

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS**

**AUDIT REPORT**

**JUNE 30, 2016**

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
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**DEHESA SCHOOL DISTRICT  
 PROPOSITION 39 GENERAL OBLIGATION BONDS  
 PROPOSITION M AND PROPOSITION D  
 INTRODUCTION AND CITIZENS' OVERSIGHT COMMITTEE MEMBER LISTING**

On November 2, 2010 the Dehesa School District was successful under Proposition M in obtaining District voters to issue up to \$5,500,000 in General Obligation Bonds pursuant to a 55% vote in a bond election. On November 6, 2012 the Dehesa School District was successful under Proposition D in obtaining re-authorization from District voters to issue up to \$3,000,000 in general obligation bonds previously approved in November 2010 pursuant to a 55% vote in a bond election. Based on the re-authorization, ultimately \$3,000,000 will be canceled from the corresponding amount from Proposition M as Proposition D bonds are sold. 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 Citizens' Bond Oversight Committee, and authorization for injunctive relief against improper expenditure of bond revenues.

The Dehesa School District Proposition M and D Citizens' Bond Oversight Committee as of June 30, 2016 was comprised of the following members:

<u>Name</u>	<u>Position</u>
Nathan Voth	Chair
Wally Riggs	Vice Chair
Chuck Huskey	Member
Mike Hunsaker	Member
Herb Krickhahn	Member
Jerry Hamilton	Member
Vincent Blanco	Member



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

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

## INDEPENDENT AUDITOR'S REPORT

**Governing Board Members and  
Citizens' Oversight Committee  
Dehesa School District  
El Cajon, California**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Proposition M and D Building Fund (21) of Dehesa School District, which comprise the balance sheet as of June 30, 2016, and the related statement of revenue, 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) which is specific to Proposition M and D and are not intended to present fairly the financial position and results of operations of Dehesa School District in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

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

## **Opinion**

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

## **Other Matters**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of Dehesa School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 31, 2017 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition M and D Building Fund. That report is an integral part of our audit of the District's Proposition M and D Building Fund for the fiscal year ended June 30, 2016 and should be considered in assessing the results of our financial audit.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
January 31, 2017

**DEHESA SCHOOL DISTRICT  
PROPOSITION 39 GENERAL OBLIGATION BONDS  
PROPOSITION M AND PROPOSTION D  
Management Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2016**

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This section of Dehesa School District's Proposition M and D Building Fund annual financial and performance report presents our discussion and analysis of the Proposition M and D bond program during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Proposition M and D General Obligation Bond financial statements and performance audit, which immediately follows this section.

**FINANCIAL HIGHLIGHTS**

- The fund balance for the Proposition M and D Building Fund amounted to \$547,087 as of June 30, 2016.
- Revenues combined with the beginning fund balance were \$2,988,828 during the year ended June 30, 2016, which exceeded total expenditures and outgo of \$2,441,741.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management discussion and analysis (this section), the Proposition M and D Building Fund financial statements, and the performance audit as required by state law.

The District accounts for Proposition M and D bond activity in the District's Building Fund, which is a governmental fund type. It is accounted for on a modified accrual basis of accounting that does not include fixed assets or long-term liabilities.

**FINANCIAL ANALYSIS OF THE PROPOSITION M AND D BUILDING FUND**

**Balance Sheet**

The District's Proposition M and D Building Fund balance as of June 30, 2016 was \$547,087. The \$336,020 in the Cash In County Treasury account represents cash held in the San Diego County Treasurer's Investment Pool for purposes associated only with the bond authorization approved by the voters. It has been determined that Proposition M and D funds cannot be used for Routine Restricted Maintenance expenditures in the General Fund.

	2014-15	2015-16	% Change
Cash In County Treasury	3,155,567	336,020	-88.4%
Accounts Receivable	3,526	99,744	2728.8%
Due From Other Funds		145,900	100%
<b>Total Assets</b>	<b>3,159,093</b>	<b>581,664</b>	<b>-73.2%</b>
Accounts Payable	179,406	20,403	-88.6%
Due To Other Funds		14,174	100%
<b>Total Liabilities</b>	<b>179,406</b>	<b>34,577</b>	<b>-80.7%</b>
<b>Total Fund Balance</b>	<b>2,979,687</b>	<b>547,087</b>	<b>-81.6%</b>

## Fund Balance

The interest income reported represents funds earned on the cash held by the San Diego County Treasurer. The total expenditures of \$2,441,741 represent only Proposition M and D authorized expenditures.

