

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS**

**AUDIT REPORT**

**JUNE 30, 2016**

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
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**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION 39 GENERAL OBLIGATION BONDS  
PROPOSITION AA  
INTRODUCTION AND CITIZENS' OVERSIGHT COMMITTEE MEMBER LISTING**

On November 6, 2012 the San Dieguito Union High School District was successful under Proposition AA in obtaining District voters to issue up to \$449,000,000 in General Obligation Bonds pursuant to a 55% vote in a bond election. The General Obligation Bonds are considered Proposition 39 bonds. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. 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.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 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 Proposition 39 including formation, composition and purpose of the Independent Citizens' Oversight Committee, and authorization for injunctive relief against improper expenditure of bond revenues.

The San Dieguito Union High School District Proposition AA Independent Citizens' Oversight Committee as of June 30, 2016 was comprised of the following members:

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Rhea Stewart	President-At Large Member	June 2017
Clarke Caines	Representative-Parent and Active in PTA	June 2017
Lorraine Kent	Secretary-Taxpayer Association Member	June 2017
Rimga Viskanta	Member-Parent of SDUHSD Student	June 2017
Robert Nascenzi	Member-Business Organization	June 2017
Mary Farrell	Member-Senior Citizen Organization	June 2017
Kim Bybee	Member-At-Large	June 2017
Jeffery Thomas	Member-At Large	June 2017



P. Robert Wilkinson, CPA  
Brian K. Hadley, CPA

Aubrey W. King, CPA  
Kevin A. Sproul, CPA

## INDEPENDENT AUDITOR'S REPORT

**Governing Board Members and  
Citizens' Oversight Committee  
San Dieguito Union High School District  
Encinitas, California**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Proposition AA Building Fund (21-39) of San Dieguito Union High School District, which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

### **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 consolidated 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 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 consolidated financial statements.

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

## **Emphasis of Matter**

As discussed in Note B, the financial statements present only the Building Fund (21-39) which is specific to Proposition AA and is not intended to present fairly the financial position and results of operations of San Dieguito Union High School District in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note B to the financial statements, in 2016, San Dieguito Union High School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 72, *Fair Value*. Our opinion is not modified with respect to this matter.

As described in Note B to the financial statements, in 2016, San Dieguito Union High School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP*. Our opinion is not modified with respect to this matter.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Proposition AA Building Fund (21-39) of San Dieguito Union High School District as of June 30, 2016, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the 2015-16 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2017, on our consideration of San Dieguito Union High School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated February 20, 2017 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition AA Building Fund (21-39). That report is an integral part of our audit of the District's Proposition AA Building Fund (21-39) for the fiscal year ended June 30, 2016 and should be considered in assessing the results of our financial audit.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2016  
(Unaudited)**

This section of San Dieguito Union High School District's (District) Proposition AA Building Fund annual financial and performance audit report presents management's discussion and analysis of the Proposition AA Bond Program during the year ending June 30, 2016. Readers should also review the financial statements and notes to the basic financial statements included in the audit report to enhance their understanding of the Proposition AA Bond Program's financial and program performance.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's Proposition AA Building Fund basic financial statements. The Fund's financial statements comprise three components: 1) management's discussion and analysis; 2) the Proposition AA Building Fund's financial statements; and 3) the performance audit required by law.

The District accounts for Proposition AA General Obligation Bond activity in the District's Building Fund. The Building Fund is a governmental fund type accounted for on a modified accrual basis of accounting that does not include fixed assets or long-term liabilities.

