

**MEASURE E BOND BUILDING FUND
OF
BEVERLY HILLS UNIFIED SCHOOL DISTRICT**

FINANCIAL AUDIT REPORT

FOR THE FISCAL YEAR ENDED
June 30, 2017

**BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 MEASURE E BOND BUILDING FUND
 FINANCIAL AUDIT REPORT**
 For the Fiscal Year Ended June 30, 2017

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BEVERLY HILLS UNIFIED SCHOOL DISTRICT

MEASURE E BOND BUILDING FUND

Introduction and Citizens' Oversight Committee Member Listing

June 30, 2017

The Beverly Hills Unified School District was unified in 1935 under the laws of the State of California and consists of an area comprising approximately 5.7 square miles. The District operates four K-8 elementary schools and one high school.

In November 2008, the District's voters approved by more than the required 55% favorable vote, Measure E, authorizing the issuance and sale of general obligation bonds, not to exceed \$334,000,000. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure E, including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against improper expenditure of bond revenues.

The Proposition 39 bonds were issued by the District, through the County of Los Angeles. On January 6, 2009, Election of 2008, Series of the Measure E bond authorization was issued, which consisted of current interest bonds and capital appreciation bonds with an initial par amount of \$72,044,664 with stated interest rates of 2.50% to 8.1% and maturing through August 1, 2033. As of June 30, 2017, the principal balance outstanding on the Election of 2008, Series 2009 bond was \$63,359,664.

On November 20, 2013, Election of 2008, Series 2013 of the Measure E bond authorization was issued, which consisted of current interest bonds and capital appreciation bonds with an initial par amount of \$44,999,303 with stated interest rates of 4.00% to 5.15% and maturing through August 1, 2038. As of June 30, 2017, the principal balance outstanding on the Election of 2008, Series 2013 Bond was \$0.

The Election of 2008, Series 2015 of the Measure E bond authorization was issued on September 9, 2015 and consisted of current interest bonds with an initial par amount of \$76,000,000 with stated interest rates of 2.00% to 5.00% and maturing through August 1, 2033. As of June 30, 2017, the principal balance outstanding on the Election of 2008, Series 2015 Bond was \$70,475,000.

On November 2, 2016, the District issued 2016 General Obligation Refunding Bonds in the amount of \$55,738,598. The bonds were issued for the purpose of refund portions of the 2008 General Obligation Bond Series 2009 and refund the entire portions of the 2008 General Obligation Bond Series 2013. The bonds included \$6,135,000 in Current Interest bonds and \$49,603,598 in Capital Appreciation bonds. The Capital Appreciation bonds accrete to a \$98,485,000 maturity value. The bond's interest rates range from 3.00 percent to 5.00 percent. The outstanding principal at June 30, 2017, was \$55,738,598.

On February 9, 2017, the District issued 2008 General Obligation Bond Series 2017 in the amount of \$140,952,290. The bonds included \$99,565,000 in Current Interest bonds and \$41,387,290 in Capital Appreciation bonds. The Capital Appreciation bonds accrete to a \$95,705,000 maturity value. The bond's interest rates range from 2.00 percent to 5.00 percent. The outstanding principal at June 30, 2017, was \$140,952,290.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2017

The Citizens' Oversight Committee had the following members as of June 30, 2017, all of whom were appointed by the District's Board of Education with one to two year terms of office:

Name	Title	Representation	Education Code Section
Bradley Gibbons	Chair	Construction background	15282(a)
Jason Rund	Vice-chair	Parent of Child Enrolled in District	15282(a)(4)
Richard Baron	Member	Community-at-Large	15282(a)
John Dohm	Member	Community-at-Large	15282(a)
Lee Egerman	Member	Community-at-Large	15282(a)
Simone Gold	Member	Community-at-Large	15282(a)
Jerid Maybaum	Member	Community-at-Large	15282(a)
Arthel McDaniel III	Member	Community-at-Large	15282(a)
Alexandra Polin	Member	Community-at-Large	15282(a)
Donald Rosen	Member	Community-at-Large	15282(a)
Richard Schreiber	Member	Finance Background	15282(a)
Yoav Tamir	Member	Community-at-Large	15282(a)
Franke Tell	Member	Community-at-Large	15282(a)
Ben Tiernan	Member	Community-at-Large	15282(a)
Mary Wells	Member	Community-at-Large	15282(a)



