



**PROPOSITION AA
INDEPENDENT CITIZENS OVERSIGHT
COMMITTEE MEETING**

Board of Trustees
Joyce Dalessandro
Beth Hergesheimer
Amy Herman
Maureen "Mo" Muir
John Salazar

Superintendent
Rick Schmitt

Union High School District

Independent Citizens Oversight Committee Members:
Rhea Stewart/President, Clarke Caines/Representative, Lorraine
Kent/Secretary, Kim Bybee, Mary Farrell, Robert Nascenzi,
Jeffery Thomas, Rimga Viskanta

Supported by the Business Services Division
Eric R. Dill, Associate Superintendent
Fax (760) 943-3508

**WEDNESDAY, MARCH 9, 2016
4:00 PM**

**DISTRICT OFFICE, BOARD ROOM 101
710 ENCINITAS BLVD, ENCINITAS, CA. 92024**

Welcome to the meeting of the Independent Citizens Oversight Committee of the San Dieguito Union High School District.

PUBLIC COMMENTS

If you wish to speak regarding an item on the agenda, please complete a speaker slip located at the sign-in desk and present it to the Secretary to the Committee prior to the start of the meeting. When the Committee Presiding Officer invites you to speak, please state your name before making your presentation.

Persons wishing to address the Committee on any bond program-related issue not elsewhere on the agenda are invited to do so under the "Public Comments" item. If you wish to speak under Public Comments, please follow the same directions (above) for speaking to agenda items.

In the interest of time and order, presentations from the public are limited to three (3) minutes per person, per topic. The total time for agenda and non-agenda items shall not exceed twenty (20) minutes. An individual speaker's allotted time may not be increased by a donation of time from others in attendance.

In accordance with the Brown Act, unless an item has been placed on the published agenda, there shall be no action taken. They may 1) acknowledge receipt of the information, 2) refer to staff for further study, or 3) refer the matter to the next agenda.

PUBLIC INSPECTION OF DOCUMENTS

In compliance with Government Code 54957.5, agenda-related documents that have been distributed to the Committee less than 72 hours prior to the Meeting will be available for review on the Committee website, www.sduhsd.net/ICOC and/or at the district office. Please contact the [Business Services Office](#) for more information.

CELL PHONES / ELECTRONIC DEVICES

As a courtesy to all meeting attendees, please set cellular phones and/or electronic devices to silent mode and engage in conversations outside the meeting room.

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications, or accommodations, including auxiliary aids or services, in order to participate in the public meetings of the District's Independent Citizens' Oversight Committee, please contact the [Business Services Office](#). Notification 72 hours prior to the meeting will enable the staff to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the staff shall also make available this agenda and all other public records associated with the meeting in appropriate alternative formats for persons with a disability.

Canyon Crest Academy • Carmel Valley MS • Diegueño MS • Earl Warren MS • La Costa Canyon HS
Oak Crest MS • Pacific Trails MS • San Dieguito Adult Education • San Dieguito HS Academy • Sunset HS • Torrey Pines HS

**MEETING OF THE INDEPENDENT CITIZENS OVERSIGHT COMMITTEE
OF THE SAN DIEGUITO UNION HIGH SCHOOL DISTRICT**

SPECIAL MEETING

AGENDA

**WEDNESDAY, MARCH 9, 2016
4:00 PM**

**DISTRICT OFFICE, BOARD ROOM 101
710 ENCINITAS BLVD., ENCINITAS, CA. 92024**

PRELIMINARY FUNCTIONS (ITEMS 1-3)

- 1. CALL TO ORDER 6:00 PM
 * WELCOME / MEETING PROTOCOL REMARKS..... COMMITTEE PRESIDENT
- 2. PLEDGE OF ALLEGIANCE
- 3. CALL FOR PUBLIC COMMENTS

In accordance with the Brown Act, unless an item has been placed on the published agenda, there shall be no action taken. The Committee may 1) acknowledge receipt of the information, 2) refer to staff for further study, or 3) refer the matter to the next agenda. (*See Agenda Cover Sheet*)

DISCUSSION / ACTION..... (ITEMS 4-6)

- 4. REVIEW OF 2014/15 PROPOSITION AA BUILDING FUND – FINANCIAL & PERFORMANCE AUDIT REPORT
- 5. DRAFTING OF 2015 ICOC ANNUAL REPORT
- 6. ADJOURNMENT

San Dieguito Union High School District

INFORMATION REGARDING ICOC AGENDA ITEM

TO: INDEPENDENT CITIZENS OVERSIGHT COMMITTEE

DATE OF REPORT: March 2, 2016

ICOC MEETING DATE: March 9, 2016

PREPARED BY: Delores Perley, Director of Finance
John Addleman, Director of Planning Svcs.

