

SYLVAN UNION SCHOOL DISTRICT
Modesto, California

MEASURE A GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT
June 30, 2014

SYLVAN UNION SCHOOL DISTRICT
MEASURE A GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT
June 30, 2014

CONTENTS

REPORT OF INDEPENDENT AUDITORS.....	1
BACKGROUND:	
LEGISLATIVE HISTORY.....	2
SYLVAN UNION SCHOOL DISTRICT MEASURE A GENERAL OBLIGATION BONDS.....	2
PERFORMANCE AUDIT:	
OBJECTIVES	4
SCOPE	4
METHODOLOGY	4
CONCLUSIONS	4

REPORT OF INDEPENDENT AUDITORS

Measure A Oversight Committee and Board of Trustees
Sylvan Union School District
Modesto, California

We have conducted a performance audit of the Sylvan Union School District Measure A General Obligation Bond funds for the year ended June 30, 2014.

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 conclusion 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 4 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure A 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 Sylvan Union School 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 Sylvan Union School District to determine if internal controls were adequate to help ensure 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. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that, in all significant respects, Sylvan Union School District expended Measure A General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Governing Board 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.



Crowe Horwath LLP

Sacramento, California
December 9, 2014

SYLVAN UNION SCHOOL DISTRICT
MEASURE A GENERAL OBLIGATION BONDS
BACKGROUND INFORMATION

LEGISLATIVE HISTORY

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, "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", upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

SYLVAN UNION SCHOOL DISTRICT MEASURE A GENERAL OBLIGATION BONDS

On November 6, 2006, the electorate of Sylvan Union School District approved the \$40.0 million Measure A General Obligation Bonds, with greater than 55% of the votes in favor. The text of the ballot language was as follows:

"To enhance student learning, shall the Sylvan Union School District repair, renovate, and upgrade aging school facilities, including technology, infrastructure, and other improvements; construct, expand, furnish and equip school facilities, including acquisition of school sites, completion of new schools and construction of food service facilities; help qualify for matching State funds, by issuing \$40,000,000 of bonds at legal interest rates, with NO proceeds used for teacher or administrator salaries and accountability provided by citizens' oversight and independent audits?"

The stated purposes for which the proceeds of the bonds will be expended are:

- To complete the construction of Daniel J. Savage Middle School and Crossroads Elementary School;
- Modernize CF Brown Elementary School, Sherwood Elementary School, Standiford Elementary School, Stockard Coffee Elementary School, Sylvan Elementary School, Woodrow Elementary School and Somerset Middle School;
- Replacement of relocatable classrooms at various sites;
- Construction of a multi-purpose facility at Somerset Middle School;
- Construct a New Food Service/Central Kitchen; and
- Acquire property for new schools to be repaid from developer mitigation and/or Mello Roos funding and applied to fund the above projects.

SYLVAN UNION SCHOOL DISTRICT
MEASURE A GENERAL OBLIGATION BONDS
BACKGROUND INFORMATION

SYLVAN UNION SCHOOL DISTRICT MEASURE A GENERAL OBLIGATION BONDS (Continued)

On May 10, 2007, the District issued Series 2007 General Obligation Bonds, totaling \$22,000,000. The bonds accrue interest up to a maximum of 12% per annum and are scheduled to mature through August 2031.

On June 17, 2010, the District issued Series 2010 General Obligation Capital Appreciation Bonds and Convertible Capital Appreciation Bonds, totaling \$11,996,168. The bonds bear interest at rates ranging from 3.14% and 6.66% and are scheduled to mature through August 2049.

The financial activity related to the Measure A General Obligation Bonds is recorded in the District's Financial Activity Report for Fund 21 (Building Fund) in the District's audited financial statements for the year ended June 30, 2014.

SYLVAN UNION SCHOOL DISTRICT
MEASURE A GENERAL OBLIGATION BONDS
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS

OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure A General Obligation Bond funds for the year ended June 30, 2014 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure A General Obligation Bond project expenditures for the year ended June 30, 2014 (the "List"). A total of \$5,506,698 in expenditures from July 1, 2013 through June 30, 2014 were identified.

METHODOLOGY

We performed the following procedures to the List of Measure A General Obligation Bond project expenditures for the year ended June 30, 2014:

- Interviewed District management related to controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Documented District procedures and controls over planning, bidding, contracting, expenditure of bond funds and financial reporting.
- Performed test to determine that the District controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Verified the mathematical accuracy of the expenditures list.
- Reconciled the list to total bond expenditures as reported by the District in the District's audited financial statements for the year ended June 30, 2014, presented as the Building Fund.
- Selected a sample of 12 expenditures totaling \$4,745,385 from Measure A. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. Verified that the expenditures were for authorized projects, and were to repair, renovate, and upgrade aging facilities, including technology, infrastructure, and other improvements; construct, expand, furnish and equip school facilities, including acquisition of school sites and completion of new schools and construction of food service facilities.

CONCLUSIONS

The results of our tests indicated that, in all significant respects, Sylvan Union School District expended Measure A General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Governing Board 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.

SYLVAN UNION SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7. NET POSITION / FUND BALANCES

Restricted net position as of June 30, 2014 consisted of the following:

	<u>Governmental Activities</u>
Restricted for unspent categorical program revenues	\$ 3,750,573
Restricted for special revenue programs	1,883,185
Restricted for capital projects	3,856,153
Restricted for debt service	2,132,006
Self-insurance	<u>1,145,235</u>
	<u>\$ 12,767,152</u>
	<u>Business-Type Activities</u>
Restricted for Child Care programs	<u>\$ 284,085</u>

Governmental fund balances, by category, at June 30, 2014 consisted of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:				
Revolving cash fund	\$ 10,000	\$ -	\$ 1,000	\$ 11,000
Stores inventory	<u>-</u>	<u>-</u>	<u>173,007</u>	<u>173,007</u>
Subtotal nonspendable	<u>10,000</u>	<u>-</u>	<u>174,007</u>	<u>184,007</u>
Restricted:				
Unspent categorical revenues	3,750,573	-	-	3,750,573
Cafeteria	-	-	684,966	684,966
Deferred maintenance	-	-	1,024,212	1,024,212
Capital projects	-	3,478,591	377,562	3,856,153
Debt service	<u>-</u>	<u>-</u>	<u>2,132,006</u>	<u>2,132,006</u>
Subtotal restricted	<u>3,750,573</u>	<u>3,478,591</u>	<u>4,218,746</u>	<u>11,447,910</u>
Assigned:				
Insurance deductible	<u>1,454,890</u>	<u>-</u>	<u>-</u>	<u>1,454,890</u>
Unassigned:				
Designated for economic uncertainty	1,777,134	-	-	1,777,134
Unassigned	<u>10,000,798</u>	<u>-</u>	<u>-</u>	<u>10,000,798</u>
Subtotal unassigned	<u>11,777,932</u>	<u>-</u>	<u>-</u>	<u>11,777,932</u>
Total fund balances	<u>\$ 16,993,395</u>	<u>\$ 3,478,591</u>	<u>\$ 4,392,753</u>	<u>\$ 24,864,739</u>