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INDEPENDENT AUDITOR'S REPORT

The Board of Education
The Citizens' Oversight Committee
Beverly Hills Unified School District
Beverly Hills, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure E Bond Building Fund of the Beverly Hills Unified School District (District), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the financial statements, whether due to fraud or error. 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 respective financial position of the Measure E Bond Building Fund of the Beverly Hills Unified School District, as of and for the fiscal year ended June 30, 2017, and the respective changes in financial position for the fiscal 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 Measure E Bond Building Fund and do not present fairly the financial position of the Beverly Hills Unified School District, as of June 30, 2017, and the change in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017, 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls 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.



Moss, Levy & Hartzheim, LLP
Culver City, California
December 15, 2017

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
BALANCE SHEET
June 30, 2017

Assets

Cash in County Treasury	\$	185,912,190
Interest and accounts receivable		<u>857,993</u>
Total current assets	\$	<u>186,770,183</u>

Liabilities and Fund Balance

Liabilities:

Accounts payable	\$	<u>5,464,254</u>
Total liabilities		<u>5,464,254</u>

Fund Balance:

Restricted for construction		<u>181,305,929</u>
Total fund balance		<u>181,305,929</u>
Total liabilities and fund balance	\$	<u>186,770,183</u>

The accompanying notes to the financial statements are an integral part of this statement.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2017

Revenues:	
Interest	\$ <u>1,342,870</u>
Total revenues	<u>1,342,870</u>
Expenditures:	
Facilities acquisition and construction	<u>45,469,087</u>
Total expenditures	<u>45,469,087</u>
Excess (deficiency) of revenues over expenditures	<u>(44,126,217)</u>
Other Financing Sources:	
Proceeds from issuance of bonds	<u>140,612,290</u>
Total other financing sources	<u>140,612,290</u>
Net change in fund balance	96,486,073
Fund balance, beginning of fiscal year	<u>84,819,856</u>
Fund balance, end of fiscal year	<u>\$ 181,305,929</u>

The accompanying notes to the financial statements are an integral part of this statement.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Beverly Hills Unified School District ("District") was established in 1935. The District serves approximately 4,679 students in four elementary schools (grades K-8), and one high school (grades 9-12).

On November 4, 2008, the District voters authorized \$334 million in general obligation bonds (Measure E) to provide safe and modernized school facilities, make necessary structural seismic safety repairs, upgrade, repair, and reconstruct aging classrooms, infrastructure, multiuse, gyms, libraries, science, technology & labs; roofing, plumbing, heating, ventilation and electrical systems to better protect students and staff from unauthorized entry, security risks, and natural disasters.

An oversight committee to the District's Governing Board and Superintendent, called the Citizens' Oversight Committee (COC), was established pursuant to the requirements of State law and the provisions of the Measure E bond. The COC is required by state law (Education Code Section 15278(b)) to "actively review and report on the proper expenditure of taxpayers' money for school construction." The COC provides oversight and advises the public whether the District is spending the Measure E Bond funds for school capital improvements within the scope of projects outlined in the Measure E Bond project list. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measure E activity.

The statements presented are for the individual Measure E Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2008, Series 2009, Series 2013, Series 2015, and Series 2017 general obligation bonds as issued by the District, through the County of Los Angeles, and are not intended to be a complete presentation of the District's financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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 are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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 liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Los Angeles County Treasury. The County pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. 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 during the reporting period. Actual results could differ from those estimates.

G. 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 government funds. By state law, the District's governing board must adopt a 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 during the fiscal year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the fiscal 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.

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance of the Measure E Bond is considered restricted. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as cash in county treasury in the amount of \$185,912,190.

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 Instruments, 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 agreements, 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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash 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 its County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting financial statements 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

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the County Treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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	40%	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

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below.

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 manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Los Angeles County Investment Pool with a fair value of approximately \$184,805,455 and an amortized book value of \$185,912,190. The weighted average maturity for this pool as of June 30, 2017 was 672 days.

Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 (unadjusted) in active markets for identical assets.

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, either directly or indirectly.

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 Los Angeles 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.

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. The investments within the Los Angeles County Investment Pool were not rated.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable amounting to 857,993, as of June 30, 2017 consists of interest earned on the District’s investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The following table presents the construction commitments by project for the fiscal year ended June 30, 2017:

By Site	Amount	Percent
Beverly Vista Elementary School	\$ 7,577	0.06%
El Rodeo Elementary School	611,550	5.07%
Hawthorne Elementary School	392,996	3.26%
Horace Mann Elementary School	8,844,695	73.31%
Beverly Hills High School	1,559,591	12.93%
Facilities	<u>648,925</u>	<u>5.37%</u>
	<u>\$ 12,065,334</u>	<u>100.00%</u>

*Program administration as presented in the prior year has been included in facilities and planning.

NOTE 5 – MEASURE E GENERAL OBLIGATION BONDS

As of June 30, 2017, the principal balance outstanding on the District’s Measure E general obligation bonds is indicated as follows:

	Date of Issue	Interest Rate	Maturity Year	Amount of Original Issue	Outstanding July 1, 2016	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2017
Series 2009	1/6/2009	2.50-8.10%	8/1/2033	\$ 72,044,664	\$ 70,934,664	-	\$ 7,575,000	\$ 63,359,664
Series 2013	11/20/2013	4.00-5.15%	8/1/2038	44,999,303	33,649,303		33,649,303	
Series 2015	9/9/2015	2.00-5.00%	8/1/2032	76,000,000	76,000,000		5,525,000	70,475,000
2016 Refunding Bonds	11/2/2016	3.00-5.00%	8/1/2038	55,738,598		55,738,598		55,738,598
Series 2017	2/9/2017	2.00-5.00%	8/1/2040	140,952,290		140,952,290		140,952,290
				<u>\$ 389,734,855</u>	<u>\$ 180,583,967</u>	<u>\$ 196,690,888</u>	<u>\$ 46,749,303</u>	<u>\$ 330,525,552</u>

Election of 2008, Series 2009, Series 2013, Series 2015, 2016 Refunding, and Series 2017

On January 6, 2009, Series 2009 bonds of the Measure E bond Authorization were issued, which consisted of \$12,460,000 of current interest bonds and \$59,584,664 of capital appreciation bonds with an initial total par amount of \$72,044,664, with stated interest rates of 2.5% to 5.0%, a combined yield of 2.0% to 6.36% and maturing through August 1, 2033.

On November 20, 2013, Series 2013 bonds of the Measure E bond authorization were issued, which consisted of \$11,350,000 of current interest bonds and \$33,649,303 of capital appreciation bonds with an initial total par amount of \$44,999,303, with stated interest rates of 4.00% to 5.15%, a combined yield of 4.92% to 5.15% and maturing through August 1, 2038. On November 2, 2016, the District issued 2016 General Obligation Refunding Bonds to advance refund the bonds. The advance refunding resulted in a legal defeasance of the bonds.

On September 9, 2015, Series 2015 bonds of the Measure E bond authorization were issued, with an initial par of \$76,000,000 of current interest bonds, with stated interest rates of 2.00% to 5.00%, and maturing through August 1, 2032.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – MEASURE E GENERAL OBLIGATION BONDS (Continued)

Election of 2008, Series 2009, Series 2013, Series 2015, 2016 Refunding, and Series 2017 (Continued)

On November 2, 2016, 2016 General Obligation Refunding bonds were issued, which consisted of \$6,135,000 of current interest bonds and \$49,603,598 of capital appreciation bonds with an initial total par amount of \$55,738,598. The bonds were issued for the purpose of refund portions of the 2008 General Obligation Bond Series 2009 and refund the entire portions of the 2008 General Obligation Bond Series 2013. The bonds with stated interest rate of interest rates range from 3.00 percent to 5.00 percent, a combined yield of 3.42% to 3.57%, and maturing through August 1, 2038.

