

**MEASURE JJ BOND BUILDING FUND OF  
SOLANA BEACH SCHOOL DISTRICT**

**AUDIT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

**San Diego**

**Los Angeles**

**San Francisco  
Bay Area**

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

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
TABLE OF CONTENTS  
JUNE 30, 2018**

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	<u>Page</u>
Introduction.....	1
Independent Auditors' Report.....	2

**FINANCIAL SECTION**

Balance Sheet.....	4
Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
Notes to Financial Statements.....	6

**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 <i>Government Auditing Standards</i> .....	13
Independent Auditors' Report on Performance.....	15

**FINDINGS AND RECOMMENDATIONS SECTION**

Schedule of Findings and Recommendations.....	19
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**SOLANA BEACH SCHOOL DISTRICT  
 MEASURE JJ BOND BUILDING FUND  
 INTRODUCTION AND INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE MEMBER  
 LISTING  
 JUNE 30, 2018**

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The Solana Beach School District was established in 1887. The District boundaries include the City of Solana Beach, the City of San Diego, Fairbanks Ranch, Rancho Santa Fe, and portions of Carmel Valley and Pacific Highlands Ranch. The District currently operates one preschool and seven elementary schools.

In November 2016, the voters of Solana Beach School District approved by more than the required 55% favorable vote, Measure JJ, authorizing the issuance and sale of general obligation bonds, not to exceed \$105,000,000. Measure JJ 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.

In May 2017, the District issued Election of 2016, Series A general obligation bonds totaling \$50,000,000. Bond proceeds are to be used to replace or upgrade aging, outdated classrooms, science labs, libraries, and school buildings; restore deteriorating roofs, plumbing, and electrical systems; improve student safety and campus security; and, provide students access to educational facilities, science, and technology needed to prepare for high school, college, and careers, and qualify for State grants. The bonds bear interest at a rate of 2.00% - 5.00% and are scheduled to mature through August 2046, with the first payment commencing in August 2017.

Proposition 39 requires school districts that pass Proposition 39 bonds to seat an Independent Citizens' Oversight Committee (ICOC) to assure the community that bond funds are expended in the fashion outlined in the district's bond resolution. The ICOC must meet at least once a year and inform the public about the expenditure of bond revenues. The ICOC shall actively review and report on the proper expenditure of taxpayers' money for school construction.

The Independent Citizens' Oversight Committee had the following members as of June 30, 2018:

<b>Name</b>	<b>Representation</b>
Michael Casey	Senior Citizens' Organization Member
Emma Chen	Community At-Large
Michael Engel	Community At-Large
Jill Epstein	Parent of Child in District
Laurel Graziano	Business Community Member
Katherine Kousser	Parent-Teacher Organization Member
Danielle McCallion	Taxpayers' Organization Member

## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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State Board of Accountancy*

Governing Board Members and  
Measure JJ Independent Citizens' Oversight Committee of  
Solana Beach School District  
Solana Beach, California

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

We have audited the accompanying financial statements of the Measure JJ Bond Building Fund of Solana Beach School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure JJ Bond Building Fund of Solana Beach School District, as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1A, the financial statements present only the Measure JJ Bond Building Fund and do not purport to, and do not present fairly the financial position of the Solana Beach School District, as of June 30, 2018, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters specific to the Measure JJ Bond Building Fund. The purpose of that report is solely 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 the effectiveness on the entity's 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 District'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 issued our performance audit dated March 6, 2019, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure JJ Bond Building Fund. That report is an integral part of our audit of the Measure JJ Bond Building Fund of Solana Beach School District, as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.



