

**PROPOSITION K BOND BUILDING FUND OF  
SAN MARCOS UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2013**

**San Diego**

**Los Angeles**

**San Francisco  
Bay Area**

**christywhite**  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
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June 30, 2013**

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**PROPOSITION K BOND BUILDING FUND  
 SAN MARCOS UNIFIED SCHOOL DISTRICT  
 Introduction and Citizens' Bond Oversight Committee Member Listing  
 June 30, 2013**

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San Marcos Unified School District (the "District") operates eleven elementary schools, three middle schools, two comprehensive high schools, a continuation high school, an independent study high school, and an adult school. The District serves approximately 20,100 students.

In November 2010, the voters of the District approved, by more than the required 55% favorable vote, Proposition K, authorizing the issuance and sale of general obligation bonds, not to exceed \$287,000,000. Proposition K is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. 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 for facilities projects.

Proposition K bonds were issued by the District, through the County of San Diego. On June 22, 2011, the District issued Series A of the Election of 2010 General Obligation Bonds in the amount of \$142,046,476. On April 25, 2012, the District issued Series B of the Election of 2010 General Obligation Bonds in the amount of \$64,995,522.

The accompanying Proposition K Audit Report, for the fiscal year ended June 30, 2013, reflects the issuance of Series A and B of the Proposition K general obligation bonds and compliance with the applicable requirements of Proposition 39 for such period.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), 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 K including formation, composition and purpose of the Citizens' Oversight Committee. In compliance with Education Code Section 15278(a), the Proposition K Citizens' Oversight Committee was formed within 60 days of January 10, 2011, the date that the governing board entered the Proposition K election results on its minutes pursuant to Section 15274.

The Proposition K Citizens' Oversight Committee was comprised of the following members as of June 30, 2013:

<b>Name</b>	<b>Title</b>	<b>Representation</b>
Jean Diaz	Chair	Senior Citizens' Organization
Darius Khayat	Vice Chair	Business Organization
Tom Kumura	Clerk	At-Large Member
David Barnum	Vice Chair	Parent
Michael Hunsaker	Member	Taxpayer's Organization
Teresa Greger	Member	Parent & PTA Organization
Jenna Harris	Member	At-Large Member
Robert Bowen	Alternate	At-Large Member
Stacy Carlson	Alternate	At-Large Member

## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

Governing Board Members and  
Proposition K Citizens' Bond Oversight Committee  
San Marcos Unified School District  
San Marcos, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Proposition K Bond Building Fund of San Marcos Unified School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Proposition K Bond Building Fund's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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.

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State Board of Accountancy*

### ***Auditor's Responsibility (continued)***

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

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

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Proposition K general obligation bonds as issued by the District, through the County of San Diego, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Proposition K Bond Building Fund of San Marcos Unified School District as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### **Prior-Year Comparative Information**

We have previously audited the Proposition K Bond Building Fund's 2012 financial statements, and we expressed an unmodified opinion on the respective financial position and changes in financial position in our report dated January 10, 2013. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014 on our consideration of the Proposition K Bond Building Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Proposition K Bond Building Fund's internal control over financial reporting and compliance.

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 6, 2014 on our consideration of the Proposition K Bond Building Fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2013 and should be considered in assessing the results of our financial audit.

*Christy White Associates*

San Diego, California  
January 6, 2014

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## **FINANCIAL SECTION**

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**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Balance Sheet  
June 30, 2013 (With Comparative Data for June 30, 2012)**

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	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash	\$ 104,687,538	\$ 174,117,243
Accounts receivable	98,225	139,928
Due from other funds	<u>31,331</u>	<u>97,104</u>
<b>Total Assets</b>	<u>\$ 104,817,094</u>	<u>\$ 174,354,275</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 8,342,963	\$ 3,353,362
Due to other funds	<u>59,711</u>	<u>7</u>
<b>Total Liabilities</b>	<u>8,402,674</u>	<u>3,353,369</u>
<b>Fund Balance</b>		
Restricted for capital projects	<u>96,414,420</u>	<u>171,000,906</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 104,817,094</u>	<u>\$ 174,354,275</u>

The notes to financial statements are an integral part of this statement.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2013 (With Comparative Data for the Year Ended June 30, 2012)**

