

**MEASURE QS BOND BUILDING FUND OF
SOUTH WHITTIER
SCHOOL DISTRICT**

AUDIT REPORT

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



**COSSOLIAS | WILSON
DOMINGUEZ | LEAVITT**
CERTIFIED PUBLIC ACCOUNTANTS

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Table of Contents
June 30, 2017**

	<u>Page</u>
Introduction and Citizens' Oversight Committee Member Listing	1
Independent Auditors' Report.....	2

FINANCIAL SECTION

Balance Sheet	4
Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
Notes to Financial Statements.....	6

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 <i>Government Auditing Standards</i>	13
Independent Auditors' Report on Performance	15

FINDINGS AND RESPONSES SECTION

Schedule of Findings and Responses.....	18
Summary Schedule of Prior Audit Findings.....	19

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2017**

The South Whittier School District (the District) was formed in 1912, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District is located in Los Angeles County, and occupies the city of Whittier. The District operates six elementary schools and one middle school.

On November 8, 2016, the voters of the District approved by more than the required 55% favorable vote, Measure QS authorizing the issuance and sale of general obligation bonds, not to exceed \$29,000,000, with mandatory audits, independent citizen oversight, no money for administrator salaries, and all funds staying local. Measure QS is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to authorize ad valorem taxes used to pay for debt service in excess of the 1% full cash value limitation, contingent upon receiving 55% voter approval. Measure QS bonds were issued by the District, through the County of Los Angeles.

- On March 9, 2017, Election of 2016, Series 2017A general obligation bonds were issued, which consisted of current interest bonds and term bonds with an initial par amount of \$10,000,000 with stated yield rates of 1.16% to 4.00% and maturing through August 1, 2046.

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

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2017:

Name	Title	Representation
Mr. Joe Duardo	Chairperson	Active in a senior citizens' organization
Mr. Rafael Gonzalez, Jr.	Vice-Chairperson	Active in a bona fide taxpayers' Organization
Ms. Marcela Carrillo	Member	Parent of a student
Ms. Esmeralda Cruz	Member	Parent of a student
Ms. Alejandra Sanchez	Member	Parent of a student and active in PTA
Mr. Gabriel Trinidad	Member	Active in a business organization
Mr. Clemente Villareal	Member	Active in a business organization
Ms. Mary Jimenez	Alternate Member	Parent of a student and active in PTA



INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure QS Citizens' Oversight Committee
South Whittier School District
Whittier, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure QS bond building fund of South Whittier School District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Measure QS 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.

Auditor's Responsibility (continued)

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 QS bond building fund's general obligation bonds as issued by the District, through the County of Los Angeles, 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 QS bond building fund of South Whittier School District as of June 30, 2017 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 January 30, 2017 on our consideration of the Measure QS 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 QS 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 August 22, 2017 on our consideration of the Measure QS bond building fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure QS bond building fund for the fiscal year ended June 30, 2017 should be considered in assessing the results of our financial audit.

CWDL, Certified Public Accountants

San Diego, California
August 22, 2017

FINANCIAL SECTION

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Balance Sheet
June 30, 2017**

ASSETS

Cash in county treasury	\$ 9,690,324
Accounts receivable	<u>36,420</u>

Total Assets	<u>\$ 9,726,744</u>
---------------------	---------------------

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	<u>\$ 361,252</u>
------------------	-------------------

Total Liabilities	<u>361,252</u>
--------------------------	----------------

Fund Balance

Restricted for capital projects	<u>9,365,492</u>
---------------------------------	------------------

Total Liabilities and Fund Balance	<u>\$ 9,726,744</u>
-------------------------------------------	---------------------

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2017**

REVENUES	
Other local revenue	\$ 39,965
Total Revenues	<u>39,965</u>
EXPENDITURES	
Facilities acquisition and construction	<u>674,473</u>
Total Expenditures	<u>674,473</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(634,508)
OTHER FINANCING SOURCES	
Proceeds from long-term debt	<u>10,000,000</u>
Total Other Financing Sources	<u>10,000,000</u>
Net Change in Fund Balance	9,365,492
Fund Balance, July 1, 2016	<u>-</u>
Fund Balance, June 30, 2017	<u>\$ 9,365,492</u>

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The South Whittier School District (the District) was formed in 1912, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District is located in Los Angeles County, and occupies the city of Whittier. The District operates six elementary schools and one middle school.

On November 8, 2016, the District voters authorized \$29 million in general obligation bonds (Measure QS) to improve the quality of education with funding that cannot be taken by the State; repair or replace leaky roofs; update inadequate electrical systems; replace deteriorating plumbing and sewer systems; upgrade/modernize 50-year-old classrooms, restrooms and school facilities; and replace outdated heating, ventilation and air-conditioning systems

An advisory committee to the District's Governing Board and Superintendent, called the Measure QS Citizens' Oversight Committee, was established pursuant to the provisions of the Measure QS Election. The Committee's oversight goals include: advising on bond construction priorities, reviewing bond construction plans, reviewing project plans and budgets, monitoring expenditures of Measure QS funds, and ensuring compliance with the provisions of Measure QS.

