

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

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2016**

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, 2016**

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**PROPOSITION K BOND BUILDING FUND
 SAN MARCOS UNIFIED SCHOOL DISTRICT
 Introduction and Citizens’ Bond Oversight Committee Member Listing
 June 30, 2016**

San Marcos Unified School District (the “District”) operates eleven elementary schools, one kindergarten through eighth grade school, three middle schools, two comprehensive high schools, a continuation high school, an independent study high school, and an adult school. The District served approximately 20,800 students in 2015-16.

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. On April 30, 2014, the District issued Series C of the Election of 2010 General Obligation Bonds in the amount of \$74,702,798.

The accompanying Proposition K Audit Report, for the fiscal year ended June 30, 2016, reflects the issuance of Series A, B, and C 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, 2016:

Name	Title	Representation
Jean Diaz	Chair	Business Organization
Tom Kumura	Vice-Chair	At-Large Member
Stacey Burns	Clerk	PTA Organization Member
Gary Gidner	Member	Senior Citizens' Organization Member
Bill Steinecke	Member	Parent of Child in District
Michael Hunsaker	Member	Taxpayer's Organization Member
Becky Sparks	Alternate	At-Large Member

INDEPENDENT AUDITORS' REPORT

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, 2016, 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.

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.

Christy White, CPA

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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, 2016, 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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Marcos Unified School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the Proposition K Bond Building Fund's 2015 financial statements, and we expressed an unmodified opinion on the respective financial position and changes in financial position in our report dated February 22, 2016. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters (continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017 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 February 7, 2017 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, 2016 and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
February 7, 2017

FINANCIAL SECTION

PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2016 (With Comparative Data for June 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 85,187,351	\$ 94,208,250
Accounts receivable	122,702	93,171
	<hr/>	<hr/>
Total Assets	\$ 85,310,053	\$ 94,301,421
	<hr/>	<hr/>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 586,579	\$ 3,282,272
Due to other funds	868	-
	<hr/>	<hr/>
Total Liabilities	587,447	3,282,272
	<hr/>	<hr/>
Fund Balance		
Restricted for capital projects	84,722,606	91,019,149
	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ 85,310,053	\$ 94,301,421
	<hr/>	<hr/>

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, 2016 (With Comparative Data for the Year Ended June 30, 2015)**

	<u>2016</u>	<u>2015</u>
REVENUES		
Other local revenue	\$ 541,301	\$ 765,726
Total Revenues	<u>541,301</u>	<u>765,726</u>
 EXPENDITURES		
Plant services	-	38,760
Facilities acquisition and construction	6,837,844	24,941,208
Transfers to other agencies	-	20,147
Total Expenditures	<u>6,837,844</u>	<u>25,000,115</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,296,543)</u>	<u>(24,234,389)</u>
 OTHER FINANCING SOURCES (USES)		
Transfers in	-	5,813
Total Other Financing Sources	<u>-</u>	<u>5,813</u>
 Net Change in Fund Balance	(6,296,543)	(24,228,576)
 Beginning Fund Balance	<u>91,019,149</u>	<u>115,247,725</u>
 Ending Fund Balance	<u>\$ 84,722,606</u>	<u>\$ 91,019,149</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, 2016**

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, one kindergarten through eighth grade school, three middle schools, two comprehensive high schools, a continuation high school, an independent study high school, and an adult school. The District serves approximately 20,800 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, B, and C 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).

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.

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements, continued
June 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2016**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as cash in county treasury in the amount of \$85,187,351.

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, 2016**

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:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

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. The District manages its exposure to interest rate risk by investing in the San Diego County Treasury Investment Pool. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$85,289,576 and an amortized book value of \$85,187,351 at June 30, 2016. The average weighted maturity for this pool is 310 days.

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2016 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.

Fair Value

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the San Diego County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District held \$85,289,576 in uncategorized investments related to the Proposition K Bond Building Fund's investment in the San Diego County Treasury.

PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable of the Proposition K Bond Building Fund consisted of \$122,702 in accrued interest as of June 30, 2016.

NOTE 4 – INTERFUND PAYABLE

At June 30, 2016, the Proposition K Bond Building Fund had an interfund payable in the amount of \$868 due to the General Fund related to the correction of an accounts payable balance.

NOTE 5 – 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. On April 30, 2014, the District issued Series C of the Election of 2010 General Obligation Bonds in the amount of \$74,702,799, with an additional original premium and costs of issuance equal to \$4,411,462 and \$366,000, respectively. The resulting total bond indebtedness of \$300,398,531 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, 2016 is \$146,748,022, 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, 2016 is \$79,961,892, which includes accreted interest on the capital appreciation bonds.
- The 2010 Series C General Obligation Bonds consist of current interest bonds of \$51,650,000 with interest yields ranging from 4.00% to 5.00% and fully maturing on August 1, 2040 and capital appreciation bonds of \$23,052,799 with interest yields of 1.83% to 5.31%. The principal balance outstanding as of June 30, 2016 is \$73,662,519, which includes accreted interest on the capital appreciation bonds.

PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2016

NOTE 5 – PROPOSITION K GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all Proposition K outstanding general obligation bonds payable as of June 30, 2016, presented in a consolidated format, are as follows:

Year Ended June 30,	Principal	Current Interest	Accreted Interest	Total
2017	\$ 1,844,562	\$ 8,321,688	\$ 180,438	\$ 10,346,688
2018	1,299,782	8,306,688	330,218	9,936,688
2019	1,645,205	8,306,688	574,795	10,526,688
2020	2,681,816	8,306,688	273,184	11,261,688
2021	2,424,696	8,220,488	1,285,304	11,930,488
2022 - 2026	18,332,913	40,494,440	12,377,088	71,204,441
2027 - 2031	29,628,395	40,093,064	25,336,605	95,058,064
2032 - 2036	62,374,057	33,257,925	31,280,943	126,912,925
2037 - 2041	111,224,815	14,889,375	30,625,186	156,739,376
2042 - 2046	12,909,772	-	65,538,445	78,448,217
2047 - 2051	27,638,367	-	188,614,050	216,252,417
2052	5,301,724	-	44,653,276	49,955,000
Accretion	23,066,330	-	(23,066,330)	-
Total	\$ 300,372,434	\$ 170,197,044	\$ 378,003,202	\$ 848,572,680

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2016**

NOTE 5 – PROPOSITION K GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all Proposition K outstanding general obligation bonds payable as of June 30, 2016, presented in a non-consolidated format, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Current Interest</u>	<u>Accreted Interest</u>	<u>Total</u>
2017	1,844,562	8,321,688	180,438	10,346,688
2018	1,299,782	8,306,688	330,218	9,936,688
2019	1,645,205	8,306,688	574,795	10,526,688
2020	2,681,816	8,306,688	273,184	11,261,688
2021	2,424,696	8,220,488	1,285,304	11,930,488
2022	3,855,285	8,220,488	569,715	12,645,488
2023	3,181,945	8,068,488	2,143,055	13,393,488
2024	3,567,957	8,068,488	2,557,043	14,193,488
2025	3,782,133	8,068,488	3,187,868	15,038,489
2026	3,945,593	8,068,488	3,919,407	15,933,488
2027	4,098,150	8,068,488	4,711,850	16,878,488
2028	3,605,328	8,068,488	6,209,672	17,883,488
2029	3,728,407	8,068,488	7,151,593	18,948,488
2030	7,740,747	8,068,488	4,269,253	20,078,488
2031	10,455,763	7,819,112	2,994,237	21,269,112
2032	11,650,972	7,389,925	3,494,028	22,534,925
2033	5,116,768	6,903,250	11,858,232	23,878,250
2034	13,750,249	6,903,250	4,644,751	25,298,250
2035	15,165,949	6,343,750	5,294,051	26,803,750
2036	16,690,119	5,717,750	5,989,881	28,397,750
2037	18,316,651	5,019,750	6,753,349	30,089,750
2038	20,055,664	4,244,500	7,579,336	31,879,500
2039	21,931,850	3,386,000	8,458,151	33,776,001
2040	29,464,150	1,729,000	3,885,850	35,079,000
2041	21,456,500	510,125	3,948,500	25,915,125
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
Accretion	23,066,330	-	(23,066,330)	-
Total	\$ 300,372,434	\$ 170,197,044	\$ 378,003,202	\$ 848,572,680

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2016**

NOTE 6 – CONSTRUCTION COMMITMENTS

As of June 30, 2016, the District had commitments with respect to unfinished Proposition K capital projects in the amount of \$11,996,410.

