

2020-2021 Financial Audit Building Fund (Measure K) Report



Ontario-Montclair School District

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Ontario, CA 91762

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Board Approved: February 17, 2022



Financial and Performance Audits
Building Fund (Measure K)
June 30, 2021

Ontario-Montclair School District

FINANCIAL AUDIT

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Financial Audit
Building Fund (Measure K)
June 30, 2021

Ontario-Montclair School District



Independent Auditor's Report

Governing Board and
Citizens Oversight Committee
Ontario-Montclair School District
Ontario, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Ontario-Montclair School District's (the District), Building Fund (Measure K), as of and for the year ended June 30, 2021, 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 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 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measure K) of Ontario-Montclair School District as of June 30, 2021, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measure K are intended to present the financial position and the change in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Ontario-Montclair School District as of June 30, 2021, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022, on our consideration of Ontario-Montclair School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Ontario-Montclair School District's 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 Ontario-Montclair School District's internal control over financial reporting and compliance.

Handwritten signature of Erik Bailey in cursive script.

Rancho Cucamonga, California
January 28, 2022

Ontario-Montclair School District
Building Fund (Measure K)
Balance Sheet
June 30, 2021

Assets	
Investments	\$ 19,437,847
Receivables	<u>59,068</u>
Total assets	<u><u>\$ 19,496,915</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	<u>\$ 1,796,055</u>
Fund balance	
Restricted for capital projects	<u>17,700,860</u>
Total liabilities and fund balance	<u><u>\$ 19,496,915</u></u>

Ontario-Montclair School District
Building Fund (Measure K)
Statement of Revenues, Expenditures, and Change in Fund Balance
Year Ended June 30, 2021

Revenues	
Other local revenue	<u>\$ 483,212</u>
Expenditures	
Current	
Supplies	30,815
Services and other operating expenditures	2,444,134
Capital outlay	<u>11,106,720</u>
Total expenditures	<u>13,581,669</u>
Net Change in Fund Balance	(13,098,457)
Fund Balance - Beginning	<u>30,799,317</u>
Fund Balance - Ending	<u><u>\$ 17,700,860</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Ontario-Montclair School District's (the District) Building Fund (Measure K) 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 Ontario-Montclair 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 Ontario-Montclair School District used to account for Measure K projects. This Fund was established to account for the expenditures of general obligation bonds issued under Measure K. These financial statements are not intended to present fairly the financial position and results of operations of the Ontario-Montclair 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 (Measure K) 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.

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.

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 Balance - Building Fund (Measure K)

As of June 30, 2021, the fund balance is 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.

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 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.

General Authorizations

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

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

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 San Bernardino County Investment Pool. The District maintains a Building Fund (Measure K) investment of \$19,437,847 with the San Bernardino County Treasury Investment Pool, with an average maturity of 461 days.

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 District's investment in the San Bernardino County Treasury Investment Pool has been rated AAAs/S1 by Fitch Ratings as of June 30, 2021.

Note 3 - Receivables

Receivables at June 30, 2021, consisted of the following:

Interest	<u>\$ 59,068</u>
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Note 4 - Accounts Payable

Accounts payable at June 30, 2021, consisted of the following:

Services and other operating expenditures	\$ 534,358
Capital outlay	<u>1,261,697</u>
	<u>\$ 1,796,055</u>

Note 5 - Commitments and Contingencies

As of June 30, 2021, the Building Fund (Measure K) had the following commitments with respect to unfinished projects:

Measure K Projects	Remaining Construction Commitment*	Expected Date of Completion
Serrano MS WATC - K036	\$ 7,932,102	03/31/2022
Wiltsey MS WATC - K038	7,787,412	04/29/2022
Central Seismic Retrofit - AE96	94,800	08/31/2023
De Anza Locker Room Upgrades - K009	780,945	08/31/2023
Vina Danks MS Modernization - K032	2,374,188	08/31/2023
Elementary School CCTV Cameras AF87	5,094,300	08/31/2023
Vina Danks Seismic Retrofit - AE96	7,708,483	07/01/2025
	<u>\$ 31,772,230</u>	

* Portion of certain projects will be funded by the next series of Measure K.

