

# San Dieguito

**Union High School District**

**Proposition AA Independent Citizens Oversight Committee  
2016 Annual Report**

**April 6, 2017**

**San Dieguito Union High School District**

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

**(760) 753-6491**

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



Dear Community Members,

The Independent Citizens Oversight Committee (ICOC) of the San Dieguito Union High School District is pleased to present our fourth annual report. The 2016 Annual report covers activity for the period ending December 31, 2016.

Building on the commitment from the voters in 2012, the District has issued \$339 million in general obligation bonds and has expended \$188,012,707 on projects through December 31, 2016.

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

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

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

[www.sduhsd.net/PropAA](http://www.sduhsd.net/PropAA)

[www.sduhsd.net/ICOC](http://www.sduhsd.net/ICOC)

Sincerely,

*Rhea A. Stewart*

President,

San Dieguito Union High School District Independent Citizens Oversight Committee



## **INTRODUCTION**

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is to "provide safe, modern schools and prepare students for success in college and careers by repairing and upgrading outdated classrooms and schools, construction and upgrading school facilities, including classrooms, science labs, and libraries, improving safety and security, and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

Proposition AA was passed under the rules of California Proposition 39 (passed in November 2000). California Assembly Bill 1908 (executed July 2000) required school districts that passed Proposition 39 bonds appoint an Independent Citizens Oversight Committee (ICOC) "to assure that funds are spent only on school and classroom improvements and for no other purposes." The purpose of the ICOC is "to inform the public concerning the expenditure of bond revenues."

For additional information about the ICOC and Proposition AA projects, visit the ICOC page at [www.sduhsd.net/ICOC](http://www.sduhsd.net/ICOC) and the Proposition AA page at [www.sduhsd.net/PropAA](http://www.sduhsd.net/PropAA).

The projects mentioned in this annual report, including the Performance Audit, Project Status, Master Plans, and ICOC actions can be found at the ICOC page.

## **INDEPENDENT CITIZENS OVERSIGHT COMMITTEE (ICOC)**

Members of the ICOC listed below were appointed by the District's Board of Trustees on May 7, 2015 for terms that end in March 2017. ICOC officers were elected at the July 12, 2016 meeting.

<b>Name</b>	<b>Affiliation</b>	<b>Email Address</b>
Rhea Stewart, President	At-Large Member	<a href="mailto:rhea.stewart@sduhsd.net">rhea.stewart@sduhsd.net</a>
Clarke Caines, Representative	Parent and Active in Parent-Teacher Organization Member	<a href="mailto:clarke.caines@sduhsd.net">clarke.caines@sduhsd.net</a>
Lorraine Kent, Secretary	Taxpayer Association Member	<a href="mailto:lorraine.kent@sduhsd.net">lorraine.kent@sduhsd.net</a>
Kim Bybee	At-Large Member	<a href="mailto:kim.bybee@sduhsd.net">kim.bybee@sduhsd.net</a>
Mary Farrell	Senior Citizen Organization Member	<a href="mailto:mary.farrell@sduhsd.net">mary.farrell@sduhsd.net</a>
Robert Nascenzi	Business Organization Member	<a href="mailto:robert.nascenzi@sduhsd.net">robert.nascenzi@sduhsd.net</a>
Jeffery Thomas	At-Large Member	<a href="mailto:jeffery.thomas@sduhsd.net">jeffery.thomas@sduhsd.net</a>
Rimga Viskanta	Parent of SDUHSD Student Member	<a href="mailto:rimga.viskanta@sduhsd.net">rimga.viskanta@sduhsd.net</a>

To fulfill its duty the ICOC will:

- Understand the District's priority setting process for Proposition AA projects.
- Compare the initiative's language with the District's project plans to verify compliance with voter approved Proposition AA improvements.
- Maintain trust with District representatives - but, verify the appropriateness of District bond expenditures.
- Ensure that the District's information is transparent and open to the public.
- Review the annual independent performance and financial audit of Proposition AA funds.
- Remain current on all matters pertaining to the District's implementation of the Proposition AA projects.