On November 6, 2012, the voters of the San Dieguito Union High School District community voted to approve Proposition AA to authorize the District to issue up to \$449 million of general obligation bonds to finance certain specified capital projects and facilities. In April 2013, the district issued the first series of those bonds, in the amount of \$160 million to fund projects. The second series of those bonds were issued in April 2015, in the amount of \$117 million. The District currently has \$274.0 million outstanding in general obligation bonds, as of June 30, 2016. The district plans to issue a third series of bonds in early 2016-2017.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2016 are as follows:

- The fund balance for Proposition AA Building Fund is \$94.5 million, as of June 30, 2016, which is \$59.7 million lower than June 2015 as projects continue and are completed
- Revenues consisted of interest earned and other local income. Revenue totaled \$736,632 as of June 30, 2016, as compared to \$398,586 in June 2015
- Expenditures and other outgo as of June 30, 2016, totaled \$60.4 million, as compared to \$71.7 million in June 2015

## FINANCIAL ANALYSIS OF THE PROPOSITION AA BUILDING FUND

### Balance Sheet

The District's Proposition AA Building Fund balance as of June 30, 2016 was \$94.5 million (see Table A-1 below).

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
June 30, 2016**

	<b>Building Fund</b>		<b>Total % Change over 14-15</b>
	2014-15	2015-16	
Cash	161,856,201	99,016,030	-38.8%
Accounts Receivable	130,667	152,976	17.1%
Due from Other Funds	76	-	-100.0%
<b>Total Assets</b>	<b>\$ 161,986,944</b>	<b>\$ 99,169,006</b>	<b>-38.8%</b>
Accounts Payable	7,044,823	3,887,250	-44.8%
Due to Other Funds	776,113	770,413	-0.7%
<b>Total Liabilities</b>	<b>\$ 7,820,936</b>	<b>\$ 4,657,663</b>	<b>-40.4%</b>
<b>Fund Balance</b>	<b>154,166,008</b>	<b>94,511,343</b>	<b>-38.7%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 161,986,944</b>	<b>\$ 99,169,006</b>	<b>-38.8%</b>

### Fund Balance

The interest income reported represents funds earned on the cash held by the San Diego County Treasurer. The total expenditures of \$59.6 million are only for Proposition AA voter authorized expenses (see Table A-2 below).



**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
June 30, 2016**

	<u>Building Fund</u>		<u>% change over 14-15</u>
	<u>2014-2015</u>	<u>2015-2016</u>	
<b><u>Revenues</u></b>			
Other State Income	7,408	9,377	26.6%
Interest Income	390,140	725,640	86.0%
Other Local Income	1,038	1,615	55.6%
Total revenues	<b>\$ 398,586</b>	<b>\$ 736,632</b>	84.8%
<b><u>Expenditures</u></b>			
Classified Salaries	693,383	713,142	2.8%
Employee Benefits	238,623	222,311	-6.8%
Professional and Consulting Services	421,105	76,482	-81.8%
Other Operating Expenses	22,723	22,425	-1.3%
Capital Outlay:			
Architect Fees	10,047		-100.0%
Land Improvements	14,451,161	7,168,387	-50.4%
New Construction	41,331,378	37,009,010	-10.5%
Construction Improvement	10,808,985	11,156,738	3.2%
Equipment	788,182	1,877,895	138.3%
Equipment Replacement	2,269,491	1,379,318	-
	<b>\$ 71,035,078</b>	<b>\$ 59,625,708</b>	-16.1%
<b><u>Other Financing Sources (Uses)</u></b>			
Proceeds from Sales of Bonds	117,040,000		-100.0%
Bond Premium	206,990		-100.0%
Interfund Transfer to General Fund	(765,589)	(765,589)	0.0%
	<b>\$ 116,481,401</b>	<b>\$ (765,589)</b>	
Net Change in Fund Balance	<b>\$ 45,844,909</b>	<b>\$ (59,654,665)</b>	-230.1%
Fund Balance as of June 30, 2015	<b>\$ 108,321,099</b>	<b>\$ 154,166,008</b>	
Fund Balance as of June 30, 2016	<b>\$ 154,166,008</b>	<b>\$ 94,511,343</b>	-38.7%

**PROPOSITION AA BUILDING FUND PLANNING AND CONSTRUCTION YEAR IN REVIEW**

The 2015-2016 fiscal year began with the following ten school construction projects underway throughout the San Dieguito Union High School District:

- La Costa Valley Fields
- La Costa Canyon High School – Room 900 Improvements
- Oak Crest Middle School – Learning Commons Remodel
- San Dieguito High School Academy – Tennis Courts
- San Dieguito High School Academy – Interim Housing
- Earl Warren Middle School – Interim Housing
- Torrey Pines High School – Science Classroom Building J
- Torrey Pines High School – Building B Renovation (South)
- Torrey Pines High School – Interim Housing
- Pacific Trails Middle School – New Campus Construction (Phase 1 and 2)

In addition, planning was in progress at the start of 2015-2016 for the upcoming school projects:

- Canyon Crest Academy – Building B
- Earl Warren Middle School – Campus Reconstruction
- Oak Crest Middle School – Landscape and Balour Street Improvements
- San Dieguito High School Academy – Math and Science Building
- Torrey Pines High School – Building B Renovation (North, Science Wing, Learning Commons and Front Entry)

By the Fall of 2015-2016 nine of ten construction projects were complete or nearly complete:

- La Costa Canyon High School – Room 900 Improvements
- Oak Crest Middle School – Learning Commons Remodel
- San Dieguito High School Academy – Tennis Courts
- San Dieguito High School Academy – Interim Housing
- Earl Warren Middle School – Interim Housing
- Torrey Pines High School – Science Classroom Building J
- Torrey Pines High School – Building B Renovation (South)
- Torrey Pines High School – Interim Housing
- Pacific Trails Middle School – New campus construction (Phase 1)

Construction had started on:

- Torrey Pines High School Building B Science Wing Classrooms Renovation
- Oak Crest Middle School – Landscape and Balour Street Improvements

Joining the two projects still underway:

- La Costa Valley – Fields
- Pacific Trails Middle School – New campus construction (Phase 2)

As well in the Fall, planning had begun on technology infrastructure upgrade projects at both Oak Crest Middle School and San Dieguito High School Academy, and multi-media and audio-visual improvements at Torrey Pines High School E and G Buildings and at Sunset High School.

Over the Winter, the Pacific Trails Middle School – New campus construction (Phase 2) Project was completed, and construction had started on:

- San Dieguito High School Academy – Math and Science Building

Joining the remaining three projects still underway:

- La Costa Valley – Fields
- Torrey Pines High School Building B Science Wing Classrooms Renovation
- Oak Crest Middle School – Landscape and Balour Street Improvements

In the Spring of 2015-2016, the La Costa Valley Fields Project was completed, in addition to the construction of and completion of the Oak Crest Middle School Technology Infrastructure upgrade project and Sunset High School multi-media and audit-visual upgrade project.

At the close of 2015-2016 the following four school construction projects originally under planning at the beginning of the year started construction:

- Canyon Crest Academy – Building B
- Earl Warren Middle School – Campus Reconstruction
- San Dieguito High School Academy – Math and Science Building
- Torrey Pines High School – Building B Renovation (North, Science Wing, Learning Commons and Front Entry)

Joining the remaining five projects still underway:

- Oak Crest Middle School – Landscape and Balour Street Improvements
- Torrey Pines High School - Building B Science Wing Classrooms Renovation
- Torrey Pines High School – Multi-media and audio-visual improvements – Buildings E and G
- San Dieguito High School Academy – Math and Science Building
- San Dieguito High School Academy – Technology infrastructure project

In looking forward to the 2016-2017 year, planning had begun on five school construction projects for construction start dates in 2016-2017 and 2017-2018:

- Carmel Valley Middle School – New Music Classroom, and Drama Classroom and Performing Arts Center Improvements
- Oak Crest Middle School – Science Building Classrooms, Quad and Crest Hall Expansion
- Pacific Trails Middle School – Second Classroom Building
- San Dieguito High School Academy – Culinary Arts
- San Dieguito High School Academy – English, Social Science and Arts Building
- Torrey Pines High School – Performing Arts Center

Overall, the twelve school construction projects completed in 2015-2016 were delivered on time and under budget with a projected savings of \$7.3 million to be used towards other voter approved Prop AA projects.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the San Dieguito Union High School District's Proposition AA Building Fund finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Associate Superintendent of Business Services, San Dieguito Union High School District, 710 Encinitas Blvd., Encinitas, CA 92024.

