



AGENDA

HUNTINGTON BEACH SCHOOL DISTRICT MEASURE Q Citizens' Bond Oversight Committee (CBOC)

John R. Peterson Elementary School
Clapp Building
20661 Farnsworth Ln.
Huntington Beach, CA 92646

October 20, 2021, 5:00 P.M.

1. PRELIMINARY

a. CALL TO ORDER

b. ROLL CALL (Establishment of a Quorum)

- | | |
|-----------------------------------|-------|
| 1. John Espinosa | _____ |
| 2. Mandi Silvaggio | _____ |
| 3. Adam Yocum | _____ |
| 4. Jill Johnson | _____ |
| 5. Scott Brady | _____ |
| 6. Jerry Marchbank | _____ |
| 7. OC Tax Representative (vacant) | _____ |

2. PLEDGE OF ALLEGIANCE

3. COMMENTS FROM THE FLOOR

Persons wishing to make comments to Citizens' Bond Oversight Committee on non-agendized items may do so at this time. Each speaker is requested to limit his or her comments to no more than three (3) minutes.

4. APPROVAL OF THE AGENDA ACTION

5. APPROVAL OF THE MINUTES FOR MARCH 10, 2021 ACTION

6. MEASURE Q UPDATE INFORMATION

7. 2019-20 PERFORMANCE AUDIT REPORT INFORMATION

8. COMMENTS FROM COMMITTEE MEMBERS

9. ADJOURNMENT

MEETING MINUTES

Huntington Beach City School District (HBCSD)

Measure Q Citizens Bond Oversight Committee (CBOC) Meeting

March 10, 2021 at 4:00pm

Location: Seacliff Elementary School

Attendees

Huntington Beach City School District

Leisa Winston, Superintendent, 714.964.8888 lwinston@hbcasd.us

Greg Magnuson, Facilities Consultant, gmagnuson@hbcasd.us

Studio W Architects

Tony Pacheco-Taylor, Client Leader & Associate, 949.774.2920, Ext. 2906 TonyP@studiow-architects.com

Brian Whitmore, President/CEO, 916.626.1303 BrianW@studiow-architects.com

Chelsea Pozar, Marketing & Business Development Manager/Associate, 916.524.8470

ChelseaP@studiow-architects.com

CBOC Members

John Espinosa - absent

Jill Johnson - absent

Stephanie Gorman - absent

Jerry Marchbank - absent

Mandi Silvaggio - present

Scott Grady - present (by video conference call)

Meeting commenced at 4:12 pm: Brian Whitmore of Studio W Architects delivered a presentation on the status of Measure Q bond sales, projects and financial metrics.

1.0 Bond Issuance Schedule

- 1.1 Series A \$50 million (sold February 2017)
- 1.2 Series B \$40 million (sold December 2018)
- 1.3 Series C \$70 million (sold July 2020)
- 1.4 Total Measure Q Program \$160 million

2.0 Overall Bond Project Expenditures & Budget

- 2.1 Series A and Series B funds have been exhausted and all projects completed.
- 2.2 Series C Anticipated Projects:
 - 2.2.1 Eader Elementary School Modernization
 - 2.2.2 Peterson Elementary School Modernization
 - 2.2.3 Remaining Work at Seacliff Elementary School, which will last through the Summer
 - 2.2.4 Maintenance Building at the Kettler District Office site
- 2.3 Balance of \$18.9 million remaining in the program. District and Board need to decide what to do with the remaining bond monies.