NOTE 7 – EXPENDITURES BY PROJECT SITE

The following table presents the expenditure amounts by project for the years ended June 30, 2011 through June 30, 2016, respectively:

Project	2011*	2012	2013	2014	2015	2016	Total
San Elijo Middle School	\$ -	\$ -	\$ -	31,535	1,221,491	1,155,609	2,408,635
San Marcos High School	2,812,858	33,750,157	74,826,565	51,491,161	9,844,978	1,152,676	173,878,395
Mission Hills High School	-	-	-	674,089	637,129	924,356	2,235,574
La Costa Meadows Elementary School	-	-	-	352,027	255,605	812,820	1,420,452
San Marcos Middle School	-	-	-	4,733	300,004	728,909	1,033,646
Knob Hill Elementary School	-	-	-	1,303	574,947	430,918	1,007,168
Alvin Dunn Elementary School	-	-	89,770	582	1,215,950	358,869	1,665,171
Woodland Park Middle School	-	-	87,915	1,075,169	944,643	341,603	2,449,330
Twin Oaks Elementary School	-	-	-	12,968	671,914	240,664	925,546
San Elijo Elementary School	-	-	-	-	518,557	238,810	757,367
Twin Oaks High School	-	-	-	901	369,760	217,535	588,196
Carrillo Elementary School	-	-	-	351,035	3,021,946	34,920	3,407,901
San Marcos Elementary School	-	-	-	244,648	2,197,344	34,139	2,476,131
Richland Elementary School	-	-	-	16,678	698,254	21,375	736,307
Joli Ann Leichtag Elementary School	-	-	-	1,410	323,184	12,721	337,315
Discovery Elementary School	-	-	-	22,634	1,150,557	11,970	1,185,161
Foothills High School	-	-	-	-	106,280	11,970	118,250
Paloma Elementary School	-	-	-	489,976	56,691	-	546,667
Technology Infrastructure	-	-	-	647,395	146,532	-	793,927
Debt Service and Other	-	2,478,782	-	346,152	20,147	-	2,845,081
Program Administration - Districtwide	146,801	193,502	166,907	529,192	724,202	107,980	1,868,584
Total	\$ 2,959,659	\$ 36,422,441	\$ 75,171,157	\$ 56,293,588	\$ 25,000,115	\$ 6,837,844	\$ 202,684,804

*These amounts are unaudited.

SUPPLEMENTARY INFORMATION

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Proposition K Program Budgetary Comparison Information
June 30, 2016**

PROGRAM BUDGET AND ACTUAL EXPENDITURES BY PROJECT

The following table presents the original and current budgeted amounts by project over the life of the Proposition K bond program as well as actual expenditures to date:

Project	Original Budget Amount	Current Budget Amount	Expenditures to Date*
San Marcos High School	\$ 180,547,855	\$ 172,819,638	\$ 172,819,637
Technology Infrastructure	19,000,000	19,000,000	11,412,148
Woodland Park Middle School	988,800	1,210,066	1,210,065
Summer Projects	10,933,444	12,551,126	10,113,984
La Costa Meadows Elementary School	33,000,000	33,000,000	686,984
San Marcos Middle School	24,000,000	24,000,000	734,469
Alvin Dunn Elementary School	17,000,000	17,000,000	1,358,829
Unallocated	2,393,362	4,126,031	-
Richland Elementary School	100,000	100,000	34,003
Total	\$ 287,963,461	\$ 283,806,861	\$ 198,370,119

* Expenditures to date do not include debt service or other expenditures related to bond issuance.

OTHER INDEPENDENT AUDITORS' 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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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, 2016, 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 February 7, 2017.

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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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.

Christy White Associates

San Diego, California
February 7, 2017

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Christy White, CPA

Michael Ash, CPA

Heather Rubio

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, 2016, 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.

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.

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

Objectives

In connection with our audit, we performed an audit of compliance as required in the performance requirements for the Proposition K Bond Building Fund (“Proposition K”) for the year ended June 30, 2016. 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:

Internal Control Evaluation

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 2015-16 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, 2016 were for valid facilities acquisition and construction purposes. We toured the construction sites at San Marcos High School, Mission Hills High School, and San Elijo Middle School. 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 2015-16 Proposition K construction activities at San Marcos High School, Mission Hills High School, and San Elijo Middle School were successfully completed and advanced into 2016-17 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 25 warrant expenditures and salaries charged totaling approximately \$3.8 million, or about 56% of total expenditures for the year ended June 30, 2016.

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, 2016, we inquired with the bond program staff and determined that that there were no contracts that went to bid in the current fiscal year. We reviewed the project bid list maintained by the bond department and governing board meeting minutes in order to verify this information.

Citizens' Bond Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Education Code Section 15278, the District is required to establish a bond oversight committee for Prop 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The CBOC is to meet pursuant to Education Code Section 15280.

Results of Procedures Performed:

We found that the Proposition K Citizens' Bond Oversight Committee was in compliance with the applicable provisions set forth by Education Code, as outlined above.

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
February 7, 2017

FINDINGS AND RESPONSES SECTION

**PROPOSITION K BOND BUILDING FUND
SAN MARCOS UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2016**

There were no audit findings or recommendations related to the 2015-16 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, 2016**

There were no audit findings or recommendations related to the 2014-15 Proposition K Bond Building Fund Financial and Performance Audits.