**FINANCIAL SECTION**

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
BALANCE SHEET  
JUNE 30, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash in County Treasury	\$ 99,016,030
Accounts Receivable	<u>152,976</u>

**TOTAL ASSETS**

**\$ 99,169,006**

**LIABILITIES AND FUND BALANCE**

Accounts Payable	\$ 3,887,250
Due to Other Funds	<u>770,413</u>

**TOTAL LIABILITIES**

4,657,663

**FUND BALANCE**

Restricted for Capital Projects	<u>94,511,343</u>
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**TOTAL LIABILITIES AND FUND BALANCE**

**\$ 99,169,006**

The accompanying notes are an integral part of these financial statements

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>REVENUES</b>	
Other State Income	\$ 9,377
Interest Income	725,640
Other Local Income	<u>1,615</u>
<b>TOTAL REVENUES</b>	736,632
<b>EXPENDITURES</b>	
Classified Salaries	713,142
Employee Benefits	222,311
Professional and Consulting Services	76,482
Computer Licensing	22,425
Capital Outlay:	
Land Improvements	7,168,387
New Construction	37,009,010
Construction Improvement	11,156,738
Equipment	1,877,895
Equipment Replacement	<u>1,379,318</u>
<b>TOTAL EXPENDITURES</b>	59,625,708
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>(58,889,076)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Interfund Transfer to General Fund	<u>(765,589)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(765,589)
<b>NET CHANGE IN FUND BALANCE</b>	<u>(59,654,665)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>154,166,008</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 94,511,343</u></u>

The accompanying notes are an integral part of these financial statements

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**A. Definition of the Fund**

The Building Fund (21-39) was formed to account for property acquisition and construction of new schools as well as renovation of current schools for the San Dieguito Union High School District (District), through expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2012. Fund (21-39) is one of the Building Funds of the District.

**B. Summary of Significant Accounting Policies**

*Basis of Presentation*

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.

*Fund Structure*

The accompanying financial statements are used to account for the transactions of the Building Fund (21-39) specific to Proposition AA as defined in Note A and are not intended to present fairly the financial position and results of operations of San Dieguito Union High School District in conformity with accounting principles generally accepted in the United States of America.

*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.

Building Fund (21-39) is maintained on the modified accrual basis of accounting. Its 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 (when goods are received or services rendered). 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*

The Board of Trustees adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board of Trustees 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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**B. Summary of Significant Accounting Policies (Continued)**

*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 at June 30 since they do not constitute expenditures or liabilities.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Cash in County Treasury*

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the San Diego 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 fair value, in accordance with the requirements of GASB Statement No. 31.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code §53648 et.seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

*Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. Accounts receivable are recorded net of estimated uncollectible amounts. There were no significant receivables that are not scheduled for collection within one year of year-end.



**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**B. Summary of Significant Accounting Policies (Continued)**

*Fund Balances – Governmental Funds*

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts has been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**B. Summary of Significant Accounting Policies (Continued)**

*Deferred Inflows and Deferred Outflows of Resources*

Deferred outflows of resources is a consumption of net assets or net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net assets or net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65. At June 30, 2016 the District's Building Fund (21-39) did not have any deferred inflows or deferred outflows of resources.

*Fair Value Measurements*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

For the current fiscal year the District's Building Fund (21-39) did not have any recurring or nonrecurring fair value measurements.

*Change in Accounting Policies*

In February 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 72 Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has implemented the guidance under GASB Statement No. 72 into their accounting policies effective for the fiscal year ending June 30, 2016.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**B. Summary of Significant Accounting Policies (Continued)**

In June 2015 the Governmental Accounting Standards Board (GASB) issued Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The District has implemented the guidance under GASB Statement No. 76 into their accounting policies effective for the fiscal year ending June 30, 2016.