## **ROLE OF THE ICOC**

The ICOC provides only after-the-fact review and monitoring of how the District spends bond funds. The ICOC does not have the authority to approve or determine how the bonds funds are spent, the rate of taxes collected, bond financing or the contracting process (requirements definition, contract modeling and strategy, bid solicitation, contractor or consultant selection, contract negotiations, authorizing contract changes, etc.).

The ICOC is required to advise the public on the District's compliance with the requirements of Article 13A, Section 1(b)(3) of the California Constitution, including:

- Expenditure of bond funds only for the construction, reconstruction, rehabilitation, or replacement of school facilities;
- Prohibiting the expenditure of bond funds for any teacher or administrative salaries or other school operating expenses;
- Requiring annual independent performance audits to ensure that bond funds have been expended only on the specific projects listed; and
- Requiring annual independent financial audits of the proceeds from the sale of the bonds until all those proceeds have been expended for the school facilities projects.

## **INDEPENDENT PERFORMANCE AND FINANCIAL AUDIT**

California Senate Bill 1473 (SB 1473), signed September 22, 2010, requires that the financial and performance audits required by Article 13A, Section 1(b)(3)(c) of the California Constitution for bond funds approved under Proposition 39 be conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, issued by the Comptroller General of the United States.

The required independent performance audit and independent financial audit for Proposition AA was conducted by WILKINSON HADLEY KING & CO. LLP (Independent Auditor) for the year ending June 30, 2016. The complete report is included as **EXHIBIT B**. The report included no findings of noncompliance by the Independent Auditor for the use of Proposition AA bond funds during the review period. This report and all prior audit reports are available on the District's Proposition AA page at [www.sduhsd.net/PropAA](http://www.sduhsd.net/PropAA).

## **ICOC AUDIT REVIEW**

California Senate Bill 581 (SB 581), signed August 12, 2013, requires that independent performance and financial audits for the preceding year be conducted and submitted to the citizens oversight committee no later than March 31 of each year for its review. SB 581 also requires that the District provide the ICOC with responses, within three months, to any finding, recommendation, or concern addressed in the annual independent performance and financial audits.

The ICOC held a special meeting on March 14, 2017, to receive and review the 2015-16 Prop AA Annual Audit report and ask questions of the Independent Auditor's representative. On the basis of this review the ICOC concurred with the Independent Auditor's conclusion of no findings of noncompliance and that the District complied with the requirements of Article 13A, Section 1(b)(3) of the California Constitution as it pertains to Proposition AA.

## **PROPOSITION AA DELIVERY METHOD**

In the construction industry, delivery methods are used as the means of organizing and financing the design, construction, operations and maintenance of construction projects.

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

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

Use of the LLB method under the authorization granted by the California Education Code is an often-litigated issue. Specifically, Section 17406(a) allows school districts to enter into LLB agreements without advertising for bids. The concerns surrounding this authority relates to the possibility that school districts will not receive the lowest price, and that the process lends itself to accusations of favoritism or improprieties.

In 2015, the ICOC determined that the District's LLB implementation utilizes a competitive process that involves issuing requests for proposals for construction managers with the District's LLB partners being selected on a best value basis, and not necessarily based on the lowest bid basis. The ICOC found this practice to be consistent with the methodology traditionally employed with the design-build delivery method and is a recommended best practice.

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

The significant advantage that the LLB method affords the District is the ability to establish a guaranteed maximum price for the projects and minimizes the time associated with

administering changes. Additionally, the construction manager in a LLB agreement is responsible for any project delays, so there is an incentive for the builder to deliver the project on schedule. Since Proposition AA projects are coupled very tightly with the academic calendars at the affected schools, it is imperative that execution of the projects be completed on or before their scheduled completion dates. In addition to cost impacts for delaying projects, the adverse impact to student and faculty at the schools would be very difficult to assess and work around.

On September 23, 2016<sup>1</sup>, Assembly Bill 2316 (AB2316) was signed into law which made significant changes to the LLB method, effective January 1, 2017, as a result of litigation in Fresno. AB2316 added a competitive bidding process to the LLB method and included a provision authorizing contractors used in pre-construction consulting to remain eligible for the award of the project.

AB2316 mandates that the District adopt and make public new policies detailing the processes for bid solicitations that might utilize the LLB method. Additionally, the District must adopt criteria that will be used to determine what gives the District the "best value", which allows the District to select a contractor other than the lowest bidder for the project by incorporating experience and other intangibles into their evaluation process.