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	Year ended June 30,	
	2013	2012
<b>REVENUES</b>		
Interest income	\$ 553,340	\$ 617,075
Other local revenue	-	17,668
<b>Total Revenues</b>	<u>553,340</u>	<u>634,743</u>
<b>EXPENDITURES</b>		
Plant services	129,169	89,307
Facilities acquisition and construction	75,002,081	33,807,652
Transfers to other agencies	13,407	46,700
Debt service - interest and other	26,500	2,478,782
<b>Total Expenditures</b>	<u>75,171,157</u>	<u>36,422,441</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(74,617,817)</u>	<u>(35,787,698)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from long-term debt	-	209,748,100
Transfers out	31,331	(6,146,801)
<b>Total Other Financing Sources</b>	<u>31,331</u>	<u>203,601,299</u>
<b>Net Change in Fund Balance</b>	(74,586,486)	167,813,601
<b>Beginning Fund Balance</b>	<u>171,000,906</u>	<u>3,187,305</u>
<b>Ending Fund Balance</b>	<u>\$ 96,414,420</u>	<u>\$ 171,000,906</u>

The notes to financial statements are an integral part of this statement.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Board of Supervisors of San Diego County adopted a resolution on May 27, 1975, creating a new unified school district comprising the area of Rich-Mar Union School District named “San Marcos Unified School District.” The District operates eleven elementary schools, three middle schools, two comprehensive high schools, a continuation high school, an independent study high school, and an adult school. The District serves approximately 20,100 students.

In November 2010, the voters of the District approved by more than 55% Proposition K, authorizing the issuance and sale of general obligation bonds, not to exceed \$287,000,000, for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.

An advisory committee to the District’s Governing Board and Superintendent, called the Proposition K Citizens’ Oversight Committee, was established pursuant to the requirements of state law and the provisions of Proposition K. According to its mission statement, the Committee’s oversight goals include: providing independent monitoring and review of all Proposition K fund expenditures in accordance with contracts executed by and between the Districts, its Contractors and Sub-contractors and all Bond Agency requirements and to keep the public informed through normal public information channels.

The statements presented are for the individual Proposition K Bond Building Fund of the District, consisting of the net construction proceeds of Proposition K Series A and B general obligation bonds as issued by the District, through the County of San Diego, and are not intended to be a complete presentation of the District’s financial position or results of operations.

**B. Accounting Policies**

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Basis of Accounting**

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

The financial statements are presented on the modified accrual basis of accounting. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

**D. Encumbrances**

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

**E. Deposits and Investments**

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion 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 market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**F. 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 the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**H. Fund Balance**

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in the Proposition K bond fund is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS**

**Summary of Cash and Investments**

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as cash in county treasury of \$104,687,538.

**Policies and Practices**

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 deposit 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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

*Cash in County Treasury* – 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 statements 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.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

**General Authorizations**

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

Limitations as they relate to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk are described below:

**Interest Rate Risk**

Interest rate risk is the risk that changes in market 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. Since the District is required to invest in the San Diego County Investment Pool, this effectively minimizes its exposure to interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
County Treasury	\$ 104,582,850	393 days

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment in the San Diego County Investment Pool is rated AAAf/S1 by Standard & Poor's.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a failure of a counterparty to an investment, some or all of the investment amount may not be recovered by the holder of the investment. The District's investments as of June 30, 2013 were not subject to custodial credit risk because the investments were in the county investment pool.

**Concentration of Credit Risk**

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. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT**  
Notes to Financial Statements, continued  
June 30, 2013

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**NOTE 3 – PROPOSITION K GENERAL OBLIGATION BONDS**

In November 2010, the voters of the San Marcos Unified School District approved by more than 55% Proposition K, authorizing the issuance and sale of \$287,000,000 of general obligation bonds. Proposition K bonds were issued by the District, through the County of San Diego. On June 22, 2011, the District issued Series A of the Election of 2010 General Obligation Bonds in the amount of \$142,046,476, with an additional original premium and costs of issuance each equal to \$1,754,746. On April 25, 2012, the District issued Series B of the Election of 2010 General Obligation Bonds in the amount of \$64,995,522, with an additional original premium and costs of issuance equal to \$951,356 and \$311,150, respectively. The resulting total bond indebtedness of \$207,041,998 is described below:

- The 2010 Series A General Obligation Bonds consist of current interest bonds of \$116,700,000 with interest yields ranging from 2.56% to 5.10% and fully maturing on August 1, 2038 and capital appreciation bonds of \$25,346,476 with interest yields of 1.38% to 6.65%. The principal balance outstanding as of June 30, 2013 is \$144,248,995, which includes accreted interest on the capital appreciation bonds.
- The 2010 Series B General Obligation Bonds consist of capital appreciation bonds of \$64,995,522 with interest yields of 0.75% to 5.80% and fully maturing on August 1, 2051. The principal balance outstanding as of June 30, 2013 is \$67,711,536, which includes accreted interest on the capital appreciation bonds.

The annual requirements to amortize all Proposition K outstanding general obligation bonds payable as of June 30, 2013, presented in a consolidated format, are as follows:

<b>Year Ended June 30,</b>	<b>Principal*</b>	<b>Current Interest</b>	<b>Accreted Interest</b>	<b>Total</b>
2014	\$ 648,053	\$ 5,868,938	\$ 21,947	\$ 6,538,938
2015	748,008	5,868,938	51,992	6,668,938
2016	897,633	5,868,938	102,367	6,868,938
2017	1,094,562	5,868,938	180,438	7,143,938
2018	1,299,782	5,868,938	330,218	7,498,938
2019-2023	11,532,532	28,934,090	4,347,468	44,814,090
2024-2028	14,077,586	28,153,690	17,757,414	59,988,690
2029-2033	32,117,265	26,060,513	22,102,735	80,280,513
2034-2038	76,319,725	16,040,250	15,070,275	107,430,250
2039-2043	24,385,189	948,250	20,169,811	45,503,250
2044-2048	22,445,727	-	126,218,794	148,664,521
2049-2052	21,475,936	-	164,515,177	185,991,113
<b>Total</b>	<b>\$ 207,041,998</b>	<b>\$ 129,481,483</b>	<b>\$ 370,868,636</b>	<b>\$ 707,392,117</b>

\*Principal does not include accreted interest of \$4,918,533 as of June 30, 2013.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT**  
Notes to Financial Statements, continued  
June 30, 2013

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**NOTE 3 – PROPOSITION K GENERAL OBLIGATION BONDS (continued)**

The annual requirements to amortize all Proposition K outstanding general obligation bonds payable as of June 30, 2013, presented in a non-consolidated format, are as follows:

<b>Year Ended June 30,</b>	<b>Principal*</b>	<b>Current Interest</b>	<b>Accreted Interest</b>	<b>Total</b>
2014	\$ 648,053	\$ 5,868,938	\$ 21,947	\$ 6,538,938
2015	748,008	5,868,938	51,992	6,668,938
2016	897,633	5,868,938	102,367	6,868,938
2017	1,094,562	5,868,938	180,438	7,143,938
2018	1,299,782	5,868,938	330,218	7,498,938
2019	1,515,544	5,868,938	564,456	7,948,938
2020	2,329,381	5,868,938	230,619	8,428,938
2021	1,948,298	5,782,738	1,201,702	8,932,738
2022	3,259,977	5,782,738	425,023	9,467,738
2023	2,479,332	5,630,738	1,925,668	10,035,738
2024	2,760,909	5,630,738	2,249,091	10,640,738
2025	2,877,972	5,630,738	2,772,028	11,280,738
2026	2,947,935	5,630,738	3,377,065	11,955,738
2027	3,026,760	5,630,738	4,018,240	12,675,738
2028	2,464,010	5,630,738	5,340,990	13,435,738
2029	2,525,693	5,630,738	6,084,307	14,240,738
2030	6,477,842	5,630,738	2,987,158	15,095,738
2031	9,135,738	5,381,362	1,484,262	16,001,362
2032	10,281,416	4,952,175	1,728,584	16,962,175
2033	3,696,576	4,465,500	9,818,424	17,980,500
2034	12,296,054	4,465,500	2,293,946	19,055,500
2035	13,669,714	3,906,000	2,625,286	20,201,000
2036	15,157,181	3,280,000	2,977,819	21,415,000
2037	16,745,966	2,582,000	3,369,034	22,697,000
2038	18,450,810	1,806,750	3,804,190	24,061,750
2039	20,291,339	948,250	4,263,661	25,503,250
2040	1,114,150	-	3,885,850	5,000,000
2041	1,051,500	-	3,948,500	5,000,000
2042	992,200	-	4,007,800	5,000,000
2043	936,000	-	4,064,000	5,000,000
2044	874,850	-	4,125,150	5,000,000
2045	4,429,554	-	22,506,887	26,936,441
2046	5,677,168	-	30,834,608	36,511,776
2047	5,751,539	-	33,369,765	39,121,304
2048	5,712,616	-	35,382,384	41,095,000
2049	5,436,509	-	37,713,894	43,150,403
2050	5,391,404	-	39,919,148	45,310,552
2051	5,346,299	-	42,228,859	47,575,158
2052	5,301,724	-	44,653,276	49,955,000
	<b>\$ 207,041,998</b>	<b>\$ 129,481,483</b>	<b>\$ 370,868,636</b>	<b>\$ 707,392,117</b>

