

BANNING UNIFIED SCHOOL DISTRICT

**BUILDING FUND
GENERAL OBLIGATION BONDS
(MEASURE R)**

FINANCIAL AND PERFORMANCE AUDITS

MARCH 31, 2017

BANNING UNIFIED SCHOOL DISTRICT

**BUILDING FUND
GENERAL OBLIGATION BONDS
(MEASURE R)**

FINANCIAL AUDIT

MARCH 31, 2017

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**FINANCIAL AUDIT
TABLE OF CONTENTS
MARCH 31, 2017**

FINANCIAL SECTION

Independent Auditor's Report	2
Building Fund (Measure R)	
Balance Sheet	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Notes to Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	9
---	---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Findings	12
Summary Schedule of Prior Audit Findings	13

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens' Oversight Committee
Banning Unified School District
Banning, California

Report on the Financial Statements

We have audited the accompanying financial statements of Banning Unified School District's (the District) Building Fund - General Obligation Bonds (Measure R) as of and for the nine-month period ended March 31, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund - General Obligation Bonds (Measure R) of Banning Unified School District at March 31, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to the General Obligation Bonds (Measure R), and are not intended to present fairly the financial position and changes in financial position of Banning Unified School District 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 April 7, 2017, on our consideration of the District's Building Fund - General Obligation Bonds (Measure R) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund - General Obligation Bonds (Measure R) internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
April 7, 2017

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**BALANCE SHEET
MARCH 31, 2017**

ASSETS

Deposits and investments	\$	-
Accounts receivable		-
Total Assets	\$	-

FUND BALANCE

Restricted		
Capital projects		-
Total Liabilities and Fund Balance	\$	-

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

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE NINE-MONTH PERIOD ENDED MARCH 31, 2017**

REVENUES

Local income

Interest income

\$ 767

EXPENDITURES

Capital outlay

51,457

NET CHANGE IN FUND BALANCE

(50,690)

FUND BALANCE - BEGINNING

50,690

FUND BALANCE - ENDING

\$ -

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

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Banning Unified School District's (the District) Building Fund - General Obligation Bonds (Measure R) 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 Banning Unified School District's 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 Banning Unified School District used to account for General Obligation Bonds, Measure R projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds (Measure R). These financial statements are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017**

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 March 31.

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 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is not currently a party to any legal proceedings.

INDEPENDENT AUDITOR'S REPORT



**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
Banning Unified School District
Banning, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of Banning Unified School District's (the District) Building Fund - General Obligation Bonds (Measure R) as of and for the nine-month period ended March 31, 2017, and the related notes of the financial statements and have issued our report thereon dated April 7, 2017.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to General Obligation Bonds (Measure R), and are not intended to present fairly the financial position and changes in financial position of Banning Unified School District in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Banning Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Banning Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Banning Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be 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 Banning Unified School District's Building Fund - General Obligation Bonds (Measure R) 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

April 7, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**FINANCIAL STATEMENT FINDINGS
MARCH 31, 2017**

None reported.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
MARCH 31, 2017**

There were no audit findings reported in the prior year's Financial Statement Findings.

BANNING UNIFIED SCHOOL DISTRICT

**BUILDING FUND
GENERAL OBLIGATION BONDS
(MEASURE R)**

PERFORMANCE AUDIT

MARCH 31, 2017

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**PERFORMANCE AUDIT
TABLE OF CONTENTS
MARCH 31, 2017**

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



INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Banning Unified School District
Banning, California

We were engaged to conduct a performance audit of Banning Unified School District's (the District) Building Fund - General Obligation Bonds (Measure R) for the nine-month period ended March 31, 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, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
April 7, 2017

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

MARCH 31, 2017

AUTHORITY FOR ISSUANCE

The General Obligation Bonds (Measure R) are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County on July 18, 2002 and July 20, 2006 (the County Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on July 18, 2002 and July 20, 2006 (the District Resolution).

The District received authorization at elections held on November 5, 2002 and November 7, 2006, to issue general obligation bonds in aggregate principal amounts not to exceed \$12,000,000 under the 2002 Election and \$63,000,000 under the 2006 Election to finance specific construction and renovation projects approved by eligible voters within the District. The measure required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2002 and 2006 Authorizations).

PURPOSE OF THE ISSUANCES

The general obligation bond funds of the District are to 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. The Bond Project List includes upgrade and major repair projects on Banning High School, Coombs Intermediate School, Nicolet Middle School, Central Elementary School, Hemmerling Elementary School, and Hoffer Elementary School.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

MARCH 31, 2017

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 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 General Obligation Bonds (Measure R).
2. Determine whether salary transactions, charged to the Building Fund were in support of General Obligation Bonds (Measure R) and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the nine-month period of July 1, 2016 to March 31, 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 March 31, 2017, were not reviewed or included within the scope of our audit or in this report.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

MARCH 31, 2017

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the nine-month period of July 1, 2016 through March 31, 2017, for the Building Fund - General Obligation Bonds (Measure R). 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 General Obligation Bonds (Measure R) as to the approved bond projects list. We performed the following procedures:

1. We verified that a separate Building Fund of the District has been established to account for the receipt of Measure R bond proceeds and expenditure of the funds for the nine-month period of July 1, 2016 through March 31, 2017.
2. We verified that the District did not receive any proceeds associated with the sale of General Obligation Bonds in the nine-month period ending March 31, 2017.
3. We selected a sample of expenditures for the nine-month period starting July 1, 2016 and ending March 31, 2017, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
 - a. Our sample included one transaction totaling \$51,457. This represents 100 percent of the total expenditures of \$51,457, including expenditures related to transferred funds.
4. We verified that funds from the Building Fund were expended for the construction, renovation, furnishing, and equipping of District facilities constituting authorized bond projects. No salaries or benefits were charged to the Building Fund.
5. We reviewed the Citizens' Oversight Committee minutes and found that the committee met the required number of times during the year for both the Measure R projects. We also reviewed the Citizens' Oversight Committee members and found that the committee consists of the seven required members for Measure R.

CONCLUSION

The results of our tests indicated that, in all significant respects, Banning Unified School District has properly accounted for the expenditures held in the Building Fund - General Obligation Bonds (Measure R), and that such expenditures were made for authorized Bond projects.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
MARCH 31, 2017**

None reported.

**BANNING UNIFIED SCHOOL DISTRICT
BUILDING FUND - GENERAL OBLIGATION BONDS
(MEASURE R)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
MARCH 31, 2017**

None reported.