Litigation

The District is not currently a party to any legal proceedings related to the Building Fund (Measure K) as of June 30, 2021.



Independent Auditor's Report
June 30, 2021

Ontario-Montclair School District



**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
Ontario-Montclair School District
Ontario, 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 Ontario-Montclair School District (the District) Building Fund (Measure K) as of and for the year ended June 30, 2021, and the related notes of the financial statements, and have issued our report thereon dated January 28, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measure K are intended to present the financial position and the change in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Ontario-Montclair School District as of June 30, 2021, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ontario-Montclair School District's internal control over financial reporting (internal control) as a basis for designing 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 Ontario-Montclair School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Ontario-Montclair 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 District's Building Fund (Measure K) 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 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 Ontario-Montclair School District's Building Fund (Measure K) financial statements are free from 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 financial statements. 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
January 28, 2022

None reported.

Ontario-Montclair School District
Building Fund (Measure K)
Summary Schedule of Prior Audit Findings
June 30, 2021

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.



Performance Audit
Building Fund (Measure K)
June 30, 2021

Ontario-Montclair School District



Independent Auditor's Report on Performance

Governing Board and
Citizens Oversight Committee
Ontario-Montclair School District
Ontario, California

We were engaged to conduct a performance audit of the Ontario-Montclair School District (the District) Building Fund (Measure K) for the year ended June 30, 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions 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 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 and Appendix A contained in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. 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. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District expended Building Fund (Measure K) 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.

This report is intended solely for the information and use of the District, Governing Board, and Citizens Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Rancho Cucamonga, California
January 28, 2022

Authority for Issuance

The general obligation bonds associated with Measure K 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 Education of the District on July 7, 2016.

The District received authorization from an election held on November 8, 2016, to issue bonds of the District in an aggregate principal amount not to exceed \$150,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55% of the votes cast by eligible voters within the District (the 2016 Authorization). The bonds represent the second series of the authorized bonds to be issued under the 2016 Authorization.

Purpose of Issuance

The proceeds of the general obligation bonds of the District would be used to finance the design, acquisition, installation, restoration and construction of public schools and school facilities and providing facilities improvements and upgrades, and the acquisition of one or more school sites, and related facilities costs, including, but not limited to, financing the following: renovation of student restrooms, classrooms, and science labs; repair and replacement of heating, upgrading of electrical systems and wiring to safely accommodate computers, technology and other electrical devices; repair and replacement of plumbing, sewer, and water pipes, fixtures and systems; replacement of emergency communications and security systems; demolition; seismic upgrades; asbestos and mold abatement; and, improved access for disabled persons. Project costs for expansion of existing facilities may include, but is not limited to, some or all of the following: site and/or other real property acquisition, including payments on or for interim financing, preparation, infrastructure, and related expenses; construction or lease of temporary or permanent classrooms, instructional support, *and/or* ancillary facilities. Project costs for furniture and equipment may include but *is* not limited to some or all of the following: desks and tables; window and floor covering; computer, media recording and presentation equipment; cafeteria and food preparation equipment; science laboratory equipment; and/or other electronic equipment.

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% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, 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 citizen's 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.

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 K.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure K and not for District general administration or operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2021. 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, 2021, were not reviewed, or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2021, for the Building Fund (Measure K). Within the fiscal year audited, we obtained the actual invoices, purchase orders, 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 K as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.
2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2020 through June 30, 2021 from Measure K bond proceeds.

- c. We selected all expenditures that were individually significant expenditures based on our assessment of materiality.
- 3. Our sample included transactions totaling \$9,247,585. This represents 68% of the total expenditures of \$13,581,669.
- 4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.
- 5. We determined that the District has met the compliance requirement of Measure K if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the Districts.

Conclusion

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

None reported.

Ontario-Montclair School District
Building Fund (Measure K)
Summary Schedule of Prior Audit Findings
June 30, 2021

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.