

ALEXANDER VALLEY UNION SCHOOL DISTRICT

MEASURE B - BUILDING FUND

**SONOMA COUNTY
HEALDSBURG, CALIFORNIA**

FINANCIAL AUDIT

JUNE 30, 2022

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
FINANCIAL AUDIT
JUNE 30, 2022

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens' Oversight Committee
Alexander Valley Union School District
Healdsburg, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Measure B - Building Fund of the Alexander Valley Union School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure B - Building Fund of the Alexander Valley Union School District, as of June 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure B - Building Fund and do not purport to, and do not, present fairly the financial position of the District, as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Board of Trustees and
Citizens' Oversight Committee
Alexander Valley Union School District
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022 on our consideration of the District's internal control over the Measure B - Building Fund 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 Measure B - Building Fund financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over the Measure B - Building Fund 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 internal control over the Measure B - Building Fund financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 15, 2022

ALEXANDER VALLEY UNION SCHOOL DISTRICT

MEASURE B - BUILDING FUND

BALANCE SHEET

JUNE 30, 2022

Assets

Deposits and Investments (Note 2)	\$ 586,540
Total Assets	<u>\$ 586,540</u>

Liabilities and Fund Balance

Liabilities:	
Accounts Payable	\$ 586,540
Fund Balance:	
Restricted:	
Restricted for Measure B Projects	<u>0</u>
Total Liabilities and Fund Balance	<u>\$ 586,540</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>		
Interest Revenue	\$ 14,482	\$ (5,130)
<u>Expenditures</u>		
Rentals, Repairs & Non-capitalized Improvements	2,045	1,950
Building and Improvements	4,638,788	4,619,271
Total Expenditures	4,640,833	4,621,221
Changes in Fund Balance	(4,626,351)	(4,626,351)
Fund Balances - July 1, 2021	4,626,351	4,626,351
Fund Balances - June 30, 2022	<u>\$ 0</u>	<u>\$ 0</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

ALEXANDER VALLEY UNION SCHOOL DISTRICT

MEASURE B - BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On June 5, 2018, the Measure B, General Obligation Bonds, Election of 2018, were authorized at a primary election of registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$6,000,000 to finance the renovation, construction, and improvement of school facilities. Subsequently, an advisory committee to the District's Governing Board and Superintendent, the Measure B Citizens' Oversight Committee was established. The Committee's oversight goals include: informing the public concerning the expenditures of bond proceeds, ensuring that the bond proceeds are expended only for the purposes described in the Measure B ballot language, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenditures.

The bond proceeds are accounted for in the Building Fund of the District, where they are expended for approved projects. These financial statements are presented solely for the Measure B - Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

Alexander Valley Union School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

The Measure B - Building Fund of the District is a governmental fund reported 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 are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) of current financial resources. Under the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and become available and expenditures are generally recognized in the accounting period in which the related fund liability is incurred.

D. 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. By state law, the District's Governing Board must adopt a final 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 and Superintendent during the year to give consideration to unanticipated income and expenditures.

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

D. Budgets and Budgetary Accounting (Concluded)

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.

E. 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 certain 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. Accordingly, actual results could differ from those estimates.

F. 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 then liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

G. Deposits and Investments

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 County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2022, consist of the following:

County Pool Investments	\$ 586,540
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ALEXANDER VALLEY UNION SCHOOL DISTRICT

MEASURE B - BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

County Pool Investments

County pool investments consist of District cash held by the Sonoma County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are 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 Authorization

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term 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

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Sonoma County Investment Pool.

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 586,540	\$ 586,540	651

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. Investments in the County Treasury are not required to be rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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.

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

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 specific 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 reasonable 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 Sonoma 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.

The District's fair value measurements are as follows at June 30, 2022:

Investment Type	Fair Value	Uncategorized
County Pool Investments	\$ 586,540	\$ 586,540

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 - GENERAL OBLIGATION BONDS

On June 5, 2018, the Measure B, General Obligation Bonds, Election of 2018, were authorized at a primary election of the registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$6,000,000 (2018 Authorization) to finance the renovation, construction, and improvement of school facilities.

On October 30, 2018, the District issued general obligation bonds in the amount of \$3,000,000 (Series A). On April 16, 2020, the District issued general obligation bonds in the amount of \$3,000,000 (Series B). The Series B bonds represent the second and final series of bonds issued pursuant to the 2018 Authorization.

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Measure B Bond Program of the District.

NOTE 5 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 15, 2022, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

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**

Board of Trustees and
Citizens' Oversight Committee
Alexander Valley Union School District
Healdsburg, 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 B - Building Fund of Alexander Valley Union School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as **Finding 2022-001** that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure B - Building Fund 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*.

District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Recommendations. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 15, 2022

FINDINGS AND RECOMMENDATIONS SECTION

ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

2022 - 001

MATERIAL WEAKNESS

FINANCIAL REPORTING

Criteria: Each year, the governing board certifies and approves the “Unaudited Actuals” Financial Report as the official submission of financial information that is used as the basis for the District’s annual financial statements. Accordingly, districts should have an effective system of internal control over financial reporting that will ensure that the information contained in the report is free of material misstatement.

Condition: The District’s “Unaudited Actuals” included misstatements that we consider to be material to the Measure B financial statements. Accordingly, it appears that internal control over financial reporting was inadequate in the areas where adjustments were required.

Context:

1. The fair value of investments in the county treasury was overstated by \$20,923. This is the first year that fair value was materially different from cost.
2. Capital outlay expenditures were understated by \$435,411.

Causes:

1. The fair value of the county investment pool at June 30, 2022 was 96.56% of cost, which resulted in a material difference and the adjustment was not recorded by the District.
2. The District inadvertently overlooked recording a payable for the earned construction retention amount as of June 30, 2022 because there was a delay in getting the required information related to the final invoice for 2021-22.

Recommendation: The District should develop a comprehensive financial reporting checklist to be used by staff during the year-end closing process, to prevent the same misstatements from occurring in the future.

District Response: The District will work to ensure all appropriate closing entries are made in a timely manner. Collaboration with a Sonoma County Office of Education Fiscal Advisor while closing the fiscal year will help to establish a checklist of entries needed to correctly record all construction project transactions and pooled investments at the County Treasury.

**ALEXANDER VALLEY UNION SCHOOL DISTRICT
MEASURE B - BUILDING FUND
SCHEDULE OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

<u>Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Fully Implemented</u>
2021 - 001		
<u>CITIZENS' OVERSIGHT COMMITTEE</u>		
The District should expand its efforts to recruit an applicant to fill the vacant position.	Partially Implemented	Comment Not Repeated. All bond proceeds were expended in 2021-22.