

San Dieguito

Union High School District

**Proposition AA Independent Citizens' Oversight Committee
2014 Annual Report**

April 28, 2015

San Dieguito Union High School District

**710 Encinitas Blvd.
Encinitas, California 92024**

(760) 753-6491

<http://www.sduhsd.net/>



Dear Community Members,

The Independent Citizens' Oversight Committee of the San Dieguito Union High School District is pleased to present our second annual report. The 2014 Annual report covers activity for the period ending December 31, 2014.

In 2014, the first full year of construction, \$20 million was allocated for projects which were completed for less than \$15 million.

The Committee wishes to thank the District staff and project management team for their support, their detailed updates and transparency of information, not only to the Committee, but to the public.

We welcome your questions and comments. You will find Committee members' e-mail addresses within this report.

For more information about Proposition AA and the ICOC, please visit:

www.sduhsd.net/PropAA

www.sduhsd.net/ICOC

Sincerely,

Rhea A. Stewart

President,

San Dieguito Union High School District Independent Citizens' Oversight Committee



INTRODUCTION

Proposition AA is a \$449 million bond initiative approved by over 55% of school District voters in November 2012. The Abbreviation of Proposition AA Bond Measure stated the purpose of Proposition AA is to "provide safe, modern schools and prepare students for success in college and careers by repairing and upgrading outdated classrooms and schools, construction and upgrading school facilities, including classrooms, science labs, and libraries, improving safety and security, and supporting career training and math, science, and technology instruction with 21st Century instructional technology and facilities." See "Full Text of Measure" in **Exhibit A**.

Proposition AA was passed under the rules of Proposition 39 (passed in November 2000), which requires that the Board of Trustees appoint an Independent Citizens' Oversight Committee (ICOC) to monitor bond expenditures. The ICOC is responsible for providing oversight of the District's use of Proposition AA bond proceeds and reporting to the Board and public on their findings. Specifically, the ICOC will ensure that all funds are used in support of the projects approved by the bond measure and not for unspecified projects, general operating expenses, or teacher salaries. The ICOC will also inspect facilities and grounds, review cost-saving measures, and review the annual independent audits that are required of general obligation bond funds.

For additional information about the ICOC and Proposition AA projects, visit the ICOC page at www.sduhsd.net/ICOC and the Proposition AA page at www.sduhsd.net/PropAA.

See the complete audit report in **Exhibit B** or at www.sduhsd.net/PropAA.

These sites contain the projects mentioned in this annual report, including the Performance Audit, Project Status, Master Plans, and ICOC actions.

INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE (ICOC)

Members of the Independent Citizens' Oversight Committee (ICOC) were appointed by the District's Board of Trustees in February, 2013. All current members' terms end in 2015. Committee officers were elected at the first meeting on April 16, 2013.

Name	Affiliation	Email Address
Rhea Stewart, President	At-Large Member	rhea.stewart@sduhsd.net
Michael Kenny, Representative	Business Organization Member	michael.kenny@sduhsd.net
Lorraine Kent, Secretary	Taxpayer Association Member	lorraine.kent@sduhsd.net
Larry Lugo	Parent of SDUHSD Student Member	larry.lugo@sduhsd.net
Clarke Caines	Parent and Active in Parent-Teacher Organization Member	clarke.caines@sduhsd.net
Mary Farrell	Senior Citizen Organization Member	mary.farrell@sduhsd.net
Kim Bess	At-Large Member	kim.bess@sduhsd.net
Scott Seidenverg	At-Large Member	scott.seidenverg@sduhsd.net
Jeffery Thomas	At-Large Member	jeffery.thomas@sduhsd.net

ICOC members follow these guidelines:

- Compare the ballot language with actual expenditures and projects of the District. "Do what they promised to do"
- Maintain trust but verify District bond expenditures
- Make sure that the District's information is transparent and open to the public.
- Review major initiatives and projects
- Understand the District's priority setting process for Proposition AA projects and hold the District accountable to their obligations.

LEGAL ROLE OF THE ICOC

The ICOC provides only after-the-fact review and monitoring of how the District spends bond dollars. The ICOC does not have the authority to approve or determine how the bonds funds are spent, rate of taxes collected, bond financing or any role in selection, or participate in any negotiations or bid process for contractors or consultants.

The ICOC is required by law to issue regular annual audit reports of its activities and findings and alert the public to any waste or improper expenditure of school bond money. Upon any allegations of waste or misuse the legislature requires investigation by the appropriate law enforcement officials.

Listed below are the key tools used for actively reviewing and reporting on the proper expenditures of taxpayer's money for Prop AA.

AUDIT OF PROPOSITION AA BOND

Per the Audit Report for the year ending June 30, 2014, there were no findings to report for the Proposition AA Building Fund. See the complete audit report in **EXHIBIT B** or at www.sduhsd.net/PropAA.

FINANCIAL AUDIT

Senate Bill 423 requires that audits for the preceding year be submitted to the oversight committee by March 31 for its review. Oversight committees are not typically given an opportunity to interact directly with the firm conducting the required audit. For the 2014 audit report, the ICOC committee held a special meeting on March 9, 2015, to receive the audit report and ask questions.

PERFORMANCE AUDIT

California Education code requires that performance audits must conform to Generally Accepted Government Audit Standards (GAGAS).