3.0 Series Updates

- 3.1 Series A/Phase 1 Sale Update
 - 3.1.1 Recap of Series A/Phase 1 projects with budgets, timelines and contingencies.
- 3.2 Series B/Phase 2 Sale Update
 - 3.2.1 Recap of Series B/Phase 2 projects with budgets, timelines and contingencies.
 - 3.2.2 Series B projects have just finished up, including Dwyer Middle School Phase 2 Modernization, Seacliff Elementary School Modernization and Smith Elementary School Modernization. Scope at Smith that was recently completed includes remodeling the kitchen, auditorium and teachers' work lounge. The design team is currently making modifications to the nurse's office to allow for entry/access from the exterior of the building due to new pandemic protocols.
- 3.3 Series C/Phase 3 Sale Update
 - 3.3.1 The District is moving forward with the modernization of both Eader and Peterson Elementary Schools. The construction at both campuses will be completed over two summers – the first half will be constructed in 2021, with the second half in 2022.
 - 3.3.1 Ongoing work at Seacliff Elementary School includes improvements to the storm drain, parking, the library courtyard and edits to the admin office, all of which will be finished by Fall 2021.
 - 3.3.2 A new Maintenance & Operations Facility at the District Office will be completed with Series C funding. Authorization to proceed was approved by the Board of Trustees on March 9, 2021.
 - 3.3.3 Remodeling the Central Kitchen at the District Office is also being initiated, but this is not a bond funded project. It may be combined with the M&O Facility and all will be complete by approximately March of 2022.
- 3.4 Sowers Middle School Gym & STEM Lab – \$15,935,271 budget (includes soil remediation)



- 3.4.1 The new gym and STEM lab project at Sowers Middle School has been DSA approved and is ready to begin construction but is on hold while we decide what to do with the Sowers site.
- 3.5 Eader Elementary School Modernization – \$6,197,748 budget
 - 3.5.1 Tracking additional scope of \$4,088,424.
 - 3.5.2 The scope includes moving admin to front of campus and path of travel improvements. The project is currently in DSA review. Construction planned to begin June of 2021.
- 3.6 Peterson Elementary School Modernization – \$8,002,264 budget
 - 3.6.1 Tracking additional scope of \$2,155,454.
 - 3.6.2 Construction is planned to begin June of 2021.
- 3.7 Seacliff Elementary School Modernization – \$2,751,209 budget of remaining work
 - 3.7.1 Construction is in progress with planned completion by Fall of 2021.
- 3.8 District Maintenance & Operations Facility – \$2,888,000 budget
 - 3.8.1 Design contract approved by Board March 9, 2021.
- 3.9 State Funding Eligibility
 - 3.9.1 Funding of ~\$3,400,000 anticipated for Seacliff Elementary School, bringing overall total to roughly \$10,000,000.
 - 3.9.2 The projects listed as “Beyond Authority” do not fall within Prop 51 and will need to wait for another State bond before receiving funding.

4.0 Update Regarding Middle School Options

- 4.1 Series C Remaining Funds \$18,929,616.
- 4.2 \$9,959,280 deficit to modernize Sowers and \$59,700,820 deficit to build a new campus in its place. A large amount of the modernization estimate accounts for soil remediation costs.
- 4.3 Additional options for remaining Series C funds include relocating Sowers Middle School to the Huntington Christian School site, converting Peterson Elementary School to a K-8 school (and closing Sowers) and creating a middle school at Peterson Elementary School (and closing Sowers). The Peterson Elementary School site does not have the liquefaction issues that exist at the Sowers site, so soil remediation costs would go away with one of the options involving further development at Peterson. The sentiment associated with Sowers needs to be considered with all the options. The options will be presented and discussed at a Board Study Session on March 16, 2021. The goal is to narrow down the options for further analysis.

5.0 Additional Potential Projects Not Bond Funded

- 5.1 HVAC projects – new estimate is \$4,500,000 (received from Construct1 March 9, 2021).



5.2 Design has started on the District Central Kitchen project. Total project cost is \$1,145,895.

6.0 Review of Expenditure & Fee Reports

- 6.1 Series A had a balance of \$2,642,232 total of hard and soft costs that was transferred over to Series B.
- 6.2 Series B had a balance of \$19,000,000 to \$20,000,000, which is the potential investment for the Sowers Middle School project.
- 6.3 Overall, the program is under budget on soft costs. The industry benchmark is 25% of overall project costs should account for soft costs.

7.0 Q&A

Question: Is the option of relocating Sowers to Huntington Christian School actually a viable solution? Doesn't the District make money from the lease with Huntington Christian?

Answer: It was an option that was brought to the table at the most recent Board Study Session, therefore it will be explored. The Huntington Christian site is owned by the District and is similar in size to Hawes Elementary School or the Kettler site, but might be a bit small to house a middle school.

