

OAKLAND UNIFIED SCHOOL DISTRICT

**MEASURE B
GENERAL OBLIGATION BOND FUND**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

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INDEPENDENT AUDITOR'S REPORT

Board of Education and
Citizens' Bond Oversight Committee
Oakland Unified School District
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the June 6, 2006 School Facilities Improvement Bond of 2006 (Measure B) of the Oakland Unified School District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Measure B's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial 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 Measure B, as of June 30, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund specific to the Measure B Bond Fund, and are not intended to present fairly the financial position and results of operations of Oakland Unified School District in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, on our consideration of Measure B'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 solely 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 effectiveness of Measure B'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 Measure B's internal control over financial reporting and compliance.

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

Palo Alto, California
February 10, 2020

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

BALANCE SHEET

JUNE 30, 2018

ASSETS

Deposits and investments	\$ 66,827,645
Interest receivable	223,250
Due from Oakland Unified School District	7,197
Total assets	<u>\$ 67,058,092</u>

LIABILITIES AND FUND BALANCE

Liabilities

Tade accounts payable	3,486,956
Accrued payroll and benefits	2,883
Total liabilities	<u>3,489,839</u>

Fund Balance

Restricted for Measure B	63,568,253
Total liabilities and fund balance	<u>\$ 67,058,092</u>

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

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2018

REVENUES

Interest income	\$ 746,844
Other local sources	116,187
Total revenues	<u>863,031</u>

EXPENDITURES

Facilities modernization and improvement	
Salaries	28,573
Employee benefits	4,906
Services and operating expenditures	1,127,992
Construction	10,381,833
Total expenditures	<u>11,543,304</u>
Excess of expenditures over revenues	<u>(10,680,273)</u>

OTHER FINANCING SOURCES

Transfers of resources	<u>1,280,773</u>
Net change in fund balance	<u>(9,399,500)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>72,967,753</u>
FUND BALANCE, END OF YEAR	<u>\$ 63,568,253</u>

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

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 – THE REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure B General Obligation Bond fund (Fund) of Oakland Unified School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

A. Financial Reporting Entity

The Measure B General Obligation Bond Fund was established to account for the expenditures of general obligation bonds issued under the June 6, 2006 School Facilities Improvement Bond of 2006 (Measure B) of the Oakland Unified School District. Approval of measure B authorized the District to issue \$435,000,000 of general obligation bonds for construction or modernization of school facilities. The following table shows bonds issued under Measure B as of June 30, 2018.

Series Name	Issue Date	Initial Principal Amount
Series 2006	August 1, 2006	\$ 130,000,000
Series 2009A	August 12, 2009	87,885,000
Series 2009B	August 12, 2009	70,795,000
Series 2009C	August 12, 2009	26,320,000
Series 2012A	March 21, 2012	31,040,000
Series 2012B	March 21, 2012	23,960,000
Series 2016A	August 17, 2016	65,000,000
		<u>\$ 435,000,000</u>

These financial statements are not intended to present the financial position and results of operations of the Oakland Unified School District as a whole, in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Expenditures are not capitalized or depreciated in these financial statements. Long-term debt is not included as a liability of the Fund. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

C. Use of Estimates

The preparation of financial statements in accordance 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 and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Policies and General Authorization – The Fund 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 the county treasurer (Education Code Section 41001). The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis. The Fund's investment in the pool is reported in the financial statements at the Fund's pro-rata share of amortized cost which approximates fair value. Amortized cost and fair value is provided by the county treasurer for the entire portfolio.

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 sensitivity of the fair values of the District's investment to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 393 days on June 30, 2018.

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 can access at the measurement date.

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.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data.

Uncategorized – The District's investments in the Alameda County Investment Pool are not measured using the input levels described above because 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.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – TRANSFERS IN

The Fund reported transfers of resources for the year ending June 30, 2018 for \$1,280,773 from the Oakland Unified School District Measure J General Obligation Bond Fund.

NOTE 4 – CONTINGENCIES AND COMMITMENTS

Performance Audit and Other Audit Findings – The 2018-2019 Alameda County Grand Jury Report and the Measure B Construction Bond Funds Performance Audit Report for the Fiscal Year Ended June 30, 2018 contain information that may be relevant to readers of the Fund financial statements. Management has determined that no conditions exist that require a loss contingency accrual, and no such estimate of an amount can be made based on facts and circumstances to date.

