

**MEASURE K BOND BUILDING FUND OF
ORLAND UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
AUDIT REPORT
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For the Year Ended June 30, 2014**

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**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Introduction and Bond Oversight Committee Member Listing
June 30, 2014**

Orland Unified School District is located in Glenn County, California. The District was established in 1918. There were no changes in the boundaries of the District during the current year. The District is currently operating two elementary schools, one intermediate school, one high school, one continuation high school, and two community day schools.

In February 2008, the voters of Orland Unified approved by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bonds, not to exceed \$21,900,000. Measure K is a Proposition 39 bond.

The Measure K Bonds were issued by the District, through the County of Glenn. On June 4, 2008, Election 2008 Series A Bonds of the Measure K Bond authorization were issued, which consisted of general obligation bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. As of June 30, 2014, the principal balance outstanding on the Measure K Election 2008 Series A bond was \$7,530,000. On March 27, 2012, Election 2008 Series B Bonds of the Measure K Bond authorization were issued, which consisted of general obligation bonds in the amount of \$8,034,047 with stated interest rates of 1.03% to 6.00% and maturing through August 1, 2051. As of June 30, 2014, the principal balance outstanding on the Measure K Election 2008 Series B bond was \$8,730,604, with accreted interest outstanding of \$814,912. On March 7, 2013, Election 2008 Series C Bonds of the Measure K Bond authorization were issued, which consisted of \$160,000 of current interest term bonds and \$860,024 of convertible capital appreciation term bonds, with interest rates ranging from 3.00% to 5.55%. The principal balance outstanding at June 30, 2014 amounted to \$1,059,618, with accreted interest outstanding of \$39,594.

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

**MEASURE K BOND BUILDING FUND
 ORLAND UNIFIED SCHOOL DISTRICT
 Introduction and Bond Oversight Committee Member Listing, continued
 June 30, 2014**

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2014:

Name	Representation
Jan Lacy	Senior Citizen's Organization
Carolyn Pendergrass	Business Community
Dustin Coughlin	Business Community
John Erickson	Business Community
Lorraine Hefty	Community Member at Large
Shannan Ovard	Parent of an OUSD Student
Ed Changus	Community Member at Large
Vacant*	Bona Fide Taxpayers Association
Vacant*	Parent/Guardian and Active in a Parent/Teacher Organization

** The District is currently seeking qualified candidates to fill these positions.*

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Rubio

Governing Board Members and
Measure K Bond Oversight Committee
Orland Unified School District
Orland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure K Bond Building Fund of Orland Unified School District (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Measure K Bond Building Fund's basic 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 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

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure K general obligation bonds as issued by the District, through the County of Glenn, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure K Bond Building Fund of Orland Unified School District as of June 30, 2014, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2015 on our consideration of the Measure K Bond Building 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 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 Measure K Bond Building Fund's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated February 16, 2015 on our consideration of the Measure K Bond Building Fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2014 and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
February 16, 2015

FINANCIAL SECTION

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2014**

ASSETS	
Cash in county treasury	\$ 349,075
Accounts receivable	<u>283</u>
Total Assets	\$ <u>349,358</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 9,436</u>
Total Liabilities	<u>9,436</u>
Fund Balance	
Restricted for capital projects	<u>339,922</u>
Total Liabilities and Fund Balance	\$ <u>349,358</u>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2014**

REVENUES	
Interest income	\$ 715
Local revenue	50,781
	<hr/>
Total Revenues	51,496
	<hr/>
EXPENDITURES	
Plant services	24,063
Facilities acquisition and construction	173,450
Debt service	146,917
	<hr/>
Total Expenditures	344,430
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(292,934)
	<hr/>
Net Change in Fund Balance	(292,934)
	<hr/>
Fund Balance, July 1, 2013	632,856
	<hr/>
Fund Balance, June 30, 2014	\$ 339,922
	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Orland Unified School District is located in Glenn County, California. The District was established in 1918. There were no changes in the boundaries of the District during the current year. The District is currently operating two elementary schools, one intermediate school, one high school, one continuation high school, and two community day schools.

In February 2008, the voters of Glenn County approved by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bond, not to exceed \$21,900,000. Measure K is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the Bond until all of the proceeds have been expended for facilities projects.

