

**WALNUT CREEK SCHOOL DISTRICT**

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**MEASURE D**  
**2016 GENERAL OBLIGATION BONDS**

**AUDIT REPORT**  
**JUNE 30, 2018**

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**WALNUT CREEK SCHOOL DISTRICT**

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**MEASURE D**  
**2016 GENERAL OBLIGATION BONDS**

**FINANCIAL AUDIT**  
**JUNE 30, 2018**

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**WALNUT CREEK UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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JUNE 30, 2018**

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**VAVRINEK, TRINE, DAY & CO., LLP**

*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

Governing Board and  
Citizens' Oversight Committee  
Walnut Creek School District  
Walnut Creek, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Walnut Creek School District's (the District), Building Fund (General Obligation Bonds, Measure D), and the related notes to the financial statements, as of and for the year ended June 30, 2018, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (General Obligation Bonds, Measure D) of the Walnut Creek School District at June 30, 2018, and the changes in financial position for the period 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 present only the Building Fund specific to the General Obligation Bonds (Measure D), and are not intended to present fairly the financial position and changes in financial position of Walnut Creek 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 December 21, 2018, on our consideration of the District Building Fund's (General Obligation Bonds, Measure D) 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 Building Fund's (General Obligation Bonds, Measure D) internal control over financial reporting and compliance.

*Vavinek, Trine, Day & Co LLP*

Pleasanton, California  
December 21, 2018

**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

**BALANCE SHEET  
JUNE 30, 2018**

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ASSETS

Cash and investments	\$ 11,209,254
Total Assets	<u>\$ 11,209,254</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 1,302,233
Total Liabilities	<u>1,302,233</u>

FUND BALANCE

Restricted	<u>9,907,021</u>
Total Fund Balance	<u>9,907,021</u>
Total Liabilities and Fund Balance	<u>\$ 11,209,254</u>

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

**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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REVENUES

Interest income	\$	215,570
Lease and Rentals		3,034
Total Revenues		<u>218,604</u>

EXPENDITURES

Current expenditures		
Material and supplies		22,058
Services and operating expenditures		3,289,425
Capital outlay		
Buildings		950
Sites and building improvements		3,918,433
Equipment		218,319
Total Expenditures		<u>7,449,185</u>

NET CHANGE IN FUND BALANCE		(7,230,581)
FUND BALANCE, BEGINNING OF YEAR		17,137,602
FUND BALANCE, END OF YEAR	\$	<u>9,907,021</u>

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

# WALNUT CREEK SCHOOL DISTRICT BUILDING FUND (MEASURE D)

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The accounting policies of the Walnut Creek School District Building Fund (Measure D) 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. The Walnut Creek School District Building Fund (Measure D) 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 Walnut Creek School District used to account for Measure D projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2016. These financial statements are not intended to present fairly the financial position and results of operations of the Walnut Creek School District in compliance with accounting principles generally accepted in the United States of America.

#### **Fund Accounting**

The operations of the Building Fund (Measure D) 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 D) 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 for all funds and resources 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.



**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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**Encumbrances**

The District, including Building Fund (Measure D), utilize 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 D)**

As of June 30, 2018, fund balance for the Building Fund (Measure D) 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, including Building Fund (Measure D), 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.

**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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**NOTE 2 - INVESTMENTS**

**Policies and Practices**

The District, including Building Fund (Measure D) 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, including Building Fund (Measure D), 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 investment in the pool is reported in the accounting financial statement at amounts based upon the 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 schedule 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

**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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**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 County Investment Pool. The District maintains a Building Fund (Measure D) as follows:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Treasury Investment Pool	<u>\$ 11,209,254</u>	<u>167</u>

**Fair Value Measurements**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Contra Costa County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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**NOTE 3 - ACCOUNTS PAYABLE**

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

Vendors	<u><u>\$ 1,302,233</u></u>
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**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

The District, including Building Fund (Measure D), is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018. None of the pending litigation would have a significant impact on the Building Fund (Measure D) operations.

**Construction Commitments**

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Project	Remaining Construction Commitment	Expected Date of Completion
District Wide Technology Infrastructure	\$ 138,594	2019
Buena Vista Elementary School - Summer Splash Project	33,856	2019
Indian Valley Elementary School - Summer Splash Project	103,000	2019
Parkmead Elementary School - Summer Splash Project	179,462	2019
Walnut Creek IS - Summer Splash Project	323,366	2019
District Wide Technology Upgrades	54,540	2019
Tice Creek Modular Project	10,149,948	2019
<b>Total</b>	<u><u>\$ 10,982,766</u></u>	

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***INDEPENDENT AUDITOR'S REPORT***

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**VAVRINEK, TRINE, DAY & CO., LLP**

*Certified Public Accountants*

**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  
Walnut Creek School District  
Walnut Creek, 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 Walnut Creek School District (the District) Building Fund (General Obligation Bonds, Measure D) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Walnut Creek School District Building Fund Measure D's basic financial statements, and have issued our report thereon dated December 21, 2018.

As discussed in Note 1, financial statements present only the Building Fund specific to General Obligation Bonds, Measure D, and are not intended to present fairly the financial position and results of operations of Walnut Creek School District in accordance with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Walnut Creek School District (Measure D)'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 Walnut Creek School District (Measure D)'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Walnut Creek School District (Measure D)'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 District Building Fund's (General Obligation Bonds, Measure D) 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 District Building Fund's (General Obligation Bonds, Measure D) 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 Building Fund's (General Obligation Bonds, Measure D) 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 Building Fund's (General Obligation Bonds, Measure D) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
December 21, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**WALNUT CREEK SCHOOL DISTRICT  
BUILDING FUND (MEASURE D)**

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

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None reported.