\*Principal does not include accreted interest of \$4,918,533 as of June 30, 2013.

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable of the Proposition K Bond Building Fund consisted of \$98,225 in accrued interest as of June 30, 2013.

**NOTE 5 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due From/Due to)**

Interfund receivable and payable balances at June 30, 2013 consisted of the following:

	Due From Other Funds			Total
	General Fund	Building Fund	Other Funds	
<b>Due to Other Funds</b>				
Building Fund	\$ 150	\$ -	\$ 59,561	\$ 59,711
Capital Project Fund for Blended Component Units	-	31,331	-	31,331
<b>Total Due From Other Funds</b>	<b>\$ 150</b>	<b>\$ 31,331</b>	<b>\$ 59,561</b>	<b>\$ 91,042</b>

Building fund due to the general fund to reimburse for transportation of student athletes displaced by the construction program.	\$	150
Building fund due to the capital facilities fund to reimburse for modernization expenses at Woodland Park MS.		3,768
Building fund due to the redevelopment fund for to reimburse for modernization expenses at Woodland Park MS.		55,793
Capital project fund for blended component units due to the building fund for computers purchased for the technology library at San Marcos HS.		31,331
<b>Total</b>	<b>\$</b>	<b>91,042</b>

**Interfund Transfers**

Interfund transfers for the year ended June 30, 2013 consisted of \$31,331 transferred from the Capital Projects Fund for Blended Component Units to the Proposition K Bond Building Fund for computers purchased for the technology library at San Marcos High School.

**NOTE 6 – CONSTRUCTION COMMITMENTS**

As of June 30, 2013, the Proposition K Bond Building Fund had commitments with respect to unfinished capital projects of \$56,002,001.

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## **OTHER INDEPENDENT AUDITORS' REPORTS**

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**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**

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

Governing Board Members and  
Proposition K Citizens' Bond Oversight Committee  
San Marcos Unified School District  
San Marcos, 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 the Proposition K Bond Building Fund of San Marcos Unified School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Proposition K Bond Building Fund of San Marcos Unified School District's basic financial statements, and have issued our report thereon dated January 6, 2014.

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Proposition K Bond Building Fund of San Marcos Unified 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Proposition K Bond Building Fund of San Marcos Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Proposition K Bond Building Fund of San Marcos Unified School District's internal control.

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

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State Board of Accountancy*

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 the Proposition K Bond Building Fund of San Marcos Unified School District's financial statements are free of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



San Diego, California  
January 6, 2014

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael Ash, CPA

Tanya M. Rogers, CPA, CFE

Heather Daud

Governing Board Members and  
Proposition K Citizens' Bond Oversight Committee  
San Marcos Unified School District  
San Marcos, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Proposition K Bond Building Fund, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Proposition K Bond Building Fund's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express opinions 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.

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

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

In connection with our audit, we performed an audit for compliance as required in the performance requirements for the Proposition K Bond Building Fund ("Proposition K") for the year ended June 30, 2013. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of the Proposition K Bond Building Funds were only used for the purposes set forth in the ballot Proposition and not for any other purpose, such as teacher and administrative salaries.