AB2316 also dealt with a call for the forfeiture of fees deemed excessive to be recovered from developers and contractors earned on contracts utilizing the LLB method back to the school districts. To eliminate the need to review prior LLB projects, for contracts awarded prior to July 1, 2015, AB2316 provided that entities that acted in good faith may retain payments for services rendered, excluding profits, under the LLB provisions in place prior to December 31, 2016, specifically, AB2316 requires:

- The District's solicitations for sealed bids to include:
  - A requirement for price estimate,
  - An easy to understand description of any preconstruction services and facilities that may be constructed,
  - A description of the key components of the contract,
  - The format a submitted proposal is required to follow,
  - How those solicitations will be graded against each other, and
  - A timetable for the District's decision for selecting a winning bidder.
- Notice for proposals must be published using newspapers, the District's website, or general circulation once a week, for two weeks, ending at least 10 days before the proposals are due.

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<sup>1</sup> Cota Cole & Huber LLP article entitled "Governor Signs New Law Affecting School District "Lease-Leaseback" Programs", dated October 20, 2016.



- All bids must come from developers, contractors, and sub-contractors that are prequalified under California Public Contract Code section 20116.
- District may allow proposals to include a price as a lump sum or as a fee for services performed, including any pre-construction services or other work related to the project.
- Bidders must provide verifiable justification for proposed fees and those fees. Fees shall be finalized after all preconstruction services are performed and the Department of the State Architect has accepted all plans and specifications.
- District must also detail whether each criterion will be graded on a pass-fail basis or if any minimum score must be attained.
- Upon selecting the successful proposal, the District must inform the successful bidder in writing, announce the award publicly and release a statement relating the basis of the award that includes some detail describing why the District believed the winning bidder offered the “best value” on the project.

Due to these new requirements, in January 2017 the District terminated LLB contracts for four Proposition AA projects (Torrey Pines High School’s new performing arts center, second classroom building at Pacific Trails Middle School, San Dieguito High School Academy’s new classroom building and science classroom, and Crest Hall improvements at Oak Crest Middle School). These projects will be bid out under the design-bid-build method.

### **PROPOSITION AA BASELINE BUDGETS**

Since its inception, the ICOC has been working with the District to adjust project status reports to reflect the budget baselines for each project based on the estimates that existed when the voters passed Proposition AA. In 2015, the District published revised status reports that now included the budgets on which the Proposition AA vote was based.

Previously, the ICOC was briefed that budgets established for the Proposition AA projects included normal construction contingencies. However, in 2015, the ICOC also learned that the project budgets did not include allowances to deal with costs that result from legislatively mandated requirements (for example, storm water mitigation, green initiatives, and new electrical code requirements). These unanticipated challenges, and future mandates, must be dealt with by the District through utilization of savings from other Proposition AA projects or, as a last resort, scaling back future Proposition AA projects.

### **ICOC ACTIVITIES IN 2016**

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

The first meeting of the year was held on **January 12, 2016**, at the District Office. The ICOC received information about consideration of a Series C bond issuance from Associate Superintendent of Business Services, Eric Dill. Executive Director of Planning Services, John

Addleman and Chief Facilities Officer, Russ Thornton provided change orders and project and budget reports. The ICOC established a timeline and meeting dates for completing the 2015 Annual Report.

The ICOC attended the grand opening ceremony and plaque dedication at Pacific Trails Middle School on **February 26, 2016**.

At the special meeting on **March 9, 2016**, the ICOC met at the District Office to review the 2014-15 Prop AA Annual Audit report. No deficiencies or material weaknesses were found for the Proposition AA financial and performance audits. Work continued on the 2015 Annual Report.

The ICOC met on **April 20, 2016** at Earl Warren Middle School. A visit to the under-construction Earl Warren Campus and the joint-use library projects was held to start the meeting. Project and Budget reports from John Addleman and Russ Thornton included reviews of completed projects at the La Costa Valley Fiends and Oak Crest Middle School landscape and Balour Street improvements. Eric Dill talked about upcoming projects funded through Series C bonds as well as funding from North City West JPA that would cover the costs of programs at Carmel Valley Middle School. The ICOC completed and approved the 2015 Annual Report.