Items included:

- Current bond program management/program plan
- Design construction timelines/benchmarks
- Review of project budgets
- Uses of best practices in design and construction
- Payment procedures and processing
- Program management/construction management fees
- Change orders procedures
- Construction delivery methods
- Best Practice procurement
- Evaluation of public outreach
- Transparency

PROPOSITION AA DELIVERY METHOD

Construction projects funded by Proposition AA are accomplished using one of the following methods:

- District Forces: Smaller projects which can be accomplished using district staff or through contracting under existing competitive bids.
- Design-Bid-Build (DBB): The District engages an architect to create plans and specifications which are then the basis of a competitive bid process conducted by the District to hire either a general contractor and sub-contractors or a series of trade contractors who are assigned to a construction manager.
- Lease-Leaseback (LLB): the District engages an architect and a construction manager through a competitive proposal process. The architect drafts plans and specifications in cooperation with the District and the construction manager. The District then leases the construction site to the construction manager who then leases the site back to the district for a guaranteed maximum price which represents the cost of construction.

In the ICOC's evaluation of the District's implementation of the LLB delivery method to date, we believe that the District has accepted recommendations and best practices related to the LLB delivery method. We encourage the District to continue to monitor what other districts are doing to improve their process and to enhance transparency of the processes and information to their constituents.

The ICOC does not find any reason at this time to disagree with the District's use of the LLB delivery method. The significant advantage that the LLB method affords the District is that it establishes a guaranteed maximum price for the projects and minimizes the time associated with administering changes. Additionally, the construction manager in a LLB is responsible for any project delays, so there is an incentive for the builder to deliver the

project on schedule. Since the current and near-term projects are coupled very tightly with the academic calendars at the affected schools, it is imperative that execution of the projects be completed on or before their scheduled completion dates. In addition to cost impacts for delaying projects the adverse impact to student and faculty at the schools would be very difficult to assess and work around.

An often litigated issue regarding the use of the LLB method relates to the authorization granted by the California Education Code. Specifically, Section 17406(a) allows school districts to enter into Lease-Leaseback agreements without advertising for bids. The concerns surrounding this authority relates to the possibility that school districts will not receive the lowest price, and that the process lends itself to accusations of favoritism or improprieties. At our January 2015 meeting, the ICOC confirmed with the District's Associate Superintendent of Business Services, Eric Dill, that the District issues requests for proposals for construction managers and conducts a competitive process to select the District's LLB partners on a best value basis, and not necessarily the lowest bid basis. The ICOC finds this practice to be consistent with the methodology traditionally employed with the Design-Build delivery method and is a recommended best practice.

Another concern discussed in the media relates to the fact that LLB construction managers are not required to competitively bid trade subcontractors. As a result, the project may not be getting the best price and the difference is being passed on to the District under the provisions of the Facilities lease, which obligates the District to pay for costs incurred by the LLB construction managers up to the Guaranteed Maximum Price for the project. At our January 2015 meeting, the ICOC confirmed with Eric Dill that the District has included provisions in its lease-leaseback agreements that require the LLB construction managers to obtain three to five competitive bids per trade contract, and that those bids are conducted under the supervision of District staff. The construction manager's final maximum price is then established as the low-bid trade contracts along with the lease-leaseback fees and general conditions, which are also based on the low-bid amounts.

While the Districts' Proposition AA web page includes a link to its prequalification criteria for prospective mechanical, electrical and plumbing (MEP) contractors, and its list of pre-qualified MEP contractors, it does not include any pre-qualification information for LLB construction managers or architectural firms. The current ICOC will recommend to the incoming ICOC that they work with the District to expand the amount of LLB related information that is available on the website.

ICOC ACTIVITIES IN 2014

The Committee reviews plans, timelines, budgets, change orders, and management processes as a standing practice at each meeting.

The first meeting of the calendar year was held on **January 21, 2014** at Oak Crest Middle School. The Committee received a report about an error on the annual tax assessment and the solution to the issue. The Committee was updated on the status of the 2013 performance and financial audit. After an update on the project and budget reports, ICOC members toured Oak Crest's science classrooms. The Committee established upcoming meeting dates of April 1, 2014, July 8, 2014, October 7, 2014, and January 13, 2015.

At the meeting on **April 1, 2014**, The Committee met at San Dieguito High School Academy. The Committee received the report regarding two Proposition AA community updates from Associate Superintendent of Business Services Eric Dill. Wilkinson Hadley King & Co. audit manager Mike Mears reviewed the 2012-2013 independent auditor's report. The Committee toured locations at SDHSA for the proposed math and science building. District staff reported on change orders, planned 2014 projects, and the first bond draw budget and commitments summary. The 2013 ICOC annual report drafts were shared and a timeline for completing the report for Board presentation was arranged.

A special meeting was held on **April 16, 2014** at the District Office so that the Committee could finalize the draft of the 2013 ICOC annual report.

The Committee met on **April 22, 2014** at the District Office for the final review of the 2013 ICOC report. A motion was made and carried to approve the report with proposed amendments. The report was presented to the Board at the **May 1, 2014** meeting, where the Board unanimously approved to accept the report.

Committee representatives were present at the groundbreaking ceremony for Middle School #5 on **June 10, 2014**. Pacific Trails Middle School was approved as the official name for Middle School #5 by the Board on **November 13, 2014**.

