

SAUGUS UNION SCHOOL DISTRICT

**BUILDING FUND (MEASURE EE)
FINANCIAL AND PERFORMANCE AUDITS**

JUNE 30, 2018

SAUGUS UNION SCHOOL DISTRICT

**BUILDING FUND (MEASURE EE)
FINANCIAL AUDIT**

JUNE 30, 2018

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**TABLE OF CONTENTS
JUNE 30, 2018**

FINANCIAL SECTION

Independent Auditor's Report	1
Building Fund (Measure EE)	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balances	4
Notes to Financial Statements	5

SUPPLEMENTARY INFORMATION

Schedule of Long-Term Obligations	13
Reconciliation of Annual Financial Report With Audited Building Fund (Measure EE)	15
Note to Supplementary Information	16

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Findings	21
Summary Schedule of Prior Audit Findings	22

FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens' Oversight Committee
Saugus Union School District
Santa Clarita, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Saugus Union School District's (the District), Building Fund (Measure EE), as of June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement 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 above present fairly, in all material respects, the financial position of the Building Fund (Measure EE) of the Saugus Union School District at June 30, 2018, and the respective changes in financial position 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 1, the financial statements present only the Building Fund specific to Measure EE, and are not intended to present fairly the financial position and changes in financial position of Saugus Union School District in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Saugus Union School District's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018, on our consideration of the District's Building Fund (Measure EE) 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 Building Fund (Measure EE) internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 4, 2018

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**BALANCE SHEET
JUNE 30, 2018**

ASSETS

Deposits and investments	\$ 32,049,761
Accounts receivable	79,358
Total Assets	<u><u>\$ 32,129,119</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	<u>\$ 24,686</u>
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Fund Balance:

Restricted for capital projects	<u>32,104,433</u>
Total Liabilities and Fund Balance	<u><u>\$ 32,129,119</u></u>

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

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

REVENUES

Interest income	<u>\$ 158,615</u>
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EXPENDITURES

Salaries and benefits	324,993
Supplies	
Materials	16,138
Computer and equipment	148,334
Services	
Contracted services	269,292
Legal and Audit services	10,929
Advertisement	3,349
Capital outlay	
Architects fees	18,211
Land improvements	37,531
Building improvement	932,222
DSA/Plan check fees	5,660
Equipment technology/other	95,006
Debt Service	
Interest and other	1,001,297
Total Expenditures	<u>2,862,962</u>

EXCESS OF EXPENDITURES OVER REVENUES	<u>(2,704,347)</u>
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Other Financing Sources:

Other sources - proceeds from issuance of bonds	<u>26,416,297</u>
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NET CHANGE IN FUND BALANCE	23,711,950
FUND BALANCE - BEGINNING	8,392,483
FUND BALANCE - ENDING	<u><u>\$ 32,104,433</u></u>

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

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Saugus Union School District's (the District) Building Fund (Measure EE) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Saugus Union School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the Saugus Union School District used to account for Measure EE projects. 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 Saugus Union School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building 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 Building 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds 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

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.

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.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2018, consisted of the following:

	Reported Amount
Investment in County Treasurer	<u>\$ 32,049,761</u>

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 instrument; 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 agreement; 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 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 statement at amounts based upon the District's pro-rata share of the fairly 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.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

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 District manages its exposure to interest rate risk by investing in the Los Angeles County Investment Pool.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average Days To Maturity</u>
Los Angeles County Investment Pool	<u>\$ 32,049,761</u>	<u>609</u>

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2018	Reported Amount
Los Angeles County Investment Pool	Not Required	Not Rated	\$ 32,049,761

NOTE 3 - 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 reasonably 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 Los Angeles County Treasury Investment Pool are not measured using the input levels above because 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.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The District's fair value measurements are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Los Angeles County Investment Pool	<u>\$ 32,049,761</u>	<u>\$ 32,049,761</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

Interest	<u>\$ 79,358</u>
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NOTE 5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

Salaries and benefits	\$ 13,250
Capital outlay	11,436
	<u>\$ 24,686</u>

NOTE 6 - FUND BALANCES

The Building Fund (Measure EE) fund balance at June 30, 2018, consisted of the following:

Restricted for Capital projects	<u>\$ 32,104,433</u>
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**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2018, the Building Fund (Measure EE) had the following commitments with respect to unfinished projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitments</u>	<u>Expected Date of Completion</u>
District Office Remodel	\$109,206	2019-2020
Bridgeport - BP Quad Modernization	15,390	2019-2020
Cedarcreek - Site Specific Master Plan	2,457	2018-2019
Highlands - Site Specific Master Plan	1,167	2018-2019
Rio Vista - Site Specific Master Plan	2,125	2018-2019
Rosedell - Site Specific Master Plan	1,167	2018-2019
Helmers - Site Specific Master Plan	2,045	2018-2019
Skyblue - Site Specific Master Plan	1,264	2018-2019
Plum Cyn - Site Specific Master Plan	1,167	2018-2019
North Park - Site Specific Master Plan	2,045	2018-2019
Bridgeport - Site Specific Master Plan	2,045	2018-2019
District - Science Classroom Performa	14,250	2018-2019
North Park - Door Locks	185,065	2018-2019
Bridgeport - Door Locks	19,435	2018-2019
Tesoro - Door Locks	190,494	2018-2019
West Creek - Door Locks	110,516	2018-2019
Foster - Lobby Remodel	569,781	2018-2019
Tesoro - Reconfigure Front of School	55,268	2019-2020
Foster - Communication System PA System	11,834	2018-2019
Highlands - Science Classroom Lab	20,756	2019-2020
Mountainview - Science Classroom Lab	20,857	2000-2021
Rosedell - Science Classroom Lab	20,756	2025-2026
Santa Clarita - Science Classroom Lab	20,857	2000-2021
Helmers - Classroom Building Addition	412,504	2023-2024
Cedarcreek - Multipurpose Room	254,420	2021-2022
	<u>\$ 2,046,871</u>	

Litigation

The District is not currently a party to any legal proceedings related to the Building Fund (Measure EE).

SUPPLEMENTARY INFORMATION

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2018**

General Obligation Bonds

The general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds				Bonds
				Outstanding July 1, 2017	Issued	Additions	Redeemed	Outstanding June 30, 2018
06/11/15	08/01/44	3.00-5.00%	\$ 20,000,000	\$ 20,000,000	\$ -	\$ -	\$ 3,780,000	\$ 16,220,000
05/24/18	08/01/43	3.38-5.00%	25,600,000	-	25,600,000	-	-	25,600,000
				<u>\$ 20,000,000</u>	<u>\$ 25,600,000</u>	<u>\$ -</u>	<u>\$ 3,780,000</u>	<u>\$ 41,820,000</u>

Election 2014, Series A General Obligation Bonds

On June 11, 2015, the District issued \$20,000,000 in Election 2014, Series A General Obligation Bonds. Proceeds from the bonds will be used to finance the acquisition, construction, and modernization of property and school facilities. At June 30, 2018, the principal balance outstanding was \$16,220,000.

The bonds mature through 2045 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	\$ 3,925,000	\$ 636,525	\$ 4,561,525
2020	80,000	536,800	616,800
2021	-	535,200	535,200
2022	-	535,200	535,200
2023	40,000	534,600	574,600
2024-2028	610,000	2,624,850	3,234,850
2029-2033	1,490,000	2,430,850	3,920,850
2033-2037	2,820,000	1,916,750	4,736,750
2038-2042	4,725,000	1,029,800	5,754,800
2043-2045	2,530,000	103,200	2,633,200
Total	<u>\$ 16,220,000</u>	<u>\$ 10,883,775</u>	<u>\$ 27,103,775</u>

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2018**

Election 2014, Series B General Obligation Bonds

On May 24, 2018, the District issued \$25,600,000 in Election 2014, Series B General Obligation Bonds. Proceeds from the bonds will be used to finance the acquisition, construction, and modernization of property and school facilities. At June 30, 2018, the principal balance outstanding was \$25,600,000.