Litigation – The Fund is involved in various litigation arising from the normal course of business. In the opinion of management, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Fund at June 30, 2018.

Construction Commitments – The Fund had contractual obligations of \$18,537,549 on June 30, 2018 for Measure B capital improvement projects.



**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 Education and
Citizens' Bond Oversight Committee
Oakland Unified School District
Oakland, 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 June 6, 2006 School Facilities Improvement Bond of 2006 (Measure B) of the Oakland Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Measure B's basic financial statements, and have issued our report thereon dated February 10, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fund's 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 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 over financial reporting 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.



Palo Alto, California

February 10, 2020

OAKLAND UNIFIED SCHOOL DISTRICT

**MEASURE B GENERAL OBLIGATION BOND FUND
SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

SUMMARY OF AUDITORS RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent significant deficiencies and material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2018-001, Interfund Transfers – Material Weakness in Internal Control Over Financial Reporting

Criteria

Management of the District is responsible for ensuring that the financial statements of the bond funds are complete and accurate representations of the bond fund accounting activity separate from the overall Oakland Unified School District financial statements.

Condition and Questioned Costs

Management transferred \$1,280,773 of Measure J resources to Measure B for the year ending June 30, 2018. We have no basis for concluding if the source of funds allows this transaction.

Context

This transfer of resources to Measure B was part of a more significant transfer of resources between the Measure B bond fund, Measure J bond fund, and another capital projects fund of the Oakland Unified School District. Management transferred \$7.9 million to the following programs of the District: Measure B for \$1.3 million, the County School Facilities Capital Projects Fund of the District for \$6.0 million, and the Self-Insurance Fund of the District for \$0.6 million. The transfer was made in response to assertions from an outside agency that capital project funds were used for an activity that should have been funded by another funding source; management of the District concluded that general obligations bond funds were an appropriate funding source for those expenditures.

Effect

This transaction was not initially posted by management to income statement accounts for the year ending June 30, 2018. Therefore, we could not determine if the source of funds was included within the population of expenditures subject to the 2018 performance audit. Accordingly, if the transaction is determined unallowable, the Measure B fund could be required to refund the \$1.3 million.

Cause

The events that resulted in this transaction occurred during a time of transition of senior management of the District responsible for financial reporting. Therefore, the District's response to findings from outside agencies may not have been thoroughly considered.

Recommendation

Management of the District should consult with bond counsel about this transaction to determine if Measure J is an allowable source of funds. We also recommend that management confirm if the transfer of resources was included within the population of expenditures subject to the 2018 performance audit compliance procedures.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2018

Views of Responsible Officials

The purpose of the above-noted journal entries is to adjust the accounting records to address prior audit findings involving interest earned on Measure A bond funds and reimburse other funds for related bond expenditures. Critical vacancies in the accounting department at the posting time of these entries are the root cause of the control deficiency. As of December 2019, the matter is rectified as the District has a permanent controller.

2018-002, Stale Dated Warrants – Significant Deficiency in Internal Control Over Financial Reporting

Criteria

The cancellation of an expense transaction should be refunded to the source where it originated.

Condition and Questioned Costs

The building fund of the Oakland Unified School District includes \$233 thousand of cash as of June 30, 2018, that needs to be distributed between the separate Measure J and Measure B bond funds.

Context

The \$233 thousand is an accumulation of resources from the inception of the bond funds through June 30, 2018. This is a small part of the total bond fund expenditures. Of the \$233 thousand, a portion belongs to Measure J and Measure B, while a portion is escheat property that should be remitted to the California State Controller.

Effect

The balance of cash as of June 30, 2018, of the separate bond fund financial statements, does not include these amounts.

Cause

The District has not determined the part that belongs to Measure J, Measure B, or should be remitted to the California State Controller as escheat property.

Recommendation

We recommend management to allocate the accumulated balances to the origination source.

Views of Responsible Officials

The District agrees and are working on reallocation of the accumulated balances to the origination source. We are also working with the vendors to clear the stale dated warrants.

