



Dehesa School District

Proposition M and D
Audit Report
June 30, 2018



**WILKINSON HADLEY
KING & CO. LLP**
CPAs AND ADVISORS



**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
GENERAL OBLIGATION BONDS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2018

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Financial Statements and Supplemental Information
Year Ended June 30, 2018**

TABLE OF CONTENTS

<u>INTRODUCTION</u>	<u>1</u>
Introduction and Citizens' Oversight Committee Member Listing	1
Independent Auditor's Report.....	2
Management Discussion and Analysis	5
<u>FINANCIAL STATEMENTS</u>	<u>8</u>
Balance Sheet.....	8
Statement of Revenues, Expenditures and Changes in Fund Balance	9
Notes to the Financial Statements.....	10
<u>SUPPLEMENTARY INFORMATION</u>	<u>18</u>
General Obligation Bonds Issuance.....	18
<u>OTHER INDEPENDENT AUDITORS' REPORTS</u>	<u>19</u>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditor's Report on Performance	21
<u>AUDITOR'S RESULTS, FINDINGS & RECOMMENDATIONS</u>	<u>24</u>
Schedule of Findings and Responses.....	24
Schedule of Prior Year Audit Findings.....	25

Introduction

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2018

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 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 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, 2018 was comprised of the following members:

<u>Name</u>	<u>Position</u>
Nathan Voth	Parent Representative Community-at-Large
Wally Riggs	Senior Representative Community-at-Large
Herb Krickhahn	Senior Representative Community-at-Large
Christopher Acho	Local Business Representative Community-at-Large
Matthew Bagdasar	Community Representative Community-at-Large
Gerry Hamilton	Parent/PTO Representative

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



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

Independent Auditor's Report

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

Report on the 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, 2018, 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 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 financial statements.

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

El Cajon Office
218 W. Douglas Avenue El Cajon, CA 92020
Tel. (619) 447-6700 Fax (619) 447-6707

Berkeley Office
2001 Addison Street, 3rd Floor, Berkeley, CA 94704
Tel. (510) 679-6900 Fax (510) 679-6901

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.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiring of management about the methods of preparing the information and comparing the information with consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying supplementary information, as required by the *2017-18 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 March 27, 2019, on our consideration of Dehesa School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dehesa School District's internal control over financial reporting and compliance.

Report on Other Legal Regulatory Requirements

In accordance with the requirement of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated March 27, 2019 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition M and D Building Fund (21). That report is an integral part of our audit of the District's Proposition M and D Building Fund (21) for the fiscal year ended June 30, 2018 and should be considered in assessing the results of our financial audit.

William A. Kelley King & Co., LLP

El Cajon, California
March 27, 2019

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**
Management Discussion and Analysis
June 30, 2018
(Unaudited)

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, 2018. 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 \$206 as of June 30, 2018.
- Revenues combined with the beginning fund balance were \$243,394 during the year ended June 30, 2018, total expenditures and outgo were \$243,188.

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, 2018 was \$206. The \$2,825 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.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Management Discussion and Analysis
June 30, 2018
(Unaudited)

	2016-17	2017-18	% Change
Cash In County Treasury	239,752	2,825	(99%)
Accounts Receivable	840	381	(55%)
Due From Other Funds	0	0	0
Total Assets	240,592	3,206	(99%)
Accounts Payable	0	0	0
Due To Other Funds	0	3,000	3,000%
Total Liabilities	0	3,000	3,000%
Total Fund Balance	240,592	206	(99%)

Fund Balance (or Changes in Fund Balance)

The interest income reported represents funds earned on the cash held by the San Diego County Treasurer. The total expenditures of \$243,188 represent only Proposition M and D authorized expenditures.

	2016-17	2017-18	% Change
Revenues			
Interest Income	3,229	2,801	(13%)
Total Revenues	3,229	2,801	(13%)
Expenditures			
Services and Other Operating Expenses	13,020	49,114	277%
Noncapitalized Equipment	0	37,307	37,307%
Capital Outlay:			
Land Improvements	0	53,499	53,499%
Building and Building Improvements	281,527	103,268	(63%)
Equipment and Furniture	15,177	0	(100%)
Total Expenditures	309,742	243,188	(21%)
Net Change In Fund Balance	(306,495)	(240,387)	(22%)
Fund Balance, Beginning of Year	547,087	240,592	(56%)
Fund Balance, End of Year	240,592	206	(99.9%)

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Management Discussion and Analysis
June 30, 2018
(Unaudited)**

LONG-TERM DEBT COMPARISON

At the end of the year, Dehesa School District had \$5,013,082 in long-term debt outstanding related to the Proposition 39 General Obligation Bonds for Proposition M and D.