The Measure K Bonds were issued by the District, through the County of Glenn. On June 4, 2008, Election 2008 Series A Bonds of the Measure K Bond authorization were issued, which consisted of general obligation bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. As of June 30, 2014, the principal balance outstanding on the Measure K Election 2008 Series A bond was \$7,530,000. On April 7, 2010, Series 2010 anticipation notes of the Measure K Bond authorization were issued, which consisted of Bond revenue anticipation notes in the amount of \$3,997,019 with a stated interest rate of 3.00% and maturing through April 1, 2012. As of June 30, 2012, there was no principal balance outstanding on the Measure K Series 2010 bond. On March 27, 2012, Election 2008 Series B Bonds of the Measure K Bond authorization were issued, which consisted of general obligation bonds in the amount of \$8,034,047 with stated interest rates of 1.03% to 6.00% and maturing through August 1, 2051. As of June 30, 2014, the principal balance outstanding on the Measure K Election 2008 Series B bond was \$8,730,604, with accreted interest outstanding of \$814,912. On March 7, 2013, Election 2008 Series C Bonds of the Measure K Bond authorization were issued, which consisted of \$160,000 of current interest term bonds and \$860,024 of convertible capital appreciation term bonds, with interest rates ranging from 3.00% to 5.55%. The principal balance outstanding at June 30, 2014 amounted to \$1,059,618, with accreted interest outstanding of \$39,594.

An advisory committee to the District's Governing Board and Superintendent, called the Measure K Citizens' Bond Oversight Committee, was established pursuant to the requirements of state law and the provisions of Measure K.

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2014**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

The statements presented are for the Measure K Bond of the District, consisting of the net construction proceeds of Measure K Series A, B, & C 2008 general obligation bonds as issued by the District and are not intended to be a complete presentation of the District's financial position or results of operations.

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 K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2014**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the County of Glenn 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 K 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 K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2014**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as cash in county treasury for \$349,075.

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 K BOND BUILDING FUND
 ORLAND UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2014**

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:

<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

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 County of Glenn Investment Pool with a fair value of approximately \$349,079 and an amortized book value of \$349,075.

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2014**

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, 2014, 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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable of \$283 as of June 30, 2014 consisted of interest earned on the District's investment in the County Treasury.

**MEASURE K BOND BUILDING FUND
 ORLAND UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2014**

NOTE 4 – MEASURE K – GENERAL OBLIGATION BONDS

As of June 30, 2014, the principal balance outstanding on the District’s Measure K Series 2008 general obligation bonds was \$17,320,222, which included accreted interest of \$854,506.

- On June 4, 2008, Series A 2008 Bonds of the Measure K Bond authorization were issued, which consisted of general obligation Bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. The Bonds were issued at a premium amounting to \$362,686.
- On March 27, 2012, Election 2008 Series B Bonds of the Measure K Bond authorization were issued, which consisted of general obligation Bonds in the amount of \$8,034,047 with stated interest rates of 1.03% to 6.00% and maturing through August 1, 2051.
- On March 7, 2013, Election 2008 Series C Bonds of the Measure K Bond authorization were issued, which consisted of \$160,000 of current interest term bonds and \$860,024 of convertible capital appreciation term bonds, with interest rates ranging from 3.00% to 5.55%.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
					Outstanding July 01, 2013	Additions	Deductions	Outstanding June 30, 2014
Election 2008, Series A	June 4, 2008	August 1, 2031	3.00% - 5.00%	\$ 8,000,000	\$ 7,645,000	\$ -	\$ 115,000	\$ 7,530,000
Election 2008, Series B	March 27, 2012	August 1, 2051	1.03% - 6.00%	8,034,047	8,397,821	452,783	120,000	8,730,604
Election 2008, Series C	March 7, 2013	August 1, 2043	3.00% - 5.55%	1,020,024	1,020,024	39,594	-	1,059,618
					<u>\$ 17,062,845</u>	<u>\$ 492,377</u>	<u>\$ 235,000</u>	<u>\$ 17,320,222</u>

**MEASURE K BOND BUILDING FUND
 ORLAND UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2014**

NOTE 4 – MEASURE K – GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all Measure K Series 2008 bonds payable outstanding as of June 30, 2014, are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 260,334	\$ 345,614	\$ 605,948
2016	272,599	343,649	616,248
2017	289,844	339,579	629,423
2018	316,667	339,631	656,298
2019	344,627	337,796	682,423
2020 - 2024	2,260,952	1,638,720	3,899,672
2025 - 2029	3,335,612	1,410,579	4,746,191
2030 - 2034	3,321,951	1,435,517	4,757,468
2035 - 2039	611,415	856,725	1,468,140
2040 - 2044	1,450,786	2,379,649	3,830,435
2045 - 2049	2,063,542	4,806,458	6,870,000
2050 - 2052	1,937,387	4,512,613	6,450,000
Accretion	854,506	(854,506)	-
Total	\$ 17,320,222	\$ 17,892,024	\$ 35,212,246