The statements presented are for the Measure QS Bond Building Fund of the District, consisting of the net construction proceeds of Measure QS general obligation bonds as issued by the District, through the County of Los Angeles, 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").

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

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. 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 QS bond building fund 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.

E. 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.

F. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Los Angeles County 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

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

G. 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.

H. 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.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as cash in county treasury for the Measure QS bonds are \$9,690,324.

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.

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS, continued

Policies and Practices, continued

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.

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:

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

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS, continued

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 Los Angeles County Investment Pool with a fair value for the Measure QS Bond of \$9,632,639. The Measure QS Bonds have an amortized book value of \$9,690,324. The weighted average maturity for this pool as of June 30, 2017 was 672 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. Per County investment policy, the investments within the Los Angeles County Investment Pool are rated at least A by the Standard & Poor's ratings agency.

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 as of June 30, 2017 for Measure QS amounted to \$36,420, and consisted primarily of interest earned on the District's investment in the County Treasury.

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 4 – CONSTRUCTION COMMITMENTS

The Measure QS bond building fund had the following construction commitments as of June 30, 2017:

	Remaining Construction Commitment
Capital Projects	<u>\$ 859,000</u>
Total	<u>\$ 859,000</u>

NOTE 5 – MEASURE QS BOND BUILDING FUND GENERAL OBLIGATION BONDS

As of June 30, 2017, the principal balance outstanding on the District’s Measure QS bonded debt, including accreted interest to date, was \$10,000,000.

Issuance Date	Yield Rate	Maturity Date	Amount of Original Issue	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
3/9/2017	1.16-4.00%	2047	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000
		Total	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2017**

NOTE 5 – MEASURE QS BOND BUILDING FUND GENERAL OBLIGATION BONDS, continued

Series 2017A General Obligation Bonds

On March 9, 2017, Series 2017A general obligation bonds were issued, which consisted of current interest bonds and term bonds with an initial par amount of \$10,000,000 with stated yield rates of 1.16% to 4.00% and maturing through August 1, 2046

The annual requirements to amortize all Measure QS Series 2017A general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Series 2017A

Fiscal Year	Principal	Accreted Interest	Total
2018	\$ -	\$ -	-
2019	-	578,503	578,503
2020	450,000	414,862	864,862
2021	100,000	392,363	492,363
2022	100,000	387,362	487,362
2023-2027	200,000	1,876,813	2,076,813
2028-2032	890,000	1,786,562	2,676,562
2033-2037	1,645,000	1,506,113	3,151,113
2038-2042	2,580,000	1,131,843	3,711,843
2043-2047	4,035,000	510,200	4,545,200
Total	\$ 10,000,000	\$ 8,584,621	\$ 18,584,621

**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**

Governing Board Members and
Measure QS Citizens' Oversight Committee
South Whittier School District
Whittier, 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 QS bond building fund, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Measure QS bond building fund's basic financial statements, and have issued our report thereon dated August 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Measure QS 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 QS bond building fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Measure QS 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure QS 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*.

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.

CWDL, Certified Public Accountants

San Diego, California
August 22, 2017



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board Members and
Measure QS Citizens' Oversight Committee
South Whittier School District
Whittier, California

We were engaged to conduct a performance audit of the South Whittier School District (the District) Building Fund (Measure QS) for the year ended June 30, 2017.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the 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. 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 I) 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.

CWDL, Certified Public Accountants

San Diego, California
August 22, 2017

Authority for Issuance

The Measure QS Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53506) (the "Bond Law") and pursuant to a resolution adopted by the Board of Trustees of the District on January 17, 2017 (the "Bond Resolution").

The District received authorization at an election held on November 8, 2016, to issue bonds of the District in an aggregate principal amount not to exceed \$29,000,000 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 2016 Authorization). The Bonds represent the first series of the authorized bonds to be issued under the 2016 Authorization.

Purpose of Issuance

Pursuant to the Authorization, the proceeds of the Bonds will be used to improve the quality of education by repair or replacement of leaky roofs; update inadequate electrical systems; replace deteriorating plumbing and sewer systems; upgrade/modernize 50-year-old classrooms, restrooms and school facilities; and replace outdated heating, ventilation and air-conditioning systems

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

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2016 to June 30, 2017. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2017, were 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 fiscal year ended June 30, 2017 for the Building Fund (Measure I). 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 I as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2016 and ending June 30, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$526,881. This represents 78 percent of the total expenditures of \$674,473.
3. Based on our testing, we verified that funds from the Building Fund (Measure QS) were expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

Conclusion

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

FINDINGS AND RESPONSES SECTION

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2017**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no financial statement findings or questioned costs identified during 2016-17.

**MEASURE QS BOND BUILDING FUND
SOUTH WHITTIER SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2017**

The fiscal year ended June 30, 2017 was the inaugural year of the Measure QS Bond, as such there were no financial statement findings or questioned costs identified during 2015-16.