	2016-17	2017-18	% Change
General Obligation Bonds Payable			
Due within one year	17,436	37,436	115%
Due in more than one year	4,984,191	4,975,646	(.2%)
Total GO Bonds Payable	5,001,627	5,013,082	(.2%)

FACTORS BEARING ON THE DISTRICTS FUTURE

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could affect its financial health in the future.

- Possible increases in building costs during construction

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 Statements

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**

Balance Sheet
June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,825
Accounts receivable	381
Total Current Assets	<u>3,206</u>

TOTAL ASSETS \$ 3,206

LIABILITIES AND FUND BALANCE

Current Liabilities

Due to other funds	\$ 3,000
Total Current Liabilities	<u>3,000</u>

Fund Balance

Restricted for capital projects	206
Total Fund Balance	<u>206</u>

TOTAL LIABILITIES AND FUND BALANCE \$ 3,206

The accompanying notes are an integral part of this statement.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2018

REVENUES	
Interest income	\$ 2,801
TOTAL REVENUE	<u>2,801</u>
EXPENDITURES	
Services and other operating expenditures	49,114
Noncapitalized equipment	37,307
Capital Outlay:	
Land improvements	53,499
Buildings and improvements	<u>103,268</u>
TOTAL EXPENDITURES	<u>243,188</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(240,387)</u>
NET CHANGE IN FUND BALANCE	(240,387)
FUND BALANCE, BEGINNING OF YEAR	<u>240,593</u>
FUND BALANCE, END OF YEAR	<u>\$ 206</u>

The accompanying notes are an integral part of this statement.

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**

Notes to the Financial Statements
Year Ended June 30, 2018

A. Definition of the Fund

The Building Fund (21) was formed to account for construction as well as renovation of the current schools for 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 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 (AICPA).

Fund Structure

The accompanying financial statements are used to account for the transactions of the Building Fund specific to Proposition M and D 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 District's 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.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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.

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.

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.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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 had 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.

Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflow of resources are recorded in accordance with GASB Statement numbers 63 and 65. At June 30, 2018 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 did not have any recurring or nonrecurring fair value measurements.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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, 2018, the portion of cash in county treasury attributed to Proposition M and D Building Fund (21) was \$2,825. The fair value of Building Fund's portion of this pool as of that date, as provided by the pool sponsor, was \$2,825. 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.

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.

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.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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 exposure 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.

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 deposits are examples of nonparticipating interest-earning investment contracts.

The District's Investments in external investment pools are reported in conformity with GASB Statement No. 77 unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

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

D. Accounts Receivable

As of June 30, 2018 accounts receivable consisted of:

	<u>Accounts Receivable</u>
Local Sources:	
Interest	<u>\$ 381</u>
 Total Accounts Receivable	 <u>\$ 381</u>

Accounts receivable are expected to be collected within one year, as a result no allowance for doubtful accounts has been established.

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

E. 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 8.41%. Principal payments are made August 1 of each year beginning August 1, 2013 while interest payments are made semi-annually on February 12 and August 1 of each year. The Bonds mature August 1, 2043. The Bonds were sold at a premium. At June 30, 2018 the balance owing on the 2010 Series A General Obligation Bonds was \$2,648,947.

In May 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 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 5.50%. 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, 2018 the balance owing on the 2012 Series A General Obligation Bonds was \$2,364,135.

General Obligation (GO) Bonds at June 30, 2017 consisted of the following:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>
2010 Election Series A	7/12/2012	3.00-8.41%	8/1/2043	\$ 2,499,852
2012 Election Series A	5/20/2014	1.46-5.50%	8/1/2044	2,170,992
				\$ 4,670,844