On February 9, 2017, Series 2017 bonds of the Measure E bond authorization were issued, which consisted of \$99,565,000 in current interest bonds and \$41,387,290 of capital appreciation bonds with an initial total par amount of \$140,952,290, with stated interest rates of 2.00 percent to 5.00 percent, a combined yield of 4.06% to 4.30% and maturing through August 1, 2040.

The annual requirements to amortize all Measure E general obligation bonds payable outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30,	Principal	Accreted Interest	Interest	Total
2018	\$ 18,295,000	\$ -	\$ 5,856,621	\$ 24,151,621
2019	14,475,000		5,673,776	20,148,776
2020	14,630,000		5,231,576	19,861,576
2021	13,935,000		4,759,801	18,694,801
2022	12,379,424	2,765,576	4,389,676	19,534,676
2023-2027	67,147,405	26,122,595	16,582,705	109,852,705
2027-2032	55,070,385	71,159,615	8,121,989	134,351,989
2033-2037	64,761,728	93,488,272	5,747,400	163,997,400
2038-2041	69,831,610	53,978,390	3,332,500	127,142,500
	<u>\$ 330,525,552</u>	<u>\$ 247,514,448</u>	<u>\$ 59,696,044</u>	<u>\$ 637,736,044</u>

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – MEASURE E EXPENDITURES BY MAJOR OBJECT

The following table presents the expenditure amounts by major object for the fiscal year ended June 30, 2017:

<u>Expenditures by Object</u>	<u>Amount</u>	<u>Percent</u>
Classified salaries	\$ 347,194	0.76%
Employee benefits	91,208	0.20%
Books and supplies	1,957,986	4.31%
Services and other operating expenditures	4,894,656	10.76%
Capital outlay	<u>38,178,043</u>	<u>83.97%</u>
	<u>\$ 45,469,087</u>	<u>100.00%</u>

For the current fiscal year, of the \$4,894,656 reported under services and other operating expenditures, \$2,964,145 (6.52%) is for MTA litigation cost. Total amount spent from the inception of the bonds measure related to MTA litigation was \$14,227,254 (8.84% of the total expenditures \$160,998,913).

NOTE 7 – MEASURE E EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2017:

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Beverly Vista Elementary School	\$ 2,615,793	5.75%
El Rodeo Elementary School	5,531,419	12.17%
Hawthorne Elementary School	1,670,349	3.67%
Horace Mann Elementary School	6,600,232	14.52%
Beverly Hills High School	20,901,734	45.97%
Technology	2,403,490	5.29%
Facilities and planning *	<u>5,746,070</u>	<u>12.63%</u>
	<u>\$ 45,469,087</u>	<u>100.00%</u>

*Program administration as presented in the prior year has been included in facilities and planning.

NOTE 8 – SALARIES AND RELATED BENEFITS EXPENDITURES

During the fiscal year, the district charges \$438,402 salaries and benefits of its employees to the Measure E fund. These expenditures are for program administration purposes.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**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**

The Board of Education
The Citizens' Oversight Committee
Beverly Hills Unified School District
Beverly Hills, 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 E Bond Building Fund of the Beverly Hills Unified School District (District) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 15, 2017

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES
For the Fiscal Year Ended June 30, 2017

2017-01 Finding – Invoices were not paid timely:

During test of disbursements, it was noted that 31 out of 95 invoices were not paid timely.

Effect:

The District is not in compliance with its procedures for invoice processing per the District's facilities procedure manual.

Recommendation:

We recommend that the District implement procedures to ensure that invoices are date-stamped on receipt and paid in accordance with the District's policy and contracts regarding payment time frames.

Management Response:

The District will continue to time/date stamp all invoices when received and evaluate invoice payment processing procedures to ensure compliance with District policies and procedures and contractual obligations.

2017-02 Finding – Project Scope:

During testing of procurement, it was noted that projects expanded significantly in scope of work and the additional amounts are in excess of reasonable or allowable increases to original plans and projections.

Effect:

The District is not able to budget and manage projects efficiently and effectively if the scope keeps changing.

Recommendation:

We recommend that the District do more significant planning, contingency planning, and evaluation prior to starting each project. Additional scope of work should be evaluated as to whether it is reasonable and fits within the current project plan. Additional work on the same site not related to current work being performed should be competitively solicited as a separate project.