	2014-15	2015-16	% Change
<b>Revenues</b>			
Interest Income	13,549	9,141	-32.5%
<b>Total Revenues</b>	<b>13,549</b>	<b>9,141</b>	<b>-32.5%</b>
<b>Expenditures</b>			
Services and Other Operating Expenses	27,599	28,472	-3.1%
Capital Outlay:			
Building and Building Improvements	1,060,284	2,196,292	107.1%
Architect Fees	90,077	2,567	-97.1%
Construction Services	54,018	77,198	42.9%
Soils Testing	29,960	41,223	-37.6%
Bond Administration Fees	9,350	0	-100%
Equipment and Furniture	0	95,989	100%
<b>Total Expenditures</b>	<b>1,271,288</b>	<b>2,441,741</b>	<b>-92.1%</b>
<b>Excess of Expenditures Over Revenues</b>	<b>(1,257,739)</b>	<b>(2,432,600)</b>	<b>93.4%</b>
<b>Net Change In Fund Balance</b>	<b>(1,257,739)</b>	<b>(2,432,600)</b>	<b>93.4%</b>
<b>Fund Balance, Beginning of Year</b>	<b>4,237,426</b>	<b>2,979,687</b>	<b>-29.7%</b>
<b>Fund Balance, End of Year</b>	<b>2,979,687</b>	<b>547,087</b>	<b>81.6%</b>



## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's Proposition M and D Building Fund Bond finances and to demonstrate the District's accountability for the funds it receives. If you have any questions about this report or need additional financial information, please contact Anna Buxbaum, Business Manager, Dehesa School District.

**FINANCIAL SECTION**

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
BALANCE SHEET  
JUNE 30, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash in county treasury	\$ 336,020
Accounts receivable	99,744
Due from other funds	<u>145,900</u>

<b>TOTAL ASSETS</b>	<u>\$ 581,664</u>
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**LIABILITIES AND FUND BALANCE**

Accounts payable	\$ 20,403
Due to other funds	<u>14,174</u>

<b>TOTAL LIABILITIES</b>	<u>34,577</u>
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**FUND BALANCE**

Restricted for capital projects	<u>547,087</u>
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<b>TOTAL FUND BALANCE</b>	<u>547,087</u>
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<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 581,664</u>
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The accompanying notes are an integral part of these financial statements

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>REVENUES</b>		
Interest income		\$ <u>9,141</u>
<b>TOTAL REVENUES</b>		<u>9,141</u>
<b>EXPENDITURES</b>		
Services and other operating expenses		28,472
Capital outlay:		
Building and building improvements		2,196,292
Architect fees		2,567
Construction services		77,198
Soils testing		41,223
Equipment and furniture		<u>95,989</u>
<b>TOTAL EXPENDITURES</b>		<u>2,441,741</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>		<u>(2,432,600)</u>
<b>NET CHANGE IN FUND BALANCE</b>		(2,432,600)
<b>FUND BALANCE, BEGINNING OF YEAR</b>		<u>2,979,687</u>
<b>FUND BALANCE, END OF YEAR</b>		<u>\$ 547,087</u>

The accompanying notes are an integral part of these financial statements

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**A. Definition of the Fund**

The Building Fund (21) was formed to account for construction as well as renovation of current schools for the Dehesa School District (District), through expenditures of general obligation bonds issued under Proposition M General Obligation Bonds Election of 2010 and Proposition D re-authorization General Obligation Bonds Election of 2012.

**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) specific to Proposition M and D as defined in Note A and are not intended to present fairly the financial position and results of operations of Dehesa 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.

The Building Fund (21) 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.