On **June 6, 2016**, the ICOC joined the Board and District staff for the B building groundbreaking ceremony at Canyon Crest Academy.

On **June 7, 2016**, along with the Board and District staff, the ICOC participated in a ceremony to celebrate the topping out of construction at Earl Warren Middle School.

At the **July 12, 2016** meeting, the ICOC elected Rhea Stewart to serve as President, Clarke Caines to serve as Representative, and Lorraine Kent to serve as Secretary. Regular meetings for the 2016-2017 term were set for October 11, 2016, January 10, 2017, March 14, 2017, and April 11, 2016. The October meeting was later rescheduled to October 4, 2016. Eric Dill updated the ICOC on the status of the District's superintendent search, administrative changes for the 2016-2017 school year, and a status report on Series C bond and financing. Russ Thornton provided project and budget reports.

At the **October 4, 2016** meeting, Eric Dill updated the ICOC on the SOUL charter school petition. Dan Young, the District's Facilities Construction Planner, updated the ICOC on completed projects. Mike Coy, the Director of Technology Project Management, discussed the District's five-year plan for technology infrastructure and upgrades that have moved to be ahead of schedule. John Addleman discussed the use of CFD/Mello-Roos and Proposition AA funds related to programs in the Pacific Highlands Ranch area.

On **October 5, 2016**, the ICOC joined the Board and District staff for a tour of Proposition AA projects. The tour included Earl Warren Middle School, San Dieguito High School Academy, Canyon Crest Academy, and Torrey Pines High School.

## **FIRST BOND DRAW BUDGET AND COMMITMENTS SUMMARY**

This is the overall Proposition AA bond program budget for 2016.

Project Sites	Budget 12/21/15	Budget 12/16/16	Commitments 12/16/16	Delta 12/16/16
Pacific Trails MS	53,138,160.00	66,955,788.55	63,470,040.28	3,485,748.27
Carmel Valley MS	180,936.51	6,478,686.51	5,609,946.51	868,740.00
Earl Warren MS	51,647,895.60	52,985,900.15	52,582,618.45	403,281.70
La Costa Valley Site	11,248,000.00	10,848,000.00	10,798,280.75	49,719.25
Diegueno MS	5,063,051.84	13,973,192.75	5,170,368.98	8,802,823.77
Oak Crest MS	9,237,434.22	24,649,690.23	23,937,510.36	712,179.87
Canyon Crest Academy	30,571,973.03	33,166,227.34	31,689,888.34	1,476,339.00
Torrey Pines HS	35,279,723.21	57,631,631.36	56,530,609.73	1,101,021.63
San Dieguito High School Academy	53,382,024.92	58,588,512.83	56,084,950.30	2,503,562.53
La Costa Canyon HS	8,905,251.73	9,370,144.78	9,099,420.50	270,724.28
District-wide Tech Infrastructure	11,253,526.88	11,511,231.88	9,162,833.05	2,348,398.83
Solar Bonds - 3 yr. option	4,590,745.36	5,426,434.00	3,062,352.96	2,364,081.04
Administration	6,126,632.75	7,509,271.11	4,392,212.00	3,117,059.11
<b>Subtotal Expense Budget</b>	<b>280,625,356.05</b>	<b>359,094,711.49</b>	<b>331,591,032.21</b>	<b>27,503,679.28</b>
Project Funding				
Prop AA Project Fund	274,705,639.78	336,471,227.78		
North City West Funding	4,835,697.00	5,586,098.00		
2016 CFD Bond Funding	-	9,434,548.67		
State School Building Fund	-	5,268,508.00		
Estimated Interest Earnings - Yld .58%	1,817,973.35	2,484,808.85		
<b>Subtotal Funding Budget</b>	<b>281,359,310.13</b>	<b>359,245,191.30</b>		
<b>Excess / (Shortage of) Funding</b>	<b>733,954.08</b>	<b>150,479.81</b>		