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

<b>Internal Control Evaluation</b>
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**Procedures Performed:**

Inquiries were made of management regarding internal controls to:

- Prevent fraud or abuse regarding Proposition K funds
- Ensure adequate separation of duties exists in the accounting for Proposition K funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper District funds

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2012-13 financial statement balances for the Proposition K Bond Building Fund are not materially misstated.

**Results of Procedures Performed:**

The results of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unmodified opinion was expressed on the financial statements.

## Facilities Site Walk

### **Procedures Performed:**

We performed a site walk to verify that Proposition K funds expended for the fiscal year ended June 30, 2013 were for valid facilities acquisition and construction purposes. We toured the active construction site at the San Marcos High School reconstruction project. Through observation and inquiry, auditor was able to gain an understanding of the projects taking place and ensure that funds were being properly expended in accordance with the Proposition K ballot language.

### **Results of Procedures Performed:**

Results of the site walks indicate that the major 2012-13 Proposition K construction activities at San Marcos High School were successfully completed and advanced into 2013-14 expenditure/construction phases where applicable.

## Tests of Expenditures

### **Procedures Performed:**

We tested expenditures to determine whether Proposition K Bond Building Fund funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Proposition K ballot measure language). The expenditure test included a sample of 27 payments, totaling \$21.3 million, or approximately 28% of total expenditures for the year ended June 30, 2013.

### **Results of Procedures Performed:**

We found the expenditures tested to be in compliance with the terms of the Proposition K Bond Building Fund ballot language, sound internal control practices, and applicable state laws and regulations without exception.

## Test of Contracts and Bid Procedures

### **Procedures Performed:**

For the year ended June 30, 2013, we performed testing of two lease-leaseback contracts to determine that a formal, qualifications-based selection procedure was in place. The lease-leaseback contracts were awarded to Techmasters and Johnson Construction Engineers.

### **Results of Procedures Performed:**

We found that the contracts tested followed a formal, qualifications-based selection procedure, prior to being recommended to and awarded by the District's governing board.

*Opinion*

In our opinion, based on the fieldwork described above as well as the other tests that we conducted, the District complied with the compliance requirements for the Proposition K Bond Building Fund as listed and tested above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on accountability requirements pursuant to the passage of Proposition 39 and the enactment of AB 1908 (Chapter 44, Statutes of 2000). Accordingly, this report is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
January 6, 2014

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# **FINDINGS AND RESPONSES SECTION**

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**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Schedule of Findings and Responses  
For the Year Ended June 30, 2013**

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*There were no audit findings or recommendations related to the 2012-13 Proposition K Bond Building Fund Financial and Performance Audits.*

**PROPOSITION K BOND BUILDING FUND  
SAN MARCOS UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013**

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**FINDING #2012-1: CONTRACTOR SELECTION**

**Finding:** A formal, monitored and documented evaluation process was utilized in the selection of four “approved” contractors from a pool of RFQ respondents. The District utilizes an informal, undocumented process for the determination of which “approved” contractor will be chosen for a given project (such as the selection of Lusardi Construction Company for the San Marcos High School Reconstruction Project).

**Recommendation:** We recommend that the District document the qualifications-based selection decisions employed in the “approved” contractor selection process to better enhance the controls and transparency of the selection process.

**District Response:** In the future, District staff will document its contractor reviews, phone reference contacts and decision summarizations for audit transparency and documentation.

**Current Status:** Implemented

**FINDING #2012-2: CHANGE ORDER ANALYSIS**

**Finding:** Change orders are currently analyzed by a committee, including the contractor, architect and Director of Facilities, prior to approval from the District’s governing board. While this provides a good measure of consideration and oversight, the process could be further strengthened with the aid of a third party construction expert who could utilize detailed, industry standard metrics to analyze change order costs for accuracy and reasonableness. We note that as of December, 2012, the District has engaged with construction consulting firm fs3 Hodges to provide these services.

**Recommendation:** We concur with the District’s involvement of a third party construction expert to assist in analysis of change order accuracy and reasonableness.

**District Response:** As presented above, due to the large amount of DSA required changes to the current San Marcos High school construction project, the District hired a third party construction consultant in December 2012 to review the costs proposed for the associated change orders. This adds to the reviews conducted of the subcontractor’s costs by the General Contractor, Architect and Executive Director of Facilities.

**Current Status:** Implemented