At the **July 8, 2014** meeting at the District Office, Associate Superintendent of Business Services Eric Dill reported that all summer Proposition AA projects were under way and moving along as planned. Superintendent Rick Schmitt discussed the District's high school selection process and outlined the short, intermediate, and long-term solutions for the process. District staff reported on projects and budgets, including a detailed review of summer 2014 projects. The Committee discussed the upcoming special

meeting for October 6, 2014, when the Committee would join the Board on a bus tour of Proposition AA projects.

The Committee joined the Board and District staff on a tour of Proposition AA Fall projects on **October 6, 2014**. The tour included La Costa Canyon High School, Diegueno Middle School, Earl Warren Middle School, Torrey Pines High School, Pacific Trails Middle School, and Canyon Crest Academy.

Associate Superintendent of Business Services Eric Dill led the **October 7, 2014** meeting at the District Office with a discussion about the Taxpayers Association's reporting of districts in San Diego County and their compliance with best practices. He addressed the District's process in the search for a financial advisor in anticipation of the next bond series. District staff reported on projects and budgets, which included a review of completed projects, projects in progress, and total costs savings of the first bond draw. The Committee heard about the District's amendment to the conflict of interest policy and its impact on Committee members. Given the April 2015 end of term, members were asked to email President Rhea Stewart or Associate Superintendent of Business Services Eric Dill with their interest in serving another term on the Committee.

FIRST BOND DRAW BUDGET AND COMMITMENTS SUMMARY

This is the overall Proposition AA bond program budget for 2013-2014.

Project Sites	Budget 01/09/14	Budget 12/16/14	Commitments 12/16/14	Delta 12/16/14
Pacific Trails MS	\$ 52,529,244.00	\$ 52,529,244.00	\$ 47,101,334.41	\$ 5,427,909.59
Carmel Valley MS	\$ 457,392.00	\$ 177,793.15	\$ 177,793.15	\$ -
Earl Warren MS	\$ 1,685,791.00	\$ 6,412,225.00	\$ 5,293,198.14	\$ 1,119,026.86
La Costa Valley Site	\$ 15,531,957.34	\$ 11,532,803.59	\$ 988,514.00	\$ 10,544,289.59
Diegueno MS	\$ 3,164,090.80	\$ 5,056,230.74	\$ 5,056,230.74	\$ -
Oak Crest MS	\$ 5,151,609.00	\$ 4,416,226.22	\$ 4,416,226.22	\$ -
Canyon Crest Academy	\$ 20,062,733.00	\$ 19,444,586.83	\$ 19,097,315.33	\$ 347,271.50
Torrey Pines HS	\$ 13,651,928.00	\$ 12,102,750.21	\$ 11,181,176.31	\$ 921,573.90
San Dieguito High School Academy	\$ 27,716,303.03	\$ 28,432,092.92	\$ 11,558,868.82	\$ 16,873,224.10
La Costa Canyon HS	\$ 13,402,972.59	\$ 7,417,330.06	\$ 7,417,330.06	\$ -
DW Tech Infrastructure	\$ 5,373,507.99	\$ 5,859,813.65	\$ 5,347,920.79	\$ 511,892.86
QSCB - 3 yr. option	\$ 2,294,071.36	\$ 2,294,071.36	\$ 1,536,076.48	\$ 757,994.88
Administration	\$ 2,792,632.00	\$ 2,389,544.43	\$ 2,197,519.33	\$ 192,025.10
Subtotal Expense Budget	\$ 163,814,232.11	\$ 158,064,712.16	\$ 121,369,503.78	\$ 36,695,208.38
Project Funding				
Prop AA Project Fund	\$ 157,935,639.78	\$ 157,935,639.78		
North City West Funding	\$ 4,835,697.00	\$ 4,835,697.00		
Estimated Interest Earnings - Yld .58%	\$ 1,167,964.65	\$ 1,167,964.65		
Subtotal Funding Budget	\$ 163,939,301.43	\$ 163,939,301.43		
Excess/(Shortage of) Funding	\$ 125,069.32	\$ 5,874,589.27		

COMPLETED PROJECTS 2014

Project	Delivery Method	Budget	Actual Expenses	Savings
CVMS Media Center	District Forces	\$ 457,392.00	\$ 180,411.15	\$ 276,980.85
DNO Phase 2 - Media Center	CM Low Bid	\$ 3,634,837.04	\$ 3,009,512.09	\$ 625,324.95
LCC Phase 2 - Media Center	GL Low Bid	\$ 7,230,509.80	\$ 4,919,423.77	\$ 2,311,086.03
OCMS Phase 2 – ADA Ramp/C-Smart & Art Classroom Modernization	CM Low Bid	\$ 4,534,192.62	\$ 2,762,788.15	\$ 1,771,404.47
SDA Phase 2 - Bleacher Project	*LLB	\$ 3,288,744.89	\$ 2,866,120.37	\$ 422,624.52
Technology Upgrades – DNO, CVMS	District Forces	\$ 1,259,931.68	\$ 1,046,763.38	\$ 213,168.30
Subtotals		\$ 20,405,608.03	\$ 14,785,018.91	\$ 5,620,589.12

Examples of 2014 savings include, but are not limited to:

- Competitive bids contracted below initial construction cost estimates.
- Project savings achieved through value engineering.
- Contingency budgets and proposed change orders are reviewed by District staff to hold contractors to original budgets.
- Unused contingency budgets are returned to the District at project close-out for use on other projects.