## **COMPLETED PROJECTS 2016**

Project	Delivery Method	Budget	Actual Expenses	Savings
Canyon Crest Academy Learning Commons Renovation	District Force	280,000.00	166,576.06	(113,423.94)
La Costa Canyon HS Phase 2- 800/900 Modernization, PAC/Blackbox/Music Classroom Tech, HVAC 200 and Gym	District Force/ESA	2,118,968.00	2,086,100.14	(32,867.86)
La Costa Valley Site – Field Project	LLB	11,532,803.00	10,620,295.12	(912,508.46)
Pacific Trails MS – Phase 1	LLB	52,529,244.00	47,514,715.36	(5,014,528.64)
<b>Subtotal</b>		<b>66,461,015.00</b>	<b>60,387,686.68</b>	<b>(6,073,328.32)</b>

## **2016 Change Orders**

These are the 2016 change orders approved by the Board and included in the Board minutes.

Board Date	Project	Contractor	Original	Change Order	Revised
1/14/2016	San Dieguito HSA – Interim Housing & Tennis Court	Gilbane Building Companies, Inc.	3,134,584.00	(43,513.74)	3,091,070.26
3/10/2016	Earl Warren MS – Campus Re-Construction	McCarthy Building Companies, Inc	37,307,655.00	993,244.39	38,300,909.89
4/21/2016	Pacific Trails MS	Balfour Beatty Construction	32,525,963.00	(1,463,878.00)	31,062,085.00
5/12/2016	La Costa Valley Site	Byrom-Davey	9,258,460.00	(120,921.90)	9,137,538.10
7/14/2016	San Dieguito HSA – Math & Science Bldg.	Interpipe Contracting, Inc.	1,267,000.00	66,289.37	1,333,289.37
12/8/2016	La Costa Canyon HS – HVAC	Siemens Industry, Inc.	1,684,550.00	(24,503.00)	1,660,047.00
12/8/2016	San Dieguito HSA – Math & Science Bldg.	Western Rim Constructors, Inc.	416,000.00	18,482.32	434,482.32
10/13/2016	Earl Warren MS – Campus Re-Construction – Add Solar/Deduct Storm Water	McCarthy Building Companies, Inc.	38,300,909.89	1,334,005.75	39,634,915.64
<b>Net Change</b>				<b>(759,205.19)</b>	

**ONGOING PROJECTS AS OF DECEMBER 31, 2016**

Project	Delivery Method	Bond Series	Est. Start Date	Estimated Budget
CCA Science Classroom; Black Box and Dance Room (Planning)	LLB	B/C/CFD	6/16	14,223,640.16
CVMS Music & Performing Arts Renovations	CMAR	B/North City West	6/17	6,297,750.00
Diegueno MS New Classroom Building	LLB	C	6/18	8,913,873.77
Earl Warren MS Campus Reconstruction	LLB	B/CFD	7/15	44,258,204.75
Earl Warren MS Interim Housing	LLB	A	4/15	4,732,785.00
La Costa Canyon Media Center Landscaping	DBB	B	6/17	\$275,000.00
La Costa Valley Site - Field Project	LLB	A	3/15	11,532,803.00
Pacific Trails Middle School - Second Classroom Building	CMMP	C/CFD	6/17	19,403,133.55
Oak Crest MS - Phase 2 - Balour, Drainage, Media Center - Series A	LLB	A	6/15	4,831,722.00
Oak Crest MS - Science Classrooms	CMMP	C/CFD/SSBF	6/17	15,429,179.25
SDHSA Stadium Phase 1b/Math-Science Phase 2	LLB/CMMP	A	4/15	25,318,529.52
SDHSA English, Arts, and Social Science Building/Culinary Arts	CMMP	C/SSBF	6/17	\$29,217,814.00
Torrey Pines HS - Phase 1a - Stadium Lighting/Upgrade Bldg B/Science Classroom (4 clsrms)/ Weight Room Building	LLB	A	4/14	11,183,249.56
Torrey Pines HS - Phase 2a - Bldg B	LLB	A/B	4/15	23,176,973.00
Torrey Pines HS - Phase 3 - Performing Arts Center/Culinary Arts	CMMP	A/C	6/17	24,030,308.15

- \* LLB - Lease/Leaseback
- CMAR – Construction Manager At Risk
- DBB – Design-Bid-Build
- CMMP – Construction Manager Multi Prime
- CFD – Community Facilities District
- SSBF – State School Building Fund

## **OVERVIEW OF 2016 PROJECTS, BY SCHOOL**

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

For more information about each site's projects, and to view photos from 2016 work, visit [www.sduhsd.net/PropAA](http://www.sduhsd.net/PropAA).