**C. Cash and Investments**

*Cash in County Treasury*

In accordance with Education Code Section 41001, the District maintains significantly all of its cash in the San Diego County Treasury as part of the common investment pool. As of June 30, 2016, the portion of cash in county treasury attributed to Building Fund (21-39) was \$99,016,030. The fair value of Building Fund (21-39)'s portion of this pool as of that date, as provided by the pool sponsor, was \$99,016,030. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

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.

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background, in public finance. In addition, the County Treasury is audited annually by an independent auditor.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**C. Cash and Investments (Continued)**

*Investments*

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 deposits 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.

*Analysis of Specific Deposit and Investment Risks*

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. *Credit Risk*

Credit risk is the risk that an issuer or their counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District's Building Fund (21-39) was not exposed to credit risk. The San Diego County Investment Pool is rated AAA by Standard & Poors and Federated Treasury Obligations are rated AAAf/S1 by Standard & Poors.

b. *Custodial Credit Risk*

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. At year end, the District's Building Fund (21-39) was not exposed to custodial credit risk.

c. *Concentration of Credit Risk*

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District's Building Fund (21-39) was not exposed to concentration of credit risk.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
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JUNE 30, 2016  
(Continued)**

**C. Cash and Investments (Continued)**

d. *Interest Rate Risk*

This is the risk that changes in 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 exposures to interest rate risk by investing in the county pool.

e. *Foreign Currency Risk*

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District's Building Fund (21-39) was not exposed to foreign currency risk.

f. *Investment Accounting Policy*

The District is required by GASB statement No. 31 to disclose its policy for determining which investments, if any are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts using a cost-based measure; however, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

*Investments Authorized by the California Government Code and the District's Investment Policy*

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**C. Cash and Investments (Continued)**

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 Years	None	None
Registered State Bonds, Notes, Warrants	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Securities	5 Years	None	None
Banker's Acceptance	180 Days	40%	30%
Commercial Paper	270 Days	25%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20% of Base	None
Medium-Term 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 Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**D. Accounts Receivable**

Accounts receivable at June 30, 2016 consisted of:

Accrued Interest	\$ 152,893
Other Local Income	<u>83</u>
Total	<u><u>\$ 152,976</u></u>

**E. Accounts Payable**

Accounts payable at June 30, 2016 consisted of:

Vendors Payable	\$ 3,879,041
Use Tax Payable	1,010
Accrued Salaries and Benefits	<u>7,199</u>
Total	<u><u>\$ 3,887,250</u></u>

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**F. Interfund Transactions**

Interfund receivable and payable balances at June 30, 2016 are as follows:

Due to General Fund \$ 765,589

The amount due to the General Fund represents the portion of lease principal payment due on the solar facilities project in accordance with the authorized purpose under the facility lease agreement with the San Dieguito Public Facilities Financing Authority in the amount of \$765,589.

Due to Self Insurance Fund \$ 4,824

The amount due to the Self Insurance Fund represents Other Post-Employment Benefits (OPEB) contribution costs for employees charged to Building Fund (21-39).

All expenses charged were in conjunction with the Bond Project List as listed in the full text of the Proposition AA Ballot Measure.

Interfund transfers to and from other funds at June 30, 2016 are as follows:

Transfer to General Fund \$ 765,589

The amount transferred to the General Fund represents the portion of lease principal payment due on the solar facilities project in accordance with the authorized purpose under the facility lease agreement with the San Dieguito Public Facilities Financing Authority in conjunction with the Bond Project List as listed in the full text of the Proposition AA Ballot Measure.

**G. Long-Term Debt**

The outstanding bonded debt as of June 30, 2016 is as follows:

Date of Issuance	Interest Rate	Maturity Date	Amounts Outstanding Issue	Amounts Outstanding July 1, 2015	Issued Current Year	Redeemed Current Year	Amounts Outstanding June 30, 2016
4/11/13	1.00-5.00%	08/01/38	\$160,000,000	\$149,755,000	\$ -	\$ 5,535,000	\$ 144,220,000
4/15/15	0.60-4.50%	08/01/40	\$117,040,000	117,040,000	-	-	117,040,000
4/11/13	Premium	08/01/38	\$ 8,336,717	7,695,431	-	320,643	7,374,788
4/15/15	Premium	08/01/40	\$ 6,379,386	6,315,592	-	255,175	6,060,417
4/11/13	Discount	08/01/38	\$ (744,000)	(686,770)	-	(28,615)	(658,155)
			Totals	<u>\$280,119,253</u>	<u>\$ -</u>	<u>\$ 6,082,203</u>	<u>\$ 274,037,050</u>