ONGOING PROJECTS AS OF DECEMBER 2014

Project	Delivery Method	Bond Series	Est. Start Date	Estimated Budget
CCA Phase 2 Stadium Improvements	LLB	A	4/14	\$16,131,723.00
EWMS Campus Reconstruction	LLB	A	7/15	\$800,000.00
EWMS Interim Housing	LLB	A	4/15	\$4,732,785.00
EWMS Server Room	LLB	A	6/14	\$6,412,225.00
LCV Fields	LLB	A	3/15	\$11,532,803.58
OCMS Slope, Drainage, Media Center Improvements	LLB	A	6/15	\$516,000.00
PTMS (formerly MS #5)	LLB	A	5/14	\$52,529,244.00
SDA Phase 2 Interim Housing/Tennis Courts/Math & Science Bldg.	LLB	A	4/15; 6/15	\$20,982,024.72
TPHS B Building Modernization	LLB	A	4/15	\$900,000.00
TPHS Fieldwork, Weight Room, Fire Rd/Lights, Science Bldg.	LLB	A	4/14; 6/14	\$11,861,649.56
CCA B Building New Construction	LLB	B	6/16	\$11,451,854.79
EWMS Campus Reconstruction	LLB	B	7/15	\$41,412,585.98
LCC HVAC 200, Theatre, Gym; 800/900 Minor Renovations	District Forces	B	6/15; 6/16	\$1,868,967.88
OCMS Slope, Drainage, Media Center Improvements	LLB	B	6/15	\$3,963,411.27
SDHSA Art, Soc. Science, English Bldg.	To be determined	B	6/17	\$24,536,348.44
TPHS B Building Modernization	LLB	B	4/15	\$21,169,597.40

* LLB - Lease/Leaseback

OVERVIEW OF 2014 PROJECTS, BY SCHOOL

The following represents the status of the projects under ICOC oversight upon publication of this annual report.

For more information about each site's projects, and to view photos from 2014 work, visit www.sduhsd.net/PropAA.

CANYON CREST ACADEMY

- Natural turf field improvement project – **in progress**
- Stadium seating, concessions, and restroom building planning and design – **in progress**
- Baseball and softball diamonds relocation – **in progress**

CARMEL VALLEY MIDDLE SCHOOL

- Network infrastructure upgrade to fiber-optic cabling and campus-wide Wi-Fi access – **completed**
- Media Center renovation – **completed**

DIEGUENO MIDDLE SCHOOL

- Front entrance improvements, parking lot & drop off redesign, network infrastructure upgrades – **completed**
- Media Center renovation planning and design – **completed**

EARL WARREN MIDDLE SCHOOL

- Campus reconstruction, new network operations center, utilities upgrades – **in progress**
- Redesign of Warren Hall with shared-use spaces for the County Library planning and design – **in progress**

LA COSTA CANYON HIGH SCHOOL

- Installations of current District-standard audio-visual technology in selected classrooms – **completed**
- Media Center renovation – **completed**

LA COSTA VALLEY SITE

- Planning, design, and geotechnical survey of property in preparation for athletic field, parking lot, and restroom building construction – **in progress**

PACIFIC TRAILS MIDDLE SCHOOL

- First phase of campus construction of classrooms, media center, multi-purpose room, gymnasium, food service, and administration, track & fields for 500-student enrollment – **in progress**

NORTH COAST ALTERNATIVE HIGH SCHOOL

- No activity

OAK CREST MIDDLE SCHOOL

- Art and C-SMART classroom renovations and field accessibility improvements – **completed**

SAN DIEGUITO HIGH SCHOOL ACADEMY

- Stadium bleachers replacement – **completed**
- Planning and design of two-story math and science building, replacement of tennis courts – **in progress**
- Preparation for interim classrooms for future projects – **in progress**

SUNSET HIGH SCHOOL

- No activity

TORREY PINES HIGH SCHOOL

- Construction of new chemistry building and new weight room – **in progress**
- Planning & design for renovations of B Building classrooms – **in progress**

EXHIBIT A

PROPOSITION AA BALLOT MEASURE

The San Dieguito Union High School district Proposition AA Ballot Measure follows. The report can also be found at www.sduhsd.net/ICOC.

EXHIBIT A

I. ABBREVIATION OF THE MEASURE

To provide safe, modern schools and prepare students for success in college and careers by repairing and upgrading outdated classrooms and schools, constructing and upgrading school facilities, including classrooms, science labs, and libraries, improving safety and security, and supporting career training and math, science, and technology instruction with 21st Century instructional technology and facilities, shall San Dieguito Union High School District issue \$449 million in bonds with independent oversight, no money for administrator salaries, and all money staying local?

II. FULL TEXT OF THE MEASURE

BEGINNING OF FULL TEXT OF MEASURE----->>>>>

BOND AUTHORIZATION

By approval of this proposition by at least 55% of the registered voters voting on the proposition, the San Dieguito Union High School District (the “District”) shall be authorized to issue and sell bonds of up to \$449,000,000 in aggregate principal amount to provide financing for the specific school facilities projects listed in the Bond Project List below, and in order to qualify to receive State matching grant funds, subject to all of the accountability safeguards specified below.