### **CANYON CREST ACADEMY**

- Learning Commons renovation – **complete**
- Science classroom/B building – **in progress**
- Black Box theater & dance room, planning & design – **in progress**

### **CARMEL VALLEY MIDDLE SCHOOL**

- Music & Performing Arts renovations, planning & design – **in progress**

### **DIEGUENO MIDDLE SCHOOL**

- New P Building, planning & design – **in progress**
- Renovation of A and G classrooms, planning & design – **in progress**

### **EARL WARREN MIDDLE SCHOOL**

- Campus reconstruction – **in progress**
- Redesign of Warren Hall with shared-use spaces for the County Library – **in progress**

### **LA COSTA CANYON HIGH SCHOOL**

- Installations of current District-standard audio-visual technology and HVAC/200's/gym/PAC upgrades – **complete**
- Media Center landscaping, planning & design – **in progress**

### **LA COSTA VALLEY SITE**

- Athletic field, parking lot, and restroom building construction – **complete**

### **PACIFIC TRAILS MIDDLE SCHOOL**

- Phase 1 of campus construction of classrooms, Learning Commons, Multi-purpose room, gymnasium, food service, and administration, track & fields for 500-student enrollment – **complete**

### **OAK CREST MIDDLE SCHOOL**

- Balour Street and landscape – **complete**
- Technology infrastructure Upgrade - **complete**
- Science classrooms, planning & design – **in progress**

### **SAN DIEGUITO HIGH SCHOOL ACADEMY**

- Technology infrastructure upgrade - **complete**
- Construction of two-story math and science building – **in progress**
- English, Arts, and Social Science building/Culinary Arts, planning & design – **in progress**

## **SUNSET HIGH SCHOOL**

- Audio-visual upgrade - **complete**

## **TORREY PINES HIGH SCHOOL**

- Multi-media and HVAC improvements of B Building classrooms – **complete**
- Technology infrastructure upgrade - **complete**
- Learning Commons and front entry renovations – **in progress**
- Performing Arts Center/Culinary Arts, planning & design – **in progress**

## **EXHIBIT A**

### **PROPOSITION AA BALLOT MEASURE**

The San Dieguito Union High School District Proposition AA Ballot Measure follows. The Proposition AA ballot measure can also be found at [www.sduhsd.net/ICOC](http://www.sduhsd.net/ICOC).



## EXHIBIT A

### I. ABBREVIATION OF THE MEASURE

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

II. FULL TEXT OF THE MEASURE

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

**BOND AUTHORIZATION**

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

**ACCOUNTABILITY SAFEGUARDS**

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

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

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

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

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

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

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

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

### **FURTHER SPECIFICATIONS**

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

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

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

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

### **BOND PROJECT LIST**

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

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

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

**Canyon Crest Academy**

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

**Carmel Valley Middle School**

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

**Diegueño Middle School**

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

**Earl Warren Middle School**

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

### **La Costa Canyon High School**

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

### **La Costa Valley Site**

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

### **New Middle School at Pacific Highlands Ranch**

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

### **Oak Crest Middle School**

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

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

#### **San Dieguito Academy**

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

#### **Sunset High School/North Coast Alternative**

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

#### **Torrey Pines High School**

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

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

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

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

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

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

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

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

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

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

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

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

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



## **EXHIBIT B**

### **2015-16 AUDIT REPORT**

The San Dieguito Union High School District Proposition AA Building Fund General Obligation Bonds Audit Report, dated June 30, 2016, follows. The report can also be found at [www.sduhsd.net/PropAA](http://www.sduhsd.net/PropAA).

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

**AUDIT REPORT**

**JUNE 30, 2016**

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

On November 6, 2012 the San Dieguito Union High School District was successful under Proposition AA in obtaining District voters to issue up to \$449,000,000 in General Obligation Bonds pursuant to a 55% vote in a bond election. The General Obligation Bonds are considered Proposition 39 bonds. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual, independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Independent Citizens' Oversight Committee, and authorization for injunctive relief against improper expenditure of bond revenues.