OAKLAND UNIFIED SCHOOL DISTRICT

**MEASURE J
GENERAL OBLIGATION BOND FUND**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND

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INDEPENDENT AUDITOR'S REPORT

Board of Education and
Citizens' Bond Oversight Committee
Oakland Unified School District
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the November 6, 2012 School Facilities Improvement Bond of 2012 (Measure J) of the Oakland Unified School District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Measure J's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial 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 Measure J, as of June 30, 2018, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund specific to the Measure J Bond Fund, and are not intended to present fairly the financial position and results of operations of Oakland Unified School District in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, on our consideration of Measure J'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 solely 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 effectiveness of Measure J'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 Measure J's internal control over financial reporting and compliance.

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

Palo Alto, California

February 10, 2020

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND BALANCE SHEET JUNE 30, 2018

ASSETS

Deposits and investments	\$ 70,026,423
Interest receivable	302,078
Due from Oakland Unified School District	293,232
Total assets	<u>\$ 70,621,733</u>

LIABILITIES AND FUND BALANCE

Liabilities

Tade accounts payable	\$ 11,373,903
Due to Oakland Unified School District	611,704
Total liabilities	<u>11,985,607</u>

Fund Balance

Nonspendable	293,232
Restricted for Measure J	58,342,894
Total fund balance	<u>58,636,126</u>
Total liabilities and fund balance	<u>\$ 70,621,733</u>

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

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2018

REVENUES	
Interest	\$ 854,773
Other	5,578
Total revenues	<u>860,351</u>
EXPENDITURES	
Facilities modernization and improvement	
Salaries	2,587,884
Employee benefits	1,047,884
Supplies and equipment	43,344
Services and operating expenditures	9,000,720
Construction	55,840,132
Total expenditures	<u>68,519,964</u>
Excess of expenditures over revenues	(67,659,613)
OTHER FINANCING (USES)	
Transfers out	<u>(7,899,141)</u>
Net change in fund balance	(75,558,754)
FUND BALANCE, BEGINNING OF YEAR	<u>134,194,880</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 58,636,126</u></u>

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

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – THE REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure B General Obligation Bond fund (Fund) of Oakland Unified School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

A. Financial Reporting Entity

The Measure J General Obligation Bond Fund was established to account for the expenditures of general obligation bonds issued under the November 6, 2012 School Facilities Improvement Bond of 2012 (Measure J) of the Oakland Unified School District. Approval of measure J authorized the District to issue \$475,000,000 of general obligation bonds for construction or modernization of school facilities. The following table shows bonds issued under Measure J as of June 30, 2018, and the subsequent period to date.

Series Name	Issue Date	Initial Principal Amount
Series 2013	September 4, 2013	\$ 120,000,000
Series 2015A	August 20, 2015	173,500,000
Series 2015B-Taxable	August 20, 2015	6,500,000
Series 2019A *	August 13, 2019	160,000,000
Series 2019B-Taxable *	August 13, 2019	15,000,000
		<u>\$ 475,000,000</u>

**Issued subsequent to June 30, 2018.*

These financial statements are not intended to present the financial position and results of operations of the Oakland Unified School District as a whole, in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Expenditures are not capitalized or depreciated in these financial statements. Long-term debt is not included as a liability of the Fund. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

C. Use of Estimates

The preparation of financial statements in accordance 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 and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Policies and General Authorization – The Fund 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 the county treasurer (Education Code Section 41001). The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis. The Fund's investment in the pool is reported in the financial statements at the Fund's pro-rata share of amortized cost which approximates fair value. Amortized cost and fair value is provided by the county treasurer for the entire portfolio.

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 sensitivity of the fair values of the District's investment to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 393 days on June 30, 2018.

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 can access at the measurement date.

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.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data.

Uncategorized – The District's investments in the Alameda County Investment Pool are not measured using the input levels described above because 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.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – TRANSFERS OUT

The following tables shows transfers of resources to other funds of the Oakland Unified School District during the year ending June 30, 2018:

Transfer to:	
County School Facilities Capital projects fund of the District	\$ 6,006,665
Measure B of Oakland Unified School District	1,280,773
Reimbursement to Oakland Unified School District for parking costs	611,703
Total transfer out	<u>\$ 7,899,141</u>

NOTE 4 – CONTINGENCIES AND COMMITMENTS

Performance Audit and Other Audit Findings – The 2018-2019 Alameda County Grand Jury Report and the Measure B Construction Bond Funds Performance Audit Report for the Fiscal Year Ended June 30, 2018 contain information that may be relevant to readers of the Fund financial statements. Management has determined that no conditions exist that require a loss contingency accrual, and no such estimate of an amount can be made based on facts and circumstances to date.