ACCOUNTABILITY SAFEGUARDS

The provisions in this section are specifically included in this proposition in order that the District’s voters and taxpayers may be assured that their money will be spent wisely to address specific facilities needs of the District, all in compliance with the requirements of Article XIII A, Section 1(b)(3) of the State Constitution, and the Strict Accountability in Local School Construction Bonds Act of 2000 (codified at Education Code Sections 15264 and following).

Evaluation of Needs. The Board of Trustees hereby certifies that it has evaluated the facilities needs of the District, and the priority of addressing each of these needs. In the course of its evaluation, the Board of Trustees took safety, class size reduction and information technology needs into consideration while developing the Bond Project List.

Limitation on Use of Bond Proceeds. The State of California does not have the power to take locally approved school district bond funds for any State purposes. The Constitution allows proceeds from the sale of bonds authorized by this proposition to be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities listed in this proposition, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, and not for any other purpose, including teacher and administrator salaries and other school operating expenses. Proceeds of the bonds may be used to pay or reimburse the District for the cost of District staff only when performing work on or necessary and incidental to the bond projects.

Independent Citizens’ Oversight Committee. The Board of Trustees shall establish an independent Citizens’ Oversight Committee (pursuant to Education Code Section 15278 and following), to ensure bond proceeds are spent only for the school facilities projects listed in the Bond Project List. The committee shall be established within 60 days of the date on which the Board of Trustees enters the election results on its minutes.

Annual Performance Audits. The Board of Trustees shall conduct an annual, independent performance audit to ensure that the bond proceeds have been expended only on the school facilities projects listed in the Bond Project List.

Annual Financial Audits. The Board of Trustees shall conduct an annual, independent financial audit of the bond proceeds (which shall be separate from the District’s regular annual

financial audit) until all of those proceeds have been spent for the school facilities projects listed in the Bond Project List.

Special Bond Proceeds Account; Annual Report to Board. Upon approval of this proposition and the sale of any bonds approved, the Board of Trustees shall take actions necessary pursuant to Government Code Section 53410 and following to establish an account in which proceeds of the sale of bonds will be deposited. As long as any proceeds of the bonds remain unexpended, the Superintendent or the Associate Superintendent, Business Services of the District (or such other employee as may perform substantially similar duties) shall cause a report to be filed with the Board no later than December 31 of each year, commencing December 31, 2012, stating (1) the amount of bond proceeds received and expended in that year, and (2) the status of any project funded or to be funded from bond proceeds. The report may relate to the calendar year, fiscal year, or other appropriate annual period as such officer shall determine, and may be incorporated into the annual budget, audit, or other appropriate routine report to the Board.

FURTHER SPECIFICATIONS

Specific Purposes. All of the purposes enumerated in this proposition shall be united and voted upon as one single proposition, pursuant to Education Code Section 15100, and shall constitute the specific purposes of the bonds, and proceeds of the bonds shall be spent only for such purposes, pursuant to Government Code Section 53410.

Joint Use. The District may enter into agreements with the County of San Diego or other public agencies or nonprofit organizations for joint use of school facilities financed with the proceeds of the bonds in accordance with Education Code Section 17077.42 (or any successor provision). The District may seek State grant funds for eligible joint-use projects as permitted by law, and this proposition hereby specifies and acknowledges that bond funds will or may be used to fund all or a portion of the local share for any eligible joint-use projects identified in the Bond Project List or as otherwise permitted by California State regulations, as the Board of Trustees shall determine.

Rate of Interest. The bonds shall bear interest at a rate per annum not exceeding the statutory maximum, payable at the time or times permitted by law.

Term of Bonds. The number of years the whole or any part of the bonds are to run shall not exceed the legal limit, though this shall not preclude bonds from being sold which mature prior to the legal limit.

BOND PROJECT LIST

The Bond Project List below describes the specific projects the San Dieguito Union High School District proposes to finance with proceeds of the bonds. Listed projects will be completed as needed at a particular school site according to Board-established priorities, and the order in which such projects appear on the Bond Project List is not an indication of priority for funding or completion. The final cost of each project will be determined as plans are finalized, construction bids are awarded, and projects are completed. Certain construction funds expected from non-bond sources, including State grant funds for eligible projects, have not yet been secured. Until all project costs and funding sources are known, the Board of Trustees cannot determine the amount of bond proceeds available to be spent on each project, nor guarantee that the bonds will provide sufficient

funds to allow completion of all listed projects. Completion of some projects may be subject to further government approvals by State officials and boards, to local environmental review, and to input from the public. For these reasons, inclusion of a project on the Bond Project List is not a guarantee that the project will be funded or completed. The Board of Trustees may make changes to the Bond Project List in the future consistent with the projects specified in the proposition.

Part I - Site-specific Authorization. the following projects are authorized at the specific sites indicated below (and are supplemental to, and do not limit, the authorization set forth in Part II, below):

Canyon Crest Academy

- Increase school capacity to accommodate growing student enrollment;
- Consolidate under-utilized space to improve classrooms and science labs;
- Repurpose the existing temporary Black Box Theater for engineering/robotics;
- Add new physical education/athletics facilities.

Carmel Valley Middle School

- Repair, rehabilitate, reconstruct or modernize science and technology labs and other classrooms;
- Reconfigure instructional spaces and labs to create larger instruction spaces.

Diegueño Middle School

- Repair, reconstruct, rehabilitate or replace existing modular or portable classroom buildings;
- Reconfigure classrooms or labs to support instruction;
- Improve traffic circulation;
- Reconfigure quad area.