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**G. Long-Term Debt (Continued)**

*General Obligation Bonds*

2013 General Obligation Bonds

In April 2013, the District issued \$2,320,000 taxable, 2012 Election, Series A-1, General Obligation Bonds and \$157,680,000 tax-exempt, 2012 Election, Series A-2 General Obligation Bonds. The issue consisted of \$93,035,000 of current interest bonds with interest rates ranging from 1.00% to 5.00% with annual maturities from August 2014 through August 2033 and \$66,965,000 in a term bond with an interest rate of 4.00% with an annual maturity date of August 1, 2038. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2014. The bonds were authorized at an election of the registered voters held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of bonds in order to finance specific construction, acquisition and modernization projects approved by the voters including lease payments with respect to such facilities in addition to purchasing the San Dieguito Public Facilities Authority's interest in, and pay and prepay lease payments due on the Torrey Pines High School Projects.

2015 General Obligation Bonds

In April 2015, the District issued \$7,010,000 taxable, 2012 Election, Series B-1, General Obligation Bonds and \$110,030,000 tax-exempt, 2012 Election, Series B-2 General Obligation Bonds. The issue consisted of \$61,050,000 of current interest bonds with interest rates ranging from 0.60% to 4.50% with annual maturities from August 2016 through August 2036 and \$55,990,000 in a term bond with an interest rate of 4.00% with an annuity maturity date of February 1, 2040. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2016. The bonds were authorized at an election of the registered voters held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of the bonds in order to finance specific construction, acquisition and modernization projects approved by the voters including lease payments with respect to such facilities in addition to purchasing the San Dieguito Public Facilities Authority's interest in and pay and prepay lease payments due on the Torrey Pines High School Projects.

*Bond Premium and Discount*

Bond premium arises when the market rate of interest is higher than the stated interest rate on the bond. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the bond and then amortize the premium over the life of the bond as interest. Bond discount arises when the market rate of interest is lower than the stated interest rate on the debt. Generally Accepted Accounting Principles (GAAP) require that the discount decrease the face value of the debt and then amortize the discount over the life of the debt as interest.



**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**G. Long-Term Debt (Continued)**

The following bonds were issued at a premium resulting in an effective interest rate as follows:

	2013 Series A	2015 Series A
Total Interest Payments on Bond	\$ 113,607,493	\$ 88,265,753
Less Bond Premium	<u>(8,336,717)</u>	<u>(6,379,386)</u>
Net Interest Payments	<u>105,270,776</u>	<u>81,886,367</u>
Par Amount of Bonds	\$ 160,000,000	\$ 117,040,000
Periods	25	25
Effective Interest Rate	2.630%	2.790%

Discounts issued on the debt resulted in an effective interest rate as follows:

	2013 Series A Bonds
Total Interest Payments on Bond	\$ 113,607,493
Add Discount	<u>744,000</u>
Net Interest Payments	<u>114,351,493</u>
Par Amount of Bonds	\$ 160,000,000
Periods	25
Effective Interest Rate	2.850%

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
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GENERAL OBLIGATION BONDS  
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JUNE 30, 2016  
(Continued)**

**G. Long-Term Debt (Continued)**

Debt service requirements on the general obligation bonds, net of premium and discount, as of June 30, 2016 is as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 7,010,000	\$ 10,404,480	\$ 17,414,480
2018	3,500,000	10,330,950	13,830,950
2019	3,035,000	10,217,750	13,252,750
2020	1,320,000	10,130,650	11,450,650
2021	1,745,000	10,069,350	11,814,350
2022-2026	16,480,000	48,501,050	64,981,050
2027-2031	44,065,000	41,955,725	86,020,725
2032-2036	77,445,000	29,679,787	107,124,787
2037-2041	106,660,000	10,130,588	116,790,588
Totals	<u>\$ 261,260,000</u>	<u>\$ 181,420,330</u>	<u>\$ 442,680,330</u>