NOTE 5 – EXPENDITURES BY SITE

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2014:

Site Name	Amount
Mill Street	\$ 94,393
Business Office - Debt Service - Interest	146,917
District-wide	45,384
Orland High School	55,646
North Valley	2,090
	\$ 344,430

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**INDEPENDENT AUDITORS' 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**

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Rubio

Governing Board Members and
Measure K Bond Oversight Committee
Orland Unified School District
Orland, 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 K Bond Building Fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Measure K Bond Building Fund's basic financial statements, and have issued our report thereon dated February 16, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Measure K Bond Building Fund'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 Measure K Bond Building Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Measure K Bond Building 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 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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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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs that we consider to be significant deficiencies. (Finding #2014-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure K Bond Building 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*.

Orland Unified School District's Response to Findings

Orland Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Orland Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
February 16, 2015

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Rubio

Governing Board Members and
Measure K Bond Oversight Committee
Orland Unified School District
Orland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure K Bond Building Fund, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Measure K Bond Building Fund's basic 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 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Objectives

In connection with our performance audit, we performed an audit of compliance as required in the performance requirements for Measure K for the fiscal year ended June 30, 2014. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of Measure K were only used for the purposes set forth in the ballot language and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Measure K resources
- Ensure adequate separation of duties exists in the accounting for Measure K funds
- Prevent material misstatements in the Measure K financial statements
- Ensure expenditures are allocated to the proper District fund

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2013-14 financial statement balances for Measure K are not materially misstated.

Results of Procedures Performed:

The results of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unmodified opinion was expressed on the Measure K financial statements.

Facilities Site Walk

Procedures Performed:

We performed a site walk accompanied by the District's Maintenance & Operations Coordinator to inspect new construction and modernization work completed in 2013-14. We selected two sites from among the bond projects with 2013-14 expenditures. The sites visited were:

- Orland High School (Cafeteria)
- Mill Street Elementary School (Cafeteria)

Results of Procedures Performed:

Results of the site walks indicate that the major 2013-14 Measure K construction projects were successfully completed by June 30, 2014.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether Measure K funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure K ballot Measure K language). The expenditure test included a sample of 11 vendor payments, totaling \$166,957, or approximately 48% of total Measure K expenditures for 2013-14.

Results of Procedures Performed:

We found all expenditures tested to be in compliance with the terms of the Measure K ballot language and applicable state laws and regulations, without exception.

Tests of Contracts and Bid Procedures
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Procedures Performed:

For the fiscal year ended June 30, 2014, we inquired and reviewed for new contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding.

In addition with inquired and reviewed for change orders for fiscal year ended June 30, 2014.

Results of Procedures Performed:

There were no new contracts entered into for fiscal year ended June 30, 2014. All existing contracts were bid in the prior year. Also, there were no change orders for fiscal year ended June 30, 2014. The project at Mill Street Cafeteria was actually under budget.

Our audit of compliance made for the purposes set forth in the objectives section of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for Measure K, for the fiscal year ended June 30, 2014, as listed and tested above.

This report is intended solely for the information and use of the District's Governing Board, Measure K Bond Oversight Committee, management, others within the entity, and the taxpayers of Orland Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
February 16, 2015

FINDINGS AND RESPONSES SECTION

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2014**

FINDING #2014-1: INTERNAL CONTROLS – CASH DISBURSEMENTS

Criteria: Expenditures going through the purchasing process should obtain proper approval to ensure funds are encumbered prior to purchases.

Condition: During our testing of internal control over cash disbursements for Measure K expenditures, it was noted that not all expenditures related to Measure K made by the District have proper pre-approval prior to purchases being made.

Cause: Insufficient controls over purchasing.

Effect: The possibility to circumvent the purchasing process and not encumber funds.

Context/Perspective: Four (4) out of 11 cash disbursements.

Questioned Costs: None

Recommendation: We recommend that the District revise internal controls and ensure that all expenditures made by the District are pre-approved prior to the expenses being made.

District Response: The district has been working on internal controls policies to address purchasing procedures. Key staff have initially been instructed in proper procedures for purchasing, contracts, and the approval process.

**MEASURE K BOND BUILDING FUND
ORLAND UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2014**

There were no findings for the prior year ended June 30, 2013.