Earl Warren Middle School

- Repair, replace, reconstruct, or modernize outdated, aging school classrooms and buildings including constructing new classrooms and buildings if necessary;
- Repair, replace, reconstruct or modernize multi-use facility (Warren Hall) to allow for group learning, and expanded joint-use partnership with the County of San Diego;
- Construct new facilities for athletics and performing arts.

La Costa Canyon High School

- Repair, replace, reconstruct or modernize existing modular or portable classroom buildings with 2-story classroom buildings that include labs for science, including physics;
- Construct new classrooms and media center;
- Reconfigure existing classrooms and labs to support instruction;
- Repair, replace, reconstruct or modernize labs and other classrooms;
- Add new web-based learning center for online/distance learning;
- Reconfigure quad area;
- Construct physical education/athletics facilities;
- Make necessary site improvements including grading, infrastructure, and roads.

La Costa Valley Site

- Construct new flexible meeting and instructional space for district and community use;
- Construct new gymnasium multi-purpose building for district and community use;
- Construct new play fields and hard courts to allow community access, as well as to support the athletic program at La Costa Canyon High School.

New Middle School at Pacific Highlands Ranch

- Add new classrooms and instructional spaces to prevent overcrowding at neighboring facilities;
- Add new multi-use instructional facility and media center;
- Add new physical education/athletics facilities;
- Make necessary site improvements including grading, infrastructure, and roads;
- Construct school facilities including buildings necessary for non-instructional purposes.

Oak Crest Middle School

- Repair, reconstruct, rehabilitate or reconfigure classrooms and labs to support instruction;
- Repair, reconstruct, rehabilitate or reconfigure Crest Hall to improve functionality;

- Repair, reconstruct, rehabilitate or reconfigure media center and reconfigure spaces for group instruction;
- Add new physical education/athletics facilities;
- Add a new science quad.

San Dieguito Academy

- Expand total campus space, including space for engineering technology, science and physics labs, and classroom space;
- Add 2-story math and science building with math classrooms, science classrooms, and science labs;
- Add 2-story arts/English/social science/adult education building with new classrooms;
- Repair, reconstruct, rehabilitate or reconfigure industrial arts building;
- Add new physical education/athletics facilities.

Sunset High School/North Coast Alternative

- Construct new classrooms;
- Repair, reconstruct, rehabilitate or reconfigure classrooms and labs to support instruction;
- Repair, reconstruct, rehabilitate or reconfigure school facilities to ensure they are accessible for students, parents, teachers and staff with disabilities by repairing, constructing, reconstructing, rehabilitating or reconfiguring schools and classrooms to be compliant with Americans with Disabilities Act.

Torrey Pines High School

- Repair, construct, reconstruct, rehabilitate or reconfigure old and outdated buildings, labs, classrooms and technologies.
- Repair, construct, reconstruct, rehabilitate or reconfigure student commons area;
- Repair, construct, reconstruct, rehabilitate or reconfigure arts and education spaces, and industrial arts classrooms, labs and shop facilities;
- Add new physical education/athletics facilities.

Part II - District-wide Authorization. The following projects are authorized at each or any of the District's sites, as shall be approved by the Board of Trustees:

- Enable 21st Century learning in science, engineering, technology and related subjects by providing modern equipment, including instructional equipment, technology, servers, wiring, and data systems;
- Construct, reconstruct, rehabilitate or repair utility infrastructure, heating and cooling systems, and building infrastructure to improve functionality and efficiency, including adding solar and other renewable technology;
- Ensure schools, classrooms and facilities meet current fire, earthquake and other safety codes;
- Repair, reconstruct, rehabilitate or modernize science and technology labs and other classrooms;
- Improve traffic safety and parking at and around each school;
- Acquire or lease facilities;
- Construct, reconstruct, rehabilitate or repair school facilities, including science laboratories, instructional classrooms, playgrounds, athletic fields, playfields, multi-use facilities, and performing arts spaces.

Each project listed is assumed to include its share of costs of the election and bond issuance and other construction-related costs, such as construction management, architectural, engineering, inspection and other planning costs, legal, accounting and similar fees, independent annual financial and performance audits, a customary construction contingency, and other costs incidental to and necessary for completion of the listed projects (whether work is performed by the District or by third parties), including:

Remove, dispose of, and otherwise remediate hazardous materials, including asbestos, lead, etc., where necessary.

Address unforeseen conditions revealed by construction/modernization (including plumbing or gas line breaks, dry rot, seismic, structural, etc.).

Site preparation/restoration in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, demolition of existing structures, removing, replacing, or installing irrigation and drainage, utility lines (such as gas lines, water lines, electrical lines, sewer lines, and communication lines), trees and landscaping, relocating fire access roads, traffic lights and mitigation, and acquiring any necessary easements, licenses, or rights of way to the property.

Rental or construction of storage facilities and other space on an interim basis, as needed to accommodate construction materials, equipment, and personnel, and interim classrooms (including relocatables) for students and school functions or other storage for classroom materials displaced during construction.

Acquisition of any of the facilities on the Bond Project List through temporary lease or lease-purchase arrangements, or execute purchase option under a lease for any of these authorized facilities.

Furnishing and equipping of existing and newly constructed, modernized or rehabilitated classrooms and facilities on an ongoing basis, including replacing worn, broken, or out-of-date furniture and equipment for all classrooms, athletic facilities and other facilities, as needed.