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*Encumbrances*

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Cash in County Treasury*

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

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

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

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

*Receivables and Payables*

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

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*Fund Balances – Governmental Funds*

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*Deferred Inflows and Deferred Outflows of Resources*

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

*Fair Value Measurements*

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

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

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

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

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

*Change in Accounting Policies*

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



**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

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

**C. Cash and Investments**

*Cash in County Treasury*

The District maintains significantly all of its cash in the San Diego County Treasury as part of the common investment pool. As of June 30, 2016, the cash in county treasury in Building Fund (21) was \$336,020. The fair value of the Building Fund's portion of this pool as of that date, as provided by the pool sponsor, was \$336,020. 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 investments in the pool is reported in the accounting financial statements as 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 the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*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) was not exposed to credit risk. The San Diego County Investment Pool is rated AA Af/S1 by Standard & Poors.

b. *Custodial Credit Risk*

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

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*f. Investment Accounting Policy*

The District is required by GASB statement No. 31 to disclose its policy for determining which investments, if any are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts using a cost-based measure; however, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

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

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

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

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**D. Accounts Receivable**

Accounts receivable at June 30, 2016 consisted of:

Insurance reimbursement	\$ 99,000
Interest receivable	<u>744</u>
Total	<u><u>\$ 99,744</u></u>

**E. Accounts Payable**

Accounts payable at June 30, 2016 consisted of:

Vendor payables	<u><u>\$ 20,403</u></u>
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**F. Interfund Transactions**

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

Due From Other Funds - Capital Facilities Fund	<u><u>\$ 145,900</u></u>
Due To Other Funds - Capital Facilities Fund	<u><u>\$ 14,174</u></u>

The amount due from the Capital Facilities Fund represents reimbursement of expense for vendor construction costs incurred specifically for capital facilities.

The amount due to the Capital Facilities Fund represents a deposit correction of developer fees collected that was inadvertently posted in error to Building Fund (21). The Building Fund (21) is reimbursing the Capital Facilities Fund for the developer fees deposited in error.

**G. Long-Term Debt**

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
General obligation bonds	\$ 4,590,844	\$ -	\$ -	\$ 4,590,844
Accreted interest	38,380	17,565	-	55,945
Bond premium	<u>352,762</u>	<u>-</u>	<u>12,436</u>	<u>340,326</u>
Total	<u><u>\$ 4,981,986</u></u>	<u><u>\$ 17,565</u></u>	<u><u>\$ 12,436</u></u>	<u><u>\$ 4,987,115</u></u>

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

*General Obligation Bonds*

In July 2012, the District issued \$2,499,852, Election of 2010, Series A, General Obligation Bonds in order to “improve student access to computers and modern technology; replace portable classrooms and construct new classrooms; build a new science lab and library and other educational facilities”. The issue consisted of \$190,000 of current interest Serial Bonds, \$2,225,000 of current interest Term Bonds, and \$84,852 of Capital Appreciation Bonds. The bonds have interest rates ranging from 3.00% to 4.00%. Principal payments are made August 1 of each year beginning August 1, 2013 while interest payments are made semi-annually on February 1 and August 1 of each year. The Bonds mature August 1, 2043. The Bonds were sold at a premium. At June 30, 2016 the balance owing on the 2010 Series A General Obligation Bonds was \$2,419,852.

In June 2014, the District issued \$2,170,992, Election of 2012, Series A, General Obligation Bonds (GO Reauthorization Bonds) in order to “increase student computer technology access; repair, equip and construct classrooms, build a new science lab and library and other educational facilities; and reduce overall borrowing costs”. The issue consisted of \$1,775,000 of current interest Serial Bonds, and \$395,992 of Capital Appreciation Bonds. The bonds have interest rates ranging from 1.46% to 5.11%. Principal payments are made August 1 of each year beginning August 1, 2017 while interest payments are made semi-annually on February 1 and August 1 of each year. The Bonds mature August 1, 2044. The Bonds were sold at a premium. At June 30, 2016 the balance owing on the 2012 Series A General Obligation Bonds was \$2,170,992.