SUBMITTED BY: Eric R. Dill, Assoc. Superintendent, Business

SUBJECT: REVIEW OF THE 2014-15 ANNUAL PROPOSITION AA BUILDING FUND AUDIT REPORT

EXECUTIVE SUMMARY

In November 2012, the San Dieguito community approved the passage of Proposition AA, a General Obligation Bond initiative. Proposition 39 General Obligation bonds require an independent performance audit to ensure that funds have been expended only on the specific purposes listed in the ballot measure and a financial audit of the bond proceeds. The audit also includes an evaluation of procedures including internal controls and the formation, composition and purpose of the Independent Citizens Oversight Committee.

The District entered into an agreement for the annual Proposition AA audit with Wilkinson, Hadley, King, & Co. LLP – Certified Public Accountants. The audit has been completed in accordance with state law. Wilkinson, Hadley, King, & Co. LLP now presents the audit report for your review and acceptance.

Findings and recommendations are noted on page 21 of the audit report. The report does not contain any negative findings or identify any material weaknesses in the District's internal controls. In addition, review of the Proposition AA procedures and Independent Citizens Oversight Committee compliance requirements revealed no areas of noncompliance.

The District is required to present the Prop 39 Independent Audit Report to the Independent Citizens Oversight Committee before March 30 of each year. The Board of Trustees will review and accept the Proposition AA audit report at its next scheduled meeting on March 10, 2016.

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RECOMMENDATION:

It is recommended that the Committee review the 2014-15 annual Proposition AA Building Fund audit of the San Dieguito Union High School District, as prepared by Wilkinson, Hadley, King, & Co. LLP, as shown in the attached supplement.

ITEM 4

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

AUDIT REPORT

JUNE 30, 2015

ITEM 4

**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, 2015 was comprised of the following members:

Name	Position	Term Expiration
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

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



Aubrey W. King, CPA
Kevin A. Sproule, 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, 2015, 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.

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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.

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, 2015, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2016, 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.

Wilkinson Hadley King & Co., LLP

El Cajon, California
February 11, 2016

ITEM 4

FINANCIAL SECTION

ITEM 4

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
BALANCE SHEET
JUNE 30, 2015**

ASSETS

CURRENT ASSETS

Cash in County Treasury	\$ 161,012,876
Investments - Cash With Fiscal Agent	843,325
Accounts Receivable	130,667
Due From General Fund	<u>76</u>

TOTAL ASSETS	<u>\$ 161,986,944</u>
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LIABILITIES AND FUND BALANCE

Accounts Payable	\$ 7,044,823
Due to Other Funds	<u>776,113</u>

TOTAL LIABILITIES	7,820,936
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FUND BALANCE

Restricted for Capital Projects	<u>154,166,008</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 161,986,944</u>
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The accompanying notes are an integral part of these financial statements

ITEM 4

**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, 2015**

REVENUES	
Other State Income	\$ 7,408
Interest Income	390,140
Other Local Income	<u>1,038</u>
TOTAL REVENUES	398,586
EXPENDITURES	
Classified Salaries	693,383
Employee Benefits	238,623
Professional and Consulting Services	421,105
Other Operating Expenses	22,723
Capital Outlay:	
Architect Fees	10,047
Land Improvements	14,451,161
New Construction	41,331,378
Construction Improvement	10,808,985
Equipment	788,182
Equipment Replacement	<u>2,269,491</u>
TOTAL EXPENDITURES	71,035,078
EXCESS OF EXPENDITURES OVER REVENUES	<u>(70,636,492)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from Sales of Bonds	117,040,000
Bond Premium	206,990
Interfund Transfer to General Fund	<u>(765,589)</u>
TOTAL OTHER FINANCING SOURCES (USES)	116,481,401
NET CHANGE IN FUND BALANCE	<u>45,844,909</u>
FUND BALANCE, BEGINNING OF YEAR	<u>108,321,099</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 154,166,008</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, 2015**

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, 2015
(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, 2015
(Continued)**

B. Summary of Significant Accounting Policies (Continued)

Fund Balance Reserves and Designations

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, 2015
(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, 2015 the District's Building Fund (21-39) did not have any deferred inflows or deferred outflows of resources.

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, 2015, the portion of cash in county treasury attributed to Building Fund (21-39) was \$161,012,876. The fair value of Building Fund (21-39)'s portion of this pool as of that date, as provided by the pool sponsor, was \$161,012,876. 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.

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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

C. Cash and Investments (Continued)

The District’s investments attributed to Building Fund (21-39) at June 30, 2015 are shown below.