**H. Construction Commitments**

As of June 30, 2016, the Building Fund had the following commitments with respect to unfinished capital projects:

<u>Construction in Process:</u>	<u>Commitment</u>	<u>*Expected Date of Final Completion</u>
Canyon Crest Academy - Building B	\$ 12,522,578	08/21/2017
Earl Warren Middle School - New Campus	41,960,350	08/21/2017
La Costa Canyon High School - Phase 2 HVAC	1,712,150	11/28/2016
Oak Crest Middle School - Drainage and Media Center Improvements	4,906,091	12/02/2016
San Dieguito High School Academy - Math and Science Building	18,884,112	08/21/2017
Torrey Pines High School - Building B - Phase 1a,b,c	21,341,908	01/06/2017

\*Expected date of final completion subject to change.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**I. Subsequent Events**

*General Obligation Bonds*

In July 2016, the District issued \$795,000 taxable 2012 Election, Series C-1 General Obligation Bonds and \$61,205,000 tax-exempt 2012 Election, Series C-2 General Obligation Bonds. The issue consisted of \$14,000,000 in Serial Bonds with interest rates ranging from .080% to 4.75% with annual maturities from August 2017 through August 2036 and \$48,000,000 in a term bond with an interest rate of 3.00% with an annual maturity date of February 1, 2041. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2017. The bonds were authorized at an election of the registered voters held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of bonds in order to finance specific construction, acquisition and modernization projects approved by the voters including lease payments with respect to such facilities in addition to purchasing the San Dieguito Public Facilities Authority's interest in, and pay and prepay lease payments due on the Torrey Pines High School Projects.

**OTHER INDEPENDENT AUDITOR'S REPORTS**

**INDEPENDENT AUDITORS' 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 Members and  
Citizens Oversight Committee  
San Dieguito Union High School District  
Encinitas, 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 Proposition AA Building Fund (21-39) of San Dieguito Union High School District, which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered San Dieguito Union High School 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Dieguito Union High School 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 District'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 San Dieguito Union High School 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017



P. Robert Wilkinson, CPA  
Brian K. Hadley, CPA

Aubrey W. King, CPA  
Kevin A. Sproul, CPA

**INDEPENDENT AUDITOR’S REPORT ON PERFORMANCE**

**Governing Board Members and  
Citizens Bond Oversight Committee  
San Dieguito Union High School District  
Encinitas, California**

We have audited the financial statements of the Proposition AA Building Fund (21-39) of San Dieguito Union High School District as of and for the fiscal year ended June 30, 2016 and have issued our report thereon dated February 20, 2017. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition 39 Proposition AA General Obligation Bonds for the fiscal year ended June 30, 2016. The objective of the audit of compliance applicable to San Dieguito Union High School District is to determine with reasonable assurance that:

- The proceeds from the sale of the Proposition AA Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, will modernize, replace, renovate, construct, acquire, equip, furnish, and otherwise improve facilities of the District as noted in the bond project list.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

**Internal Control Evaluation**

Procedure Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Proposition AA resources
- Prevent material misstatement in the Proposition AA Building Fund (21-39) financial statements
- Ensure all expenditures are properly allocated
- Ensure adequate separation of duties exists in the accounting of Proposition AA funds