General Obligation Bonds at June 30, 2016 consisted of the following:

	Date of Issuance	Interest Rate	Maturity Date	Amount of Original Issue
2010 Election Series A	07/12/2012	3.00-4.00%	08/01/2043	\$ 2,499,852
2012 Election Series A	06/01/2014	1.46-5.11%	08/01/2044	2,170,992
				<u>\$ 4,670,844</u>
	Beginning Balance	Increases	Decreases	Ending Balance
2010 Election Series A	\$ 2,419,852	\$ -	\$ -	\$ 2,419,852
2010 Accreted Interest	19,527	8,961	-	28,488
2012 Election Series A	2,170,992	-	-	2,170,992
2012 Accreted Interest	18,853	8,604	-	27,457
Total GO Bonds	<u>\$ 4,629,224</u>	<u>\$ 17,565</u>	<u>\$ -</u>	<u>\$ 4,646,789</u>

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

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

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2016 is as follows:

Year Ending June 30,	Principal	Accreted Interest	Interest	Total
2017	-	-	195,361	195,361
2018	4,775	225	195,363	200,363
2019	24,263	737	195,062	220,062
2020	23,942	1,058	194,463	219,463
2021	32,848	2,152	193,762	228,762
2022-2026	310,788	39,212	949,788	1,299,788
2027-2031	528,739	126,262	897,305	1,552,306
2032-2036	547,637	502,514	830,969	1,881,120
2037-2041	1,482,852	102,148	652,787	2,237,787
2042-2046	1,635,000	-	187,781	1,822,781
Totals	<u>\$ 4,590,844</u>	<u>\$ 774,308</u>	<u>\$ 4,492,641</u>	<u>\$ 9,857,793</u>

Note: Amounts represented in the repayment schedule of accreted interest are reflective of 100% of amounts to be repaid. Amounts represented as accreted interest in the debt summary are reflective of amounts that have been accrued as of June 30, 2016.

Accreted interest is the process of systematically increasing the carrying amount of capital appreciation bonds to their estimated value at the maturity date of the bond. The district inputs the effective interest rate, using the present value, the face value, and the period of the bond and multiplies the effective interest rate by the book value of the debt at the end of the period.

**H. Bond Premium**

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. The premiums are amortized over the life of the bond using the effective interest rate method.

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016  
(Continued)**

**H. Bond Premium (Continued)**

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

	2010 Series A Bonds	2012 Series A Bonds
	<u>                    </u>	<u>                    </u>
Total Interest	\$ 3,075,100	\$ 2,659,700
Less Bond Premium	(223,578)	(156,719)
Net Interest	<u>\$ 2,851,522</u>	<u>\$ 2,502,981</u>
Par Amounts of Bonds	\$ 2,499,582	\$ 2,170,992
Periods	30	30
Effective Interest Rate	3.80%	3.84%

**I. Construction Commitments**

As of June 30, 2016, the District's Proposition M and D Building Fund (21) had the following commitments with respect to unfinished capital projects:

	<u>Commitment</u>	<u>*Expected Date of Final Completion</u>
Construction in process:		
Dehesa Elementary Two-Story Building	\$ 4,737,889	January 2017
Shade Structure	250,000	January 2017
Office Improvement	50,000	January 2017

\*Expected date of 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  
Dehesa School District  
El Cajon, 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 M and D Building Fund (21) of Dehesa School District, which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Dehesa 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 Dehesa 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 Dehesa 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  
January 31, 2017

## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

**Governing Board Members and  
Citizens Bond Oversight Committee  
Dehesa School District  
El Cajon, California**

We have audited the financial statements of the Proposition M and D Building Fund (21) of Dehesa School District as of and for the fiscal year ended June 30, 2016 and have issued our report thereon dated January 31, 2017. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- The proceeds from the sale of the Proposition M and D 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 M and D resources
- Prevent material misstatement in the Proposition M and D Building Fund financial statements
- Ensure all expenditures are properly allocated
- Ensure adequate separation of duties exists in the accounting of Proposition M and D funds

All purchase requisitions and expenditures are reviewed for proper supporting documentation. The Project Manager/Consultant submits supporting documentation to the Superintendent to initiate a contract for services and/or a purchase requisition. Purchase Orders are generated by the Administrative Secretary and routed to the Business Manager for approval. The Business Manager verifies that the requested purchase is within the scope and parameters of the approved budget and that all expenditures are properly recorded by project expense and category. When the invoice is received, the Project Manager/Consultant verifies that the services have been satisfactorily rendered and that charges are consistent with the amounts approved in the contract/purchase order. The invoice is approved by the Project Manager/Consultant and then routed to the Business Manager to process for payment through the District's accounts payable system. The payment request and supporting documentation is provided to the San Diego County Office of Education for audit review and compliance purposes.