<u>Description</u>	<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2010 Election Series A	07/12/2012	3.00-5.25%	08/01/2043	\$ 2,419,852	\$ -	\$ -	\$ 2,419,852	\$ 15,000
Accreted Interest				38,223	10,566	-	48,789	-
Bond Premium				187,518	-	7,212	180,306	7,212
Total 2010 Series A				\$ 2,645,593	\$ 10,566	\$ 7,212	\$ 2,648,947	\$ 22,212
2012 Election Series A	05/20/2014	3.75-5.50%	08/01/2044	\$ 2,170,992	\$ -	\$ 4,775	\$ 2,166,217	\$ 9,263
Accreted Interest				\$ 44,670	\$ 18,100	\$ -	\$ 62,770	\$ 737
Bond Premium				140,372	-	5,224	135,148	5,224
Total 2014 Series B				\$ 2,356,034	\$ 18,100	\$ 9,999	\$ 2,364,135	\$ 15,224
TOTAL				\$ 5,001,627	\$ 28,666	\$ 17,211	\$ 5,013,082	\$ 37,436

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2018 is as follows:

Year Ended June 30	Principal	Accreted Interest	Interest	Total
2019	\$ 24,263	\$ 737	\$ 195,063	\$ 220,063
2020	23,942	1,058	193,963	218,963
2021	32,848	2,152	193,763	228,763
2022	41,286	3,714	192,863	237,863
2023	54,311	5,689	191,663	251,663
2024-2028	397,357	67,643	932,100	1,397,100
2029-2033	541,133	267,116	867,813	1,676,062
2034-2038	908,076	323,826	780,731	2,012,633
2039-20432	1,797,853	102,148	476,875	2,376,876
2044-2048	765,000	-	32,617	797,617
Total	\$ 4,586,069	\$ 774,083	\$ 4,057,451	\$9,417,603

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, 2018.

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.

F. Bond Premium

Bond premium arises when the market rate of interest is lower 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 method.

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

	2010 Series A Bonds	2012 Series A Bonds
Total Interest Payments on Bonds	\$ 3,075,100	\$ 2,659,700
Less Bond premium	(223,578)	(156,719)
Net Interest Payments	<u>2,851,522</u>	<u>2,502,981</u>
Par amount of Bonds	\$ 2,499,585	\$ 2,170,992
Periods	30	30
Effective Interest Rate	3.800%	3.840%

Supplementary Information

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**
General Obligation Bonds Issuance
Year Ended June 30, 2017

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 I of the California Education Code 15265 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 May 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.

Other Independent Auditors' Reports



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

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

Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

**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 (a nonprofit organization), which comprise the balance sheet as of June 30, 2018, and the related statements of revenues, expenditures, and changes in fund balance, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2019.

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 Dehesa School District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

William Stanley King & Co. LLP

El Cajon, California
March 27, 2019

Independent Auditor's Report on Performance

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

Report on State Compliance

We were engaged to conduct a performance audit of the Proposition M and D Building Fund (21) of Dehesa School District for the year ended June 30, 2018.

Management's Responsibility for Performance Compliance

Our audit was limited to the objectives listed with the report which includes the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

Auditor's Responsibility

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, 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.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition M and D General Obligation Bond for the fiscal year ended June 30, 2017. 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 to 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 (21) 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 procedures.

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 principles and applicable laws and regulations.

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 Lists and language of the Proposition M and D ballot measures. Our testing included a sample of vendors totaling approximately \$227,488 or approximately 94% of total expenditures for the year.

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.

Facilities Site Review

Procedures Performed

We reviewed the Independent Citizens’ Oversight Committee minutes and agenda and other pertinent information on Proposition M and D designated projects and determined the Proposition M and D funds expended for the year ended June 30, 2018 were for valid facilities acquisition and construction purposes as stated in the Bond Project List. Auditors performed walk through of significant bond projects.

Results of Procedures Performed:

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

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 Dehesa School District’s Proposition M and D Building Fund (21) 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.

Opinion on Performance

In our opinion, the District complied, in all material respects, with the compliance requirements of Proposition 39 outlined in Article XIII A, Section 1(b)(3)(c) of the California Constitution, and with Proposition M and D approved by the voters in the Dehesa School District on November 2, 2010 and November 6, 2012.

Purpose of the Report

This report is intended solely for the information and use of the District’s Governing Board, the Proposition M and D Citizens’ 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.

William A. Kelley King & Co., LLP

El Cajon, California
March 27, 2019

Auditor's Results, Findings & Recommendations

DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)
Schedule of Findings and Responses
Year Ended June 30, 2017

There were no findings to report.

**DEHESA SCHOOL DISTRICT
PROPOSITION M AND D BUILDING FUND (21)**
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017

There were no audit findings noted for the fiscal year ended June 30, 2016.