<u>Investment or Investment Type</u>	<u>Average Days to Maturity*</u>	<u>Amount Reported</u>	<u>Fair Value</u>
Federated Treasury Obligations	44 Days	\$ 768,592	\$ 768,592
Principal Cash Funds	<30 Days	74,733	74,733
Total Investments		<u>\$ 843,325</u>	<u>\$ 843,325</u>

*Represents an average of the days to maturity.

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 AAAM 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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

C. Cash and Investments (Continued)

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.

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 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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

D. Accounts Receivable

Accounts receivable at June 30, 2015 consisted of:

Accrued Interest	\$ 130,661
Other Local Income	<u>6</u>
Total	<u>\$ 130,667</u>

E. Accounts Payable

Accounts payable at June 30, 2015 consisted of:

Vendors Payable	\$ 7,031,287
Salaries and Benefits	<u>13,536</u>
Total	<u>\$ 7,044,823</u>

F. Interfund Transactions

Interfund receivable and payable balances at June 30, 2015 are as follows:

Due from General Fund	<u>\$ 76</u>
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The amount due from the General Fund is for reimbursement of an expense that was paid by Building Fund (21-39).

Due to General Fund	<u>\$ 775,282</u>
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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. The remaining \$9,693 due to the General Fund represents miscoded May and June 2015 payroll and benefits expenses for an employee that was to be charged to Building Fund (21-39) but was inadvertently posted in error to general fund suspense by the new software system. The Building Fund (21-39) is reimbursing the General Fund for these payroll and benefits expenses.

Due to Self Insurance Fund	<u>\$ 831</u>
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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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

F. Interfund Transactions (Continued)

Interfund transfers to and from other funds at June 30, 2015 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, 2015 is as follows:

Date of Issuance	Interest Rate	Maturity Date	Amounts Outstanding Issue	Amounts Outstanding July 1, 2014	Issued Current Year	Redeemed Current Year	Amounts Outstanding June 30, 2015
4/11/13	1.00-5.00%	08/01/38	\$160,000,000	\$160,000,000	\$ -	\$10,245,000	\$ 149,755,000
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	8,016,074	-	320,643	7,695,431
4/15/15	Premium	08/01/40	\$ 6,379,386	-	6,379,386	63,794	6,315,592
4/11/13	Discount	08/01/38	\$ (744,000)	(715,385)	-	(28,615)	(686,770)
Totals				<u>\$167,300,689</u>	<u>\$ 123,419,386</u>	<u>\$10,600,822</u>	<u>\$ 280,119,253</u>

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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

G. Long-Term Debt (Continued)

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.

Debt service requirements on the general obligation bonds, net of premium and discount, as of June 30, 2015 is as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 5,535,000	\$ 9,375,073	\$ 14,910,073
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
2021-2025	13,715,000	49,225,300	62,940,300
2026-2030	37,110,000	43,705,125	80,815,125
2031-2035	70,450,000	32,621,800	103,071,800
2036-2040	125,120,000	14,784,275	139,904,275
Totals	<u>\$ 266,795,000</u>	<u>\$ 190,795,403</u>	<u>\$ 457,590,403</u>

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**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015
(Continued)**

H. Construction Commitments

As of June 30, 2015, 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 Stadium and Fields Phase 2	\$ 15,969,359	08/21/2015
Earl Warren Middle School Data Center Phase 1	4,406,062	08/21/2015
Earl Warren Middle School Interim Housing Phase 2	4,748,539	08/21/2015
La Costa Canyon High School 800/900 Renovations	192,940	08/21/2015
La Costa Valley Field Improvements	10,842,264	02/05/2016
Oak Crest Middle School Drainage and Media Center Improvements	1,113,347	12/18/2016
Pacific Trails Middle School	48,376,773	02/05/2016
San Dieguito Academy Stadium Phase 1B and Interim Housing	6,240,350	10/06/2015
TPHS Stadium Lighting/Science Classroom/Weight Room	10,913,064	09/01/2015
TPHS Building B - Phase 1	6,502,132	09/01/2015

*Expected date of final completion subject to change.

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OTHER INDEPENDENT AUDITOR'S REPORTS

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



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

**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, 2015, 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 11, 2016.

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.

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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 11, 2016

ITEM 4

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



Aubrey W. King, CPA
Kevin A. Sproule, 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, 2015 and have issued our report thereon dated February 11, 2016. 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, 2015. 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

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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, 2015 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.

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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 approximately \$61,534,581 or approximately 87% of total expenditures for the year. Our testing included \$60,867,085 of capital outlay expenditures which was 87% 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, 2015.

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 11, 2016

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FINDINGS AND RESPONSES SECTION

ITEM 4

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

There were no findings to report.

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**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

There were no audit findings noted for the fiscal year ended June 30, 2014.