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' Bond Oversight Committee minutes and agenda and other pertinent information on Proposition M and D designated projects and determined that Proposition M and D funds expended for the year ended June 30, 2016 were for valid facilities acquisition and construction purposes as stated in the Bond Project List.

Results of Procedures Performed:

Based on our review of the minutes and agenda of the Independent Citizens' Bond Oversight Committee, the documentation and pertinent information of the Proposition M and D designated projects, and the explanation of management, it appears the construction work performed was consistent with the Bond Project List.

**Tests of Expenditures**

Procedures Performed:

We tested expenditures to determine whether Proposition M and D funds were spent solely on voter and Board approved school facilities projects as set forth in the Bond Project List and the Proposition M and D ballot measure language. Our testing included a sample of vendor payments totaling approximately \$2,368,489 or approximately 97% of total expenditures for the year. Our testing included \$2,365,003 of capital outlay expenditures which was 98% 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 M and D ballot measure and applicable state laws and regulations.

## **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.

## **Citizens' Bond Oversight Committee**

### Procedures Performed:

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

### Results of Procedures Performed:

We have determined the Dehesa School District's Proposition M and D Citizens' Bond 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 M and D Building Fund, for the fiscal year ended June 30, 2016.

This report is intended solely for the information and use of the District's Governing Board, the Proposition M and D Citizens' Bond Oversight Committee, management, others within the entity, and the taxpayers of Dehesa 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  
January 31, 2017

## **FINDINGS AND RESPONSES SECTION**

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2016**

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There were no findings to report.

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2016**

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There were no findings reported in the June 30, 2015 audit.



**SUPPLEMENTAL INFORMATION**

**DEHESA SCHOOL DISTRICT  
PROPOSITION M AND D BUILDING FUND  
GENERAL OBLIGATION BONDS  
BOND ISSUANCE  
JUNE 30, 2016**

**AUTHORITY FOR ISSUANCE**

The Bonds are issued pursuant to the provisions and requirements of Article 2 of Chapter 1.5 of Part 5 of Division 1 of Title 1 of the California Education Code 15264 *et seq.*, and pursuant to Education Code Section 35160 and other applicable law, and pursuant to a resolution adopted by the Board of Trustees of the District on January 22, 2009 (the “District Resolution”) and a resolution adopted by the Board of Supervisors of the County on February 10, 2009 (the “Bond Resolution” and together with the District Resolution, the “Resolution”).

The District received authorization at an election held on November 2, 2010, by an affirmative vote of 58.5 percent of the votes cast by eligible voters within the District (the “Authorization”) under Proposition M to issue and not exceed \$5,500,000 of General Obligation Bonds. 2010 Election Series A (the “Series A Bonds”) were issued pursuant to the resolution in the amount of \$2,499,852 in July 2012. The Bonds represent the first series of Bonds sold under the Authorization.

The District received re-authorization at an election held on November 6, 2012, by an affirmative vote of 55.9 percent of the votes cast by eligible voters within the District (the “Re-Authorization”) under Proposition D to re-authorize and issue and not to exceed \$3,000,000 of General Obligation Reauthorization Bonds. 2012 Election Series A (the “Series A Bonds”) were issued pursuant to the resolution in the amount of \$2,170,992 in June 2014. The bonds represent the first series of bonds sold under the re-authorization.

**PURPOSE OF ISSUE**

Pursuant to the Authorization, the proceeds of the Bonds will be used to improve student access to computers and modern technology; replace portable classrooms and construct new classrooms; build a new science lab and library and other educational facilities; increase student computer technology access; repair, equip and construct classrooms; and reduce overall borrowing costs.