For any project involving renovation, modernization, remodeling or rehabilitation of a building or the major portion of a building, the District may proceed with new replacement construction instead (including any necessary demolition), if the Board of Trustees determines that replacement and new construction is more practical than rehabilitation and renovation, considering the building's age, condition, expected remaining life, comparative cost, and other relevant factors.

The Bond Project List shall be considered a part of this ballot proposition, and shall be reproduced in any official document required to contain the full statement of the bond proposition.

<<<<<-----END OF FULL TEXT OF MEASURE.

EXHIBIT B

2014 AUDIT REPORT

The San Dieguito Union High School district Proposition AA Building Fund General Obligation Bonds Audit Report dated June 30, 2014 follows. The report can also be found at www.sduhsd.net/ICOC/PropAA.

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

AUDIT REPORT

JUNE 30, 2014

**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, 2014 was comprised of the following members:

Name	Position	Term Expiration
Rhea Stewart	President-At Large Member	June 2015
Michael Kenny	Representative-Business Organization Member	June 2015
Lorraine Kent	Secretary-Taxpayer Association Member	June 2015
Larry Lugo	Member-Parent of SDUHSD Student	June 2015
Clarke Caines	Member-Parent and Active in PTA	June 2015
Mary Farrell	Member-Senior Citizen Organization	June 2015
Kim Bess	Member-At-Large	June 2015
Scott Seidenverg	Member-At Large	June 2015
Jeffery Thomas	Member-At Large	June 2015

P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Natalie C. Azzam, CPA



Aubrey W. King, CPA
Richard K. Savage, 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, 2014, 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.

Also, described in Note B to the financial statements, in 2014, the District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, 2014, 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 12, 2015, 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 12, 2015

FINANCIAL SECTION

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
BALANCE SHEET
JUNE 30, 2014**

ASSETS

CURRENT ASSETS

Cash in County Treasury	\$ 112,992,398
Investments - Cash With Fiscal Agent	787,405
Accounts Receivable	<u>214,218</u>

TOTAL ASSETS	\$ <u>113,994,021</u>
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LIABILITIES AND FUND BALANCE

Accounts Payable	<u>\$ 5,672,922</u>
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TOTAL LIABILITIES	5,672,922
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FUND BALANCE

Restricted for Capital Projects	<u>108,321,099</u>
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TOTAL LIABILITIES AND FUND BALANCE	\$ <u>113,994,021</u>
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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, 2014**

REVENUES	
Interest Income	\$ 449,870
Refund - Appraisal Fees	3,500
	453,370
TOTAL REVENUES	453,370
EXPENDITURES	
Classified Salaries	634,316
Employee Benefits	205,484
Materials and Supplies	4,339
Other Operating Expenses	22,056
Capital Outlay:	
Site Construction	11,673,476
Land Improvements	8,896,369
New Construction	10,307,092
Construction Improvement	9,801,024
Equipment	332,027
Technology Equipment	101,736
Equipment Replacement	1,467,784
	43,445,703
TOTAL EXPENDITURES	43,445,703
EXCESS OF EXPENDITURES OVER REVENUES	(42,992,333)
OTHER FINANCING SOURCES (USES)	
Lease Payment Adjustment	300
Debt Service Transfer	(7,110,148)
Lease Revenue Bond Payment	(2,024,838)
Transfer to General Fund	(765,588)
	(9,900,274)
TOTAL OTHER FINANCING SOURCES (USES)	(9,900,274)
NET CHANGE IN FUND BALANCE	(52,892,607)
FUND BALANCE, BEGINNING OF YEAR	161,213,706
FUND BALANCE, END OF YEAR	\$ 108,321,099

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, 2014**

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, 2014
(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, 2014
(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, 2014
(Continued)**

B. Summary of Significant Accounting Policies (Continued)

GASB 65 Implementation

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

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, 2014 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, 2014, the portion of cash in county treasury attributed to Building Fund (21-39) was \$112,992,398. The fair value of Building Fund (21-39)'s portion of this pool as of that date, as provided by the pool sponsor, was \$113,137,877. 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.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014
(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.

The District's investments attributed to Building Fund (21-39) at June 30, 2014 are shown below.

<u>Investment or Investment Type</u>	<u>Average Days to Maturity*</u>	<u>Amount Reported</u>	<u>Fair Value</u>
San Diego County Pooled Investment Funds	366 Days	\$ 112,992,398	\$ 113,137,877
Federated Treasury Obligations	44 Days	29,819	29,819
US Treasury Notes	<30 Days	757,586	735,549
Total Investments		<u>\$ 113,779,803</u>	<u>\$ 113,903,245</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 was not exposed to credit risk. The San Diego County Investment Pool is rated AAA by Standard & Poors. U.S. Treasury Notes have a Moody's rating of AAA and Federated Treasury Obligations are rated AAAM by Standard & Poors.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

C. Cash and Investments (Continued)

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.