Question: Is the Board Study Session on March 16th open to the public?

Answer: Yes. The meeting will be conducted via Zoom and is open to the public.

Question: Was the Maintenance Building project something that was identified in the master plan?

Answer: Yes, it was. The District's maintenance facilities were previously housed at Dwyer Middle School and had to be taken off the site to make room for the new gym. With the facilities being demolished, we needed to find a new home for them and the Kettler site was identified as the solution.

Question: Can you explain the deficit of \$9.9 million to modernize Sowers?

Answer: More detailed information will be available at the Board Study Session on March 16, 2021. Roughly \$8,000,000 of the estimate is for site remediation due to liquefaction. One of the reasons to look at other options is to get away from the large expense associated with soils remediation that would need to be undertaken with the modernization. With the reconstruction, we can build new with piles, or the cost goes away totally in the relocation option.

Question: What is the timing for Gisler sale?

Answer: Escrow is scheduled for May 2022 for first two-year escrow and they have the option for a third year should they choose to exercise it.



Question: Are we still looking at the option to modernize Sowers and build the new gym and STEM lab project?

Answer: Progress stalled on the project because of the indecision on how to move forward with Sowers overall. If Sowers were to remain, potentially the gym and STEM lab project would be phase 1.

Question: Should we make the decision about Sowers before moving forward with construction at Peterson?

Answer: Because we'll be constructing over two summers, the first phase will concentrate on elementary spaces that wouldn't be affected by a potential decision to convert the campus to a K-8 school. The only program element at Peterson that cannot be translated is the kindergarten classrooms.

Question: What is the scope at Eader and Peterson?

Answer: The scope at Eader includes 21st century classrooms, parking, ADA upgrades, various site work and boys' restrooms. We are recommending to the Board relocating some classrooms to the admin wing, remediation of moisture issues, relocating the staff lounge and workroom, a new kindergarten playground and replacing play structures.

The scope at Peterson includes new electrical and the bulk of costs is 21st Century classrooms (31 total rooms), a warming kitchen, library to learning commons renovation, fitness remodel, parking, ADA updates, remediating moisture issues and an extensive admin remodel. There is also some work at the multipurpose building that was not DSA approved. Recommended scope if the budget allows and pending board approval includes repurposing the existing food service space to offices and a staff lounge.

The work planned at each site is equitable, with roughly \$10,000,000 dedicated for each.

Question: That is a massive budget to remediate moisture issues at Peterson; can you explain? What are the electrical services (i.e. what's going on at Eader)? With \$20,000,000 on the line remaining in the program what are we doing to be competitive in the bidding climate?

Answer: The moisture issues at Peterson are related to moisture coming up through the slab and they've had problems with the flooring buckling. The estimate in the budget currently is from Construct1 and is the worst case scenario. We may be able to accomplish remediation with upgraded mastic which would be a significant cost reduction. Dome testing is occurring presently. We will analyze the test results and move forward with a remediation recommendation based on what is found in the investigation.



Regarding the cost of electrical upgrades at Eader, the electrical service at the campus has never been upgraded (as compared to Peterson, for example, which was upgraded at some point). The service was scheduled to be upgraded at Eader but was never completed because of lack of funding. The cost includes adding new transformers and new panels.

To respond to the question about the ability to take advantage of a potentially competitive bidding market, the District has chosen the lease-leaseback delivery method because it is collaborative with the intent to have a partner in the process. This is the same delivery method we've used for Series A and B projects as well. The budget numbers shown in the presentation are estimates, they are not bid numbers. Historically, we have seen a 7% reduction from Construct1 over the past years based on actual bid results. The sub-trades are bid. Each bond series has required an RFP to solicit lease-leaseback services. Most recently, the Series C solicitation was in the Fall of 2020 and Construct1 was selected again. We have the option to put the project out for hard bid. The disadvantage with this scenario is the potential to get an unknown contractor and we would lose the value of preconstruction and estimating services that happen in the design process and lose consistency of the team. With a larger project, such as the Sowers Middle School Reconstruction, for example (if we were to go that route), would require another RFP because it was not part of the Series C RFP. Recall that we also engaged C.W. Driver and Swinerton for estimating at certain points of the process.