Management Response:

The District's contract with TOTUM ended June 30, 2017. On July 17, 2017, the Board of Education entered into a contract with TEAM CONCEPT DEVELOPMENT SERVICES (TCDS) to manage the Bond program. Using a delivery method with a guaranteed maximum price for large projects and introducing an extensive pre-bid constructability review for all projects will greatly reduce the number and amount of change orders on projects initiated on and/or after July 17, 2017. In addition, TCDS is revising the District's Facilities Policies and Procedures Manual to address Public Contract Codes Section 20118.4 regarding change order limitations.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT’S RESPONSES
For the Fiscal Year Ended June 30, 2017

2017-03 Finding – Insufficient supporting documentation for CUPCCAA informal bidding process:
During test of disbursements, it was noted that there were insufficient supporting documents for 2 out of 4 CUPCCAA projects awarded.

Effect:

The District is not in compliance with its procedures for CUPCCAA projects per the District’s procedures.

Recommendation:

We recommend that the District follow procedures and retain support documenting the process and indicating proper procedures were performed for each project.

Management Response:

The District will comply with its Informal Bidding Requirements Policies to ensure competitive pricing for the bond program. Additionally, the District will maintain a consolidated bid and procurement activity report that will allow District Senior Management to identify, prevent, or detect noncompliance with District policies and procedures, state laws, and regulations. Supporting documentation will be housed in a central location, either physically or electronically. A checklist with appropriate sign-offs on procurement requirements will serve as a tool for all relevant parties.

2017-04 Finding – Vendor s invoiced through third party:
During test of disbursements, it was noted that some vendors are invoiced through a third party.

Effect:

The District may have increased third party risk and may not be appropriately identifying and managing vendors according to District policies and procedures.

Recommendation:

We recommend that the District closely monitor the activities of the third party and its vendors.

Management Response:

This Recommendation will be implemented in 2017-18, and the District’s policies and procedures will be updated to outline a process for this monitoring.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017

2016-01 Finding – Invoices were not paid timely:

During test of disbursements, it was noted that 8 out of 50 invoices were not paid timely.

Effect:

The District is not in compliance with its procedures for invoice processing per the District's facilities procedure manual.

Recommendation:

We recommend that the District implement procedures to ensure that invoices are date-stamped on receipt and paid in accordance with the District's policy and contracts regarding payment time frames.

Current Status:

Not Implemented. See Finding 2017-01

2016-02 Finding – Unsupported Payroll Charges Designated to the Bond Program:

During examination of payroll charged to the program, it was noted that salaries were allocated, but were not adequately supported.

Effect:

The District did not demonstrate certain compliance with the requirement that Bond measure monies be spent exclusively on Bond-related activity.

Recommendation:

We recommend that the District implement procedures to ensure that salaries charged to the Bond Program are adequately supported.

Current Status:

Implemented.

2016-03 Finding – Lack of bidding for some professional services:

During test of procurement, it was noted that the District does not require and therefore, does not perform a formal competitive solicitation for all professional services. However, the facilities manual does not make an exception for professional services.

Effect:

The District's policies and procedures may not meet procurement requirements of the Measure.

Recommendation:

We recommend that the District conduct formal competitive solicitations for all services that exceed or will likely exceed established dollar amounts requiring such a process.

Current Status:

Implemented.

BEVERLY HILLS UNIFIED SCHOOL DISTRICT
MEASURE E BOND BUILDING FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017

2016-04 Finding – Project Scope:

During testing of procurement, it was noted that projects expanded significantly in scope of work and the additional amounts are in excess of reasonable or allowable increases to original plans and projections.

Effect:

The District is not able to budget and manage projects efficiently and effectively if the scope keeps changing.

Recommendation:

We recommend that the District do more significant planning, contingency planning, and evaluation prior to starting each project. Additional scope of work should be evaluated as to whether it is reasonable and fits within the current project plan. Additional work on the same site not related to current work being performed should be competitively solicited as a separate project.

Current Status:

Not Implemented. See Finding 2017-02