All purchase requisitions are reviewed for proper supporting documentation. The Project Manager or the Executive Director of Planning Services gives directions and submits documentation to the Construction and Facilities Coordinator to initiate a purchase requisition. The budget is verified by the Facilities Planning Analyst (Budget) and supporting documents are reviewed by a second Facilities Planning Analyst (Contracts). This requisition is first forwarded to the Executive Director of Planning Services for an initial review and then forwarded to the finance office where the Budget Analyst verifies the budget string and the requisition is subsequently reviewed and approved by the Chief Financial Officer, Chief Facilities Officer, and the Director of Purchasing to ensure the requested purchase is an allowable project cost in accordance with the Proposition AA ballot measure initiative approved by local voters as well as the board approved budget, and by the Accounting Specialist that all expenditures are properly recorded by project and expense category. Once the purchase requisition has gone through the approval process, the Facilities Planning Analyst (Contracts) creates a purchase order, which is provided to the vendor, who proceeds to provide the requested services or goods. Other copies of the purchase order are also submitted to the finance office, purchasing office, and the Facilities Planning Analyst (Budget) for monitoring and review.

When the invoice is received the Executive Director of Planning Services and Facilities Planning Analyst (Budget) verify that the charges are consistent with the amounts on the approved contract/purchase order, then the invoice is subsequently signed and approved by the Project Manager and Chief Facilities Officer and either e-mailed or scanned to the finance office for subsequent approval. Invoices are approved by the Accounting Technician and monitored by the Chief Financial Officer in the finance office and subsequently processed through the accounts payable system of the District for payment. The invoices and support documents are submitted to the San Diego County Office of Education's Commercial Warrant Unit for audit to ensure compliance with procurement regulations and good business practices before payment is released. The commercial warrants are routed back to the District finance office where they are signed by the Chief Financial Officer and then forwarded to the Facilities Planning and Construction Office for appropriate distribution.

#### Results of Procedures Performed:

The results of our audit determined the internal control procedures as implemented are sufficient to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations.

#### **Facilities Site Review**

##### Procedures Performed:

We reviewed the Independent Citizens' Oversight Committee minutes and agenda including the information on the tour of Proposition AA ongoing projects and determined that Proposition AA funds expended for the year ended June 30, 2016 were for valid facilities acquisition and construction purposes as stated in the Bond Project List.

##### Results of Procedures Performed:

Based on our review, of the Independent Citizens' Oversight Committee meetings, the documentation of the Proposition AA projects tour, and the explanation of management, it appears the construction work performed was consistent with the Bond Project List.



## **Tests of Contracts and Bid Procedures**

### Procedures Performed:

We reviewed the District's board minutes for approval of construction contracts and change orders, if any, to determine compliance with the District's policy and Public Contract Code provisions related to biddings and contracting.

### Results of Procedures Performed:

We noted no instances where the District was out of compliance with respect to contracts and bidding procedures.

## **Tests of Expenditures**

### Procedures Performed:

We tested expenditures to determine whether Proposition AA funds were spent solely on voter and Board approved school facilities projects as set forth in the Bond Project List and the Proposition AA ballot measure language. Our testing included a sample of vendor and payroll payments totaling \$56,281,903 or approximately 94.39% of total expenditures for the year. Our testing included \$55,324,025 of capital outlay expenditures which was 94.42% of capital outlay expenses.

### Results of Procedures Performed:

We found no instances where expenditures tested were not in compliance with the terms of the Proposition AA ballot measure and applicable state laws and regulations.

## **Citizens' Oversight Committee**

### Procedures Performed:

We have reviewed the minutes of the Citizens' Oversight Committee meetings to verify compliance with Education Code Sections 15278 through 15282.

### Results of Procedures Performed:

We have determined the San Dieguito Union High School District's Proposition AA Citizens' Oversight Committee and its involvement is in compliance with Education Code Sections 15278 through 15282. Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above would not necessarily disclose all instances of noncompliance. In our opinion, the District complied, in all material respects, with the compliance requirements for the Proposition AA Building Fund, for the fiscal year ended June 30, 2016.

This report is intended solely for the information and use of the District's Governing Board, the Proposition AA Independent Citizens' Oversight Committee, management, others within the entity, and the taxpayers of San Dieguito Union High School District and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017

## **FINDINGS AND RESPONSES SECTION**

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

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There were no findings to report.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT  
PROPOSITION AA BUILDING FUND  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2016**

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There were no audit findings noted for the fiscal year ended June 30, 2015.