Question: How many trades is the contractor procuring for each discipline? Are we seeing the same subcontractors time and time again?

Answer: That is not something we have analyzed in the past but is certainly something we could look into.

Question: We're seeing a national trend in building medical clinics inside middle schools and high schools where students can visit without consent from parents. Is this something the District is considering?

Answer: This is the first we've heard of the concept and is not something the District is considering. The only adjustment we have made with COVID is adding an entry to the nurse's office from the exterior of the building at Smith Elementary School. No other adjustments are planned.

Meeting adjourned at 5:08 pm.





Financial and Performance Audits
Building Fund (Measure Q)
June 30, 2020

Huntington Beach City School District

FINANCIAL AUDIT

| | |
|---|----|
| Independent Auditor's Report | 1 |
| Financial Statements | |
| Balance Sheet..... | 3 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance..... | 4 |
| Notes to Financial Statements | 5 |
| 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 <i>Government Auditing Standards</i> | 10 |
| Schedule of Findings and Questioned Costs | |
| Financial Statement Findings | 12 |
| Summary of Schedule of Prior Audit Findings | 13 |

PERFORMANCE AUDIT

| | |
|---|----|
| Independent Auditor's Report on Performance | 14 |
| Authority for Issuance..... | 15 |
| Purpose of Issuance | 15 |
| Authority for the Audit | 15 |
| Objectives of the Audit | 16 |
| Scope of the Audit..... | 16 |
| Methodology..... | 16 |
| Conclusion | 17 |
| Schedule of Findings and Questioned Costs | |
| Schedule of Findings and Questioned Costs | 18 |
| Summary of Schedule of Prior Audit Findings | 19 |



Financial Audit
Building Fund (Measure Q)
June 30, 2020

Huntington Beach City School District



Independent Auditor's Report

Governing Board and Citizens' Oversight Committee
Huntington Beach City School District
Huntington Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Huntington Beach City School District's (the District), Building Fund (Measure Q), as of and for the year ended June 30, 2020, 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 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 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 (Measure Q) of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measure Q are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Rancho Cucamonga, California
January 8, 2021

Huntington Beach City School District
Building Fund (Measure Q)
Balance Sheet
June 30, 2020

| | |
|------------------------------------|----------------------|
| Assets | |
| Investments | \$ 26,169,489 |
| Accounts receivable | <u>28,030</u> |
| Total assets | <u>\$ 26,197,519</u> |
| Liabilities and Fund Balance | |
| Liabilities | |
| Accounts payable | <u>\$ 6,009,731</u> |
| Fund Balance | |
| Restricted for capital projects | <u>20,187,788</u> |
| Total liabilities and fund balance | <u>\$ 26,197,519</u> |

Huntington Beach City School District
Building Fund (Measure Q)
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year End June 30, 2020

| | |
|---|-----------------------------|
| Revenues | |
| Interest income | <u>\$ 770,364</u> |
| Expenditures | |
| Current | |
| Materials and supplies | 555,216 |
| Services and other operating expenditures | 857,428 |
| Capital outlay | <u>34,469,507</u> |
| Total expenditures | <u>35,882,151</u> |
| Net Change in Fund Balance | (35,111,787) |
| Fund Balance - Beginning | <u>55,299,575</u> |
| Fund Balance - Ending | <u><u>\$ 20,187,788</u></u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Huntington Beach City School District's (the District) Building Fund (Measure Q) 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 District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the District used to account for Measure Q projects. This Fund was established to account for the expenditures of general obligation bonds issued under Measure Q. 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.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid, and all outstanding encumbrances lapse at June 30.

Fund Balance

As of June 30, 2020, the fund balance is classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Investments

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the 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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District 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 Orange County Educational Investment Pool. The District maintains a Building Fund (Measure Q) investment of \$26,169,489 with the Orange County Educational Investment Pool, with an average maturity of 266 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 rating by a nationally recognized statistical rating organization. The District's investment in the Orange County Educational Investment Pool is rated AAAm by Standard and Poor's Investor Services.