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

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



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

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

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## **Emphasis of Matter**

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

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

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

## **Opinion**

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

## **Other Matters**

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

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

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

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

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

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

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017

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

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

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

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

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

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

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for 2016 are as follows:

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



## FINANCIAL ANALYSIS OF THE PROPOSITION AA BUILDING FUND

### Balance Sheet

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

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

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

### Fund Balance

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

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

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

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

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

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

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

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

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

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

Construction had started on:

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

Joining the two projects still underway:

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

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

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

- San Dieguito High School Academy – Math and Science Building

Joining the remaining three projects still underway:

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

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

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

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

Joining the remaining five projects still underway:

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

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

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

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

### **Requests for Information**

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

**FINANCIAL SECTION**

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

**ASSETS**

**CURRENT ASSETS**

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

<b>TOTAL ASSETS</b>	<b><u>\$ 99,169,006</u></b>
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**LIABILITIES AND FUND BALANCE**

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

<b>TOTAL LIABILITIES</b>	<b>4,657,663</b>
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**FUND BALANCE**

Restricted for Capital Projects	<u>94,511,343</u>
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<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 99,169,006</u></b>
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The accompanying notes are an integral part of these financial statements

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

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

The accompanying notes are an integral part of these financial statements

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

**A. Definition of the Fund**

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

**B. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

*Fund Structure*

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

*Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Building Fund (21-39) is maintained on the modified accrual basis of accounting. Its revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

*Budgets and Budgetary Accounting*

The Board of Trustees adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board of Trustees during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.



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(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.

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(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.

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(Continued)**

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

*Deferred Inflows and Deferred Outflows of Resources*

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

*Fair Value Measurements*

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

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

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

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

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

*Change in Accounting Policies*

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

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

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

**C. Cash and Investments**

*Cash in County Treasury*

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

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001).

The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

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(Continued)**

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

*Investments*

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposits placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

*Analysis of Specific Deposit and Investment Risks*

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

a. *Credit Risk*

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

b. *Custodial Credit Risk*

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

c. *Concentration of Credit Risk*

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District's Building Fund (21-39) was not exposed to concentration of credit risk.

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(Continued)**

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

d. *Interest Rate Risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposures to interest rate risk by investing in the county pool.

e. *Foreign Currency Risk*

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

f. *Investment Accounting Policy*

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

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

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

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

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

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

**D. Accounts Receivable**

Accounts receivable at June 30, 2016 consisted of:

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

**E. Accounts Payable**

Accounts payable at June 30, 2016 consisted of:

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

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**F. Interfund Transactions**

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

Due to General Fund \$ 765,589

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

Due to Self Insurance Fund \$ 4,824

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

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

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

Transfer to General Fund \$ 765,589

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

**G. Long-Term Debt**

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

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



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

*General Obligation Bonds*

2013 General Obligation Bonds

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

2015 General Obligation Bonds

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

*Bond Premium and Discount*

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

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(Continued)**

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

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

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

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

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

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

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

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

**H. Construction Commitments**

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

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

\*Expected date of final completion subject to change.

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**I. Subsequent Events**

*General Obligation Bonds*

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

**OTHER INDEPENDENT AUDITOR'S REPORTS**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Proposition AA Building Fund (21-39) of San Dieguito Union High School District, which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered San Dieguito Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Dieguito Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether San Dieguito Union High School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017



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

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

**INDEPENDENT AUDITOR’S REPORT ON PERFORMANCE**

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

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

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

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

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

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

**Internal Control Evaluation**

Procedure Performed:

Inquiries were made of management regarding internal controls to:

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



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

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

#### Results of Procedures Performed:

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

#### **Facilities Site Review**

##### Procedures Performed:

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

##### Results of Procedures Performed:

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

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

### Procedures Performed:

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

### Results of Procedures Performed:

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

## **Tests of Expenditures**

### Procedures Performed:

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

### Results of Procedures Performed:

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

## **Citizens' Oversight Committee**

### Procedures Performed:

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

### Results of Procedures Performed:

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

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

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 20, 2017

## **FINDINGS AND RESPONSES SECTION**

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

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There were no findings to report.

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

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