Beginning	<u>10,514,610</u>
Fund Balance - Ending	<u>\$ 2,875,541</u>

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

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cambrian School District 2014 Measure I Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

The financial statements include only the 2014 Measure I Fund of the Cambrian School District. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2014. These financial statements are not intended to present fairly the financial position and results of operations of the Cambrian Union School District as a whole, in compliance with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$39,000,000.

Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Fund Balance - Governmental Funds

As of June 30, 2017, fund balances of the Fund are classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Use of Estimates

The preparation 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 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/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Policies and Practices

The Fund 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 papers; 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.

Investment in County Treasury

The Fund 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 Fund's investment in the pool is reported in the accounting financial statement at amounts based upon the Fund'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.

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 is to changes in market interest rates. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Fund manages its exposure to interest rate risk by investing in the Santa Clara County Investment Pool. The Fund maintains an investment of \$3,435,612 with the Santa Clara County Investment Pool. The fair value of this investment is approximately \$3,427,654 with an average maturity of 528 days.

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, 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 in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

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, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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 Santa Clara 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.

NOTE 3 - GENERAL LONG-TERM DEBT

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Position in the government-wide financial statements of the Cambrian School District.

The following provides information on the outstanding general obligation bonds:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2016	Issuance/ Accretion	Refund/ Redeemed	Outstanding June 30, 2017
9/23/14	7/1/39	2.0-5.0%	\$ 39,000,000	\$ 36,550,000	\$ -	\$ -	\$ 36,550,000

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

The general obligation bonds mature through fiscal year 2040 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ -	\$ 1,559,138	\$ 1,559,138
2019	45,000	1,558,013	1,603,013
2020	125,000	1,553,763	1,678,763
2021	210,000	1,545,388	1,755,388
2022	305,000	1,532,513	1,837,513
2023-2027	4,440,000	8,610,731	13,050,731
2028-2032	8,415,000	5,639,125	14,054,125
2033-2037	14,880,000	2,977,006	17,857,006
2038-2040	8,130,000	300,875	8,430,875
Total	<u>\$ 36,550,000</u>	<u>\$ 25,276,550</u>	<u>\$ 61,826,550</u>

Debt Service Requirements to Maturity

Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be recorded in a separate Bond Interest and Redemption Fund (BIR). The required debt service payments on the bonds will be disbursed from the BIR as well. The BIR will be maintained by the Santa Clara County Controller’s Office. The BIR is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is not currently a party to any legal proceedings.

Construction Commitments

As of June 30, 2017, the 2014 Measure I Fund had the following commitments with respect to unfinished projects:

Capital Project	Expected Date of Completion	Remaining Construction Commitment
Bagby Multi Use Room	February 2018	\$ 2,616,000
Farnham Outdoor Learning Area	August 2018	244,000
		<u>\$ 2,860,000</u>

INDEPENDENT AUDITOR'S REPORT



**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***

Governing Board and
Citizens' Oversight Committee
Cambrian School District
San Jose, 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 accompanying financial statements of the Cambrian School District (District) 2014 Measure I Fund (Fund), as of and for the year ended June 30, 2017, and the related notes of the financial statements, and have issued our report thereon dated November 21, 2017.

As discussed in Note 1, the financial statements present only the fund activity specific to the 2014 Measure I Fund, and are not intended to present fairly the financial position and results of operations of the District in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 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.

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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements 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.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California
November 21, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

None reported.

CAMBRIAN SCHOOL DISTRICT

**2014 MEASURE I FUND
PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2017**

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

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JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Cambrian School District
San Jose, California

We were engaged to conduct a performance audit of the Cambrian School District (District), 2014 Measure I Fund (Fund) for the year ended June 30, 2017.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report, which includes determining the Fund's compliance with the performance requirements as referred to in the Measure and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Management is responsible for the Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements referred to in the Measure and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

The results of our tests indicated that the District expended 2014 Measure I funds only for the specific projects approved by the voters in accordance with 2014 Measure I, and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
November 21, 2017

CAMBRIAN SCHOOL DISTRICT 2014 MEASURE I FUND

JUNE 30, 2017

AUTHORITY FOR ISSUANCE

The 2014 Measure I Fund is issued by the District under and pursuant to the provisions of Article 4.5 (commencing with Section 53506) of Chapter 3, Part 1, Division 1, Title 1 of the State Government Code, and all laws amendatory thereof or supplemental thereto, and pursuant to the provisions of Resolution No. 14-15-03 adopted by the District Board on August 21, 2014, and a paying agent agreement dated as of September 1, 2014, between the District and Zions First National Bank.

The District received authorization at an election held on June 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$39,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The Measure required approval by 55% majority vote cast by eligible voters within the District (the 2014 Authorization).

PURPOSE OF ISSUANCE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in 2014 Measure I submitted at the Election, which include building additional classrooms, providing new learning technology, replacing outdated equipment, upgrading fire and earthquake safety systems, and removing hazardous materials.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Amended portions of the California Constitution provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, the Measure and the enacting legislation (AB 1908 and AB 2659) require the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

JUNE 30, 2017

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Measure have been made in accordance with the bond project list approved by the voters.
2. Determine whether salary transactions, charged to the Measure were in support of the Measure and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2016 to June 30, 2017. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2017 were reviewed and included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2017 for the Measure. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and 2014 Measure I as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2016 and ending June 30, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included \$5,349,317 non-payroll expenditures and \$103,810 payroll expenditures, totaling \$5,453,127. This represents 70 percent of the total expenditures of \$7,775,828.
3. We verified that funds from the 2014 Measure I were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held in the 2014 Measure I Fund were used for salaries of administrators only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Cambrian School District has properly accounted for the expenditures held in the 2014 Measure I Fund and that such expenditures were made for authorized Bond projects. Further, it was noted that monies held in the Fund, and expended by the District, were used for salaries of administrators only to the extent they performed administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**CAMBRIAN SCHOOL DISTRICT
2014 MEASURE I FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

None reported.