Note 3 - Accounts Receivable

Accounts receivable at June 30, 2020, consisted of the following:

| | |
|----------|-----------|
| Interest | \$ 28,030 |
|----------|-----------|

Note 4 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

| | |
|----------------|--------------|
| Capital outlay | \$ 6,009,731 |
|----------------|--------------|

Note 5 - Commitments and Contingencies

As of June 30, 2020, the Building Fund (Measure Q) had the following commitments with respect to unfinished projects:

| Measure Q Projects | Remaining Construction Commitment | Expected Date of Completion |
|-----------------------------------|---|-----------------------------------|
| Dwyer Middle School HVAC | \$ 1,987,941 | June 2021 |
| New Middle School | 15,953,271 | June 2022 |
| District MOT at Kettler | 2,288,000 | June 2022 |
| Eader Elementary Modernization | 6,197,748 | April 2022 |
| Peterson Elementary Modernization | 8,002,264 | April 2022 |
| | <u>\$ 34,429,224</u> | |

Litigation

The District is not currently a party to any legal proceedings related to the Building Fund (Measure Q) as of June 30, 2020.



Independent Auditor's Report
June 30, 2020

Huntington Beach City School District



**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Governing Board and Citizens' Oversight Committee
Huntington Beach City School District
Huntington Beach, 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 Huntington Beach City School District (the District) Building Fund (Measure Q) as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2021.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measure Q are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's Building Fund (Measure Q) 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 the District's Building Fund (Measure Q) 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Building Fund (Measure Q) 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 Building Fund (Measure Q) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
January 8, 2021

None reported.

Huntington Beach City School District
Building Fund (Measure Q)
Summary of Schedule of Prior Audit Findings
June 30, 2020

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



Performance Audit
Building Fund (Measure Q)
June 30, 2020

Huntington Beach City School District



Independent Auditor's Report on Performance

Governing Board and Citizens' Oversight Committee
Huntington Beach City School District
Huntington Beach, California

We were engaged to conduct a performance audit of the Huntington Beach City School District (the District) Building Fund (Measure Q) for the year ended June 30, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution and Appendix A contained in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

This report is intended solely for the information and use of the District, and is not intended to be and should not be used by anyone other than this specified party.

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

Rancho Cucamonga, California
January 8, 2021

Authority for Issuance

The general obligation bonds associated with Measure Q were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the *California Education Code*, and other applicable provisions of law.

The District received authorization from an election held on November 8, 2016, to issue bonds of the District in an aggregate principal amount not to exceed \$159,850,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55% of the votes cast by eligible voters within the District. The bonds represent the first and second series of the authorized bonds to be issued under the 2016 Authorization.

Purpose of Issuance

The general obligation bond funds of the District would be used to construct science, technology, engineering, and mathematics labs, repair or replace leaky roofs, renovate deteriorating plumbing/sewer systems, upgrade inadequate electrical systems, construct, renovate, modernize, equip classrooms, restrooms and other school facilities and to improve the quality of education at schools.

Authority for the Audit

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, “for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities”, upon approval by 55% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a 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

- 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 Q.
- Determine whether salary transactions, if any, charged to the Building Fund, were in support of Measure Q and not for District general administration operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2019 to June 30, 2020. 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, 2020, were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2020, for the Building Fund (Measure Q). Within the fiscal year audited, we obtained the actual invoices, purchase orders, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure Q as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.
2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes, including transfers out.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2019 through June 30, 2020 from Measure Q bond proceeds.
 - c. We selected a sample of expenditure using professional judgement, based on risk assessment and consideration of coverage of all object codes, including transfers out, and projects for period starting July 1, 2019 and ending June 30, 2020.
3. Our sample included transactions totaling \$21,750.529. This represents 61 percent of the total expenditures of \$35,882,151, including transfers out.
4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.

5. We determined that the District has met the compliance requirement of Measure Q if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the Districts.

Conclusion

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

Huntington Beach City School District
Building Fund (Measure Q)
Schedule of Findings and Questioned Costs
June 30, 2020

None reported.

Huntington Beach City School District
Building Fund (Measure Q)
Summary of Schedule of Prior Audit Findings
June 30, 2020

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