Litigation – The Fund is involved in various litigation arising from the normal course of business. In the opinion of management, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Fund at June 30, 2018.

Construction Commitments – The Fund had contractual obligations of \$171,527,564 on June 30, 2018 for Measure J capital improvement projects.



**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 Education and
Citizens' Bond Oversight Committee
Oakland Unified School District
Oakland, 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 November 6, 2012 School Facilities Improvement Bond of 2012 (Measure J) of the Oakland Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Measure J's basic financial statements, and have issued our report thereon dated February 10, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-002 to be a significant deficiency.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure J's 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 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 over financial reporting 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.



Palo Alto, California
February 10, 2020

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE B GENERAL OBLIGATION BOND FUND

SUMMARY OF AUDITOR'S RESULTS

FOR THE YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITORS RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited
were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes

Significant deficiency identified?

Yes

Noncompliance material to financial statements noted?

No

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent significant deficiencies and material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2018-001, Interfund Transfers – Material Weakness in Internal Control Over Financial Reporting

Criteria

Management of the District is responsible for ensuring that the financial statements of the bond funds are complete and accurate representations of the bond fund accounting activity separate from the overall Oakland Unified School District financial statements.

Condition and Questioned Costs

Management transferred \$7.9 million to the following programs of the District: Measure B for \$1.3 million, the County School Facilities Capital Projects Fund of the District for \$6.0 million, and the Self-Insurance Fund of the District for \$0.6 million. While management determined the transaction to be appropriate, we have no independent basis for concluding if this is an allowable transaction of Measure J.

Context

The transfer was made in response to assertions from an outside agency that capital project funds were used for an activity that should have been funded by another funding source; management of the District concluded that general obligations bond funds were an appropriate funding source for those expenditures.

Effect

This transaction was not initially posted by management to income statement accounts for the year ending June 30, 2018. Therefore, we could not determine if the source of funds was included within the population of expenditures subject to the 2018 performance audit. Accordingly, if the transaction is determined unallowable, the Measure B fund could be required to refund the \$1.3 million, the Oakland Unified School District could be required to refund the \$6.6 million. The refunds would be to the Measure J Fund.

Cause

The events that resulted in this transaction occurred during a time of transition of senior management of the District responsible for financial reporting. Therefore, the District's response to findings from outside agencies may not have been thoroughly considered.

Recommendation

Current management of the District should consult with bond counsel about this transaction to determine if Measure J is an allowable source of funds. We also recommend that management confirm if the transfer of resources was included within the population of expenditures subject to the 2018 performance audit compliance procedures.

OAKLAND UNIFIED SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BOND FUND AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Views of Responsible Officials

The purpose of the above-noted journal entries is to adjust the accounting records to address prior audit findings involving interest earned on Measure A bond funds and reimburse other funds for related bond expenditures. Critical vacancies in the accounting department at the posting time of these entries are the root causes of the control deficiency. As of December 2019, the matter is rectified as the District has a permanent controller.

2018-002, Stale Dated Warrants – Significant Deficiency in Internal Control Over Financial Reporting

Criteria

Reversal of an expense transaction should be refunded to the source where it originated.

Condition and Questioned Costs

The building fund of the Oakland Unified School District includes \$233 thousand of cash as of June 30, 2018, that needs to be distributed between the separate Measure J and Measure B bond funds.

Context

The \$233 thousand is an accumulation of resources from the inception of the bond funds through June 30, 2018. This is a small part of the total bond fund expenditures. Of the \$233 thousand, a portion belongs to Measure J and Measure B, while a portion is escheat property that should be remitted to the California State Controller.

Effect

The balance of cash as of June 30, 2018, of the separate bond fund financial statements, does not include these amounts.

Cause

The District has not determined the part that belongs to Measure J, Measure B, or should be remitted to the California State Controller as escheat property.

Recommendation

We recommend management to allocate the accumulated balances to the origination source.

Views of Responsible Officials

The District agrees and are working on reallocation of the accumulated balances to the origination source. We are also working with the vendors to clear the stale dated warrants.