The bonds mature through 2044 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ -	\$ 723,967	\$ 723,967
2020	3,845,000	959,050	4,804,050
2021	3,865,000	766,300	4,631,300
2022	-	669,675	669,675
2023	-	669,675	669,675
2024-2028	395,000	3,340,475	3,735,475
2029-2033	2,935,000	3,026,544	5,961,544
2033-2037	4,930,000	2,284,000	7,214,000
2038-2042	7,700,000	1,068,575	8,768,575
2043-2044	1,930,000	33,775	1,963,775
Total	<u>\$ 25,600,000</u>	<u>\$ 13,542,036</u>	<u>\$ 39,142,036</u>

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED BUILDING FUND
JUNE 30, 2018**

There were no adjustments to the Unaudited Actual Building Fund (Measure EE), which required reconciliation to the audited financial statements at June 30, 2018.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Long-Term Obligations

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Building Fund (Measure EE) obligations.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (Measure EE) reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORT



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**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
Saugus Union School District
Santa Clarita, 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 Saugus Union School District (the District) Building Fund (Measure EE), as of and for the year ended June 30, 2018, and have issued our report thereon dated December 4, 2018.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure EE, and are not intended to present fairly the financial position and changes in financial position of Saugus Union School 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 Saugus Union School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Saugus Union School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Saugus Union 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 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 that might be, significant deficiencies or material weaknesses. 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 Saugus Union School District's Building Fund (Measure EE) 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 4, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2018**

None reported.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

There were no audit findings reported in the prior year's schedule of financial statement findings.

SAUGUS UNION SCHOOL DISTRICT

**BUILDING FUND (MEASURE EE)
PERFORMANCE AUDIT**

JUNE 30, 2018

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**PERFORMANCE AUDIT
JUNE 30, 2018**

TABLE OF CONTENTS

Independent Auditor's Report on Performance	1
Authority for Issuance	2
Purpose of Issuance	2
Authority for the Audit	2
Objectives of the Audit	3
Scope of the Audit	3
Procedures Performed	3
Conclusion	4
Schedule of Findings and Questioned Costs	5
Summary Schedule of Prior Audit Findings	6



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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
 Citizens' Oversight Committee
 Saugus Union School District
 Santa Clarita, California

We were engaged to conduct a performance audit of the Saugus Union School District (the District) Building Fund (Measure EE) for the year ended June 30, 2018.

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 District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Building Fund (Measure EE) funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co. LLP
 Rancho Cucamonga, California
 December 4, 2018

SAUGUS UNION SCHOOL DISTRICT BUILDING FUND (MEASURE EE)

JUNE 30, 2018

AUTHORITY FOR ISSUANCE

The General Obligation Bonds associated with Measure EE bonds were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County. The District received authorization at an election held on November 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$148,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District. The Bonds represent the first and second series of the authorized bonds to be issued under the Authorization.

PURPOSE OF ISSUANCE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorized will be used for the purposed specified in the District bond proposition submitted at the election, which include renovating, repairing, constructing, and equipping certain District schools, sites, and facilities.

The Bonds are being issued to repair, renovate, acquire, construct, and equip classrooms, science labs, sites, school facilities, including upgrading electrical, fire safety, heating, cooling and ventilation system, plumbing, roofs, bathrooms, computer technology, and install energy savings systems, by issuing up to \$148,000,000 in bonds at legal rates, with mandatory audits, citizen oversight, and no money for administrators salaries.

AUTHORITY FOR THE AUDIT

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, 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, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires 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.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

JUNE 30, 2018

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.

OBJECTIVES OF THE AUDIT

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

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2017 to June 30, 2018. 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, 2018, were not reviewed, or 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 period starting July 1, 2017 through June 30, 2018 for the Building Fund (Measure EE). 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 Measure EE 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, 2017 and ending June 30, 2018, 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 40 transactions totaling \$2,590,387. This represents 90 percent of the total expenditures of \$2,862,962, including expenditures related to transferred funds.
3. We verified that funds from the Building Fund (Measure EE) were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

JUNE 30, 2018

CONCLUSION

The results of our tests indicated that, in all significant respects, the Saugus Union School District has properly accounted for the expenditures held in the Building Fund (Measure EE) and that such expenditures were made for authorized Bond projects.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

None reported.

**SAUGUS UNION SCHOOL DISTRICT
BUILDING FUND (MEASURE EE)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

There were no audit findings reported in the prior year's schedule of financial statement findings.