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, 2014
(Continued)**

D. Accounts Receivable

Accounts receivable at June 30, 2014 consisted of:

Interest	\$ 116,768
Cancelled Warrant	<u>97,450</u>
Total	<u><u>\$ 214,218</u></u>

E. Accounts Payable

Accounts payable at June 30, 2014 consisted of:

Vendors Payable	<u><u>\$ 5,672,922</u></u>
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F. Interfund Transactions

Interfund transfers to and from other funds at June 30, 2014 are as follows:

Transfer to General Fund	<u><u>\$ 765,588</u></u>
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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. Other Financing Uses:

Other financing uses as of June 30, 2014 are as follows:

Debt Service Transfer	\$ 7,110,148
Lease Revenue Bond Payment	<u>2,024,838</u>
	<u><u>\$ 9,134,986</u></u>

The debt service transfer of \$7,110,148 represents initial proceeds from the 2012 Election, Series A, General Obligation Bonds that were designated for deposit to the Bond Interest and Redemption Fund (Fund 52) which were inadvertently deposited to the Building Fund (21-39) in the prior year. The amount transferred represents the designated balance due to the Bond Interest and Redemption Fund (Fund 52) as stated in the sources and uses section of the official bond statement. The funds will be utilized for future debt service payments on the bonds.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
GENERAL OBLIGATION BONDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

G. Other Financing Uses: (Continued)

The lease revenue bond payment in the amount of \$2,024,838 represents a partial payment made from the escrow account to pay off the San Dieguito Public Facilities Authority Series 2012A lease revenue bonds principal balance of \$2,500,000. The remaining portion of principal balance in the amount of \$475,162 was paid from the escrow account in the Capital Project Fund for Blended Component Units (Fund 49). The partial principal payment from Building Fund (21-39) was paid in conjunction with the approved ballot measure with respect to purchasing the San Dieguito Public Facilities Authority's interest in the lease payments due on the Torrey Pines High School Projects.

H. Long-Term Debt

The outstanding bonded debt as of June 30, 2014 is as follows:

Date of Issuance	Interest Rate	Maturity Date	Amounts Outstanding Issue	Amounts Outstanding July 1, 2013	Issued Current Year	Redeemed Current Year	Amounts Outstanding June 30, 2014
4/11/13	1.00-5.00%	08/01/38	\$160,000,000	\$160,000,000	\$ -	\$ -	\$ 160,000,000
4/11/13	Premium	08/01/38	\$ 8,336,717	8,336,717	-	320,643	8,016,074
4/11/13	Discount	08/01/38	\$ (744,000)	(744,000)	-	(28,615)	(715,385)
Totals				\$167,592,717	\$ -	\$ 292,028	\$ 167,300,689

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.

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, 2014
(Continued)**

H. Long-Term Debt (Continued)

Debt service requirements on the general obligation bonds, net of premium and discount, as of June 30, 2014 is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 10,245,000	\$ 6,115,361	\$ 16,360,361
2016	5,535,000	6,042,725	11,577,725
2017	-	6,015,050	6,015,050
2018	-	6,015,050	6,015,050
2019	935,000	5,996,350	6,931,350
2020-2024	11,185,000	28,904,850	40,089,850
2025-2029	24,595,000	24,561,125	49,156,125
2030-2034	40,540,000	17,799,600	58,339,600
2035-2039	66,965,000	7,194,900	74,159,900
Totals	<u>\$ 160,000,000</u>	<u>\$ 108,645,011</u>	<u>\$ 268,645,011</u>

I. Construction Commitments

As of June 30, 2014, the Building Fund had the following commitments with respect to unfinished capital projects:

Construction in Process:	Commitment	*Expected Date of Final Completion
Carmel Valley Middle School-Media Center Imp.	\$ 153,670	08/15/2014
Canyon Crest Academy Stadium and Fields Phase 2	\$ 15,528,955	04/07/2015
Diegueno Middle School Front Entry/Media Center Imp.	\$ 3,094,776	08/15/2014
Diegueno Middle School Technology Infrastructure	\$ 554,032	08/15/2014
Earl Warren Middle School Data Center Phase 1	\$ 3,094,776	04/16/2015
La Costa Canyon High School Media Center/800 Buildings Imp.	\$ 4,732,259	08/15/2014
Pacific Trails Middle School (formerly Middle School #5)	\$ 46,427,499	02/05/2016
Oak Crest Middle School Art/C-Smart, ADA Pathway and Field	\$ 3,576,919	08/15/2014
San Dieguito Academy Stadium Phase 1B and Interim Housing	\$ 6,240,350	08/15/2015
TPHS Stadium Lighting/Science Classroom/Weight Room	\$ 9,323,767	09/01/2015

*Expected date of final completion subject to change.

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, 2014, 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 12, 2015.

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 12, 2015



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Natalie C. Azzam, CPA

Aubrey W. King, CPA
Richard K. Savage, 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, 2014 and have issued our report thereon dated February 12, 2015. 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, 2014. 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 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 and supporting documents are reviewed by the Construction Contracts Analyst. This requisition is 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 that all expenditures are properly recorded by project and expense category. Once the purchase requisition has gone through the approval process, the Construction Contracts Analyst 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 to the Facilities Planning Analyst for monitoring and review.

When the invoice is received the Director of Planning Services and Facilities Planning Analyst 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 Specialist 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, 2014 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 approximately \$37,015,178 or approximately 85% of total expenditures for the year. Our testing included \$36,392,937 of capital outlay expenditures which was 85% 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, 2014.

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 12, 2015

FINDINGS AND RESPONSES SECTION

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
PROPOSITION AA BUILDING FUND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

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, 2014**

There were no audit findings noted for the fiscal year ended June 30, 2013.