San Diego, California  
March 6, 2019

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# FINANCIAL SECTION

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**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
BALANCE SHEET  
JUNE 30, 2018**

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**ASSETS**

Cash and investments	\$	7,326,504
Accounts receivable		74,461
Due from other funds		20,000

**Total Assets** \$ 7,420,965

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$	93,338
Due to other funds		55,040

**Total Liabilities** 148,378

**Fund Balance**

Restricted for Measure JJ projects		7,272,587
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**Total Liabilities and Fund Balance** \$ 7,420,965

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

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2018**

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<b>REVENUES</b>	
Other local revenue	\$ 440,972
<b>Total Revenues</b>	<u>440,972</u>
<b>EXPENDITURES</b>	
Plant services	261,395
Facilities acquisition and construction	38,921,312
<b>Total Expenditures</b>	<u>39,182,707</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(38,741,735)
<b>Beginning Fund Balance, July 1, 2017</b>	<u>46,014,322</u>
<b>Ending Fund Balance, June 30, 2018</b>	<u>\$ 7,272,587</u>

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



**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The District. The District was founded in 1887 in the community of Solana Beach, California. The District operates under a locally elected Board form of government and provides educational services to grades K-6 as mandated by the state. The District currently operates one preschool and seven elementary schools.

In November 2016, the voters of Solana Beach School District approved by more than the required 55% favorable vote, Measure JJ, authorizing the issuance and sale of general obligation bonds, not to exceed \$105,000,000. Measure JJ 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.

An advisory committee to the District's Governing Board and Superintendent, called the Measure JJ Independent Citizens' Oversight Committee was established pursuant to the requirements of State law and the provisions of Measure JJ. The Committee's oversight goals include advising on bond construction priorities, reviewing bond construction plans, reviewing project plans and budgets, and ensuring compliance with the provisions of Measure JJ.

The statements presented are for the individual Measure JJ Bond Building Fund of the District, consisting of the net construction proceeds of Measure JJ general obligation bonds, as issued by the District, through San Diego County, 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).

SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2018

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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 collectible 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. Generally, “available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

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. **Cash 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.

SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2018

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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 Measure JJ 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.

SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2018

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NOTE 2 – CASH AND INVESTMENTS

**Summary of Cash and Investments**

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as cash in county treasury for \$7,326,504. The California School Accounting Manual requires school districts to report “cash in county treasury” to be reported as cash instead of investments due to the pooled nature of the deposit and the ability of school districts to access funds immediately and with no restrictions.

**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.

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2018**

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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

Limitations as they relate to interest rate risk, 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 County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$7,279,102 and an amortized book value of \$7,326,504. The weighted average maturity on investments held with the county treasury was 345 days as of June 30, 2018.

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
JUNE 30, 2018**

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**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 investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated at least A.

**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 \$7,279,102 in uncategorized investments related to the Measure JJ Bond Building Fund's investment in the San Diego County Treasury as of June 30, 2018.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2018 consist of \$74,461 in interest earned on investments in the San Diego County Treasury.

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
Notes to Financial Statements, continued  
June 30, 2018**

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**NOTE 4 – ACCOUNTS PAYABLE**

Accounts payable as of June 30, 2018 consist of \$93,338 in construction project costs.

**NOTE 5 – DUE TO/DUE FROM OTHER FUNDS**

As of June 30, 2018, the Measure JJ Bond Building Fund held an interfund payable balance in the amount of \$55,040 owed to the General Fund for repayment of temporary loan made to fund Measure JJ projects.

As of June 30, 2018, the Measure JJ Bond Building Fund had an interfund receivable balance in the amount of \$20,000 owed from the General Fund for PTA contributions to the Measure JJ bond program.

**NOTE 6 – MEASURE JJ GENERAL OBLIGATION BONDS**

In an election held in November 2016, the voters authorized the District to issue and sell not more than \$105,000,000 principal amount of general obligation bonds. Under such voters' authorization, the District issued \$50,000,000 in Election of 2016, Series A current interest general obligation bonds in May 2017. The bonds bear interest at a rate of 2.00% - 5.00% and are scheduled to mature through August 2046, with the first payment commencing in August 2018. The annual requirements to amortize the Series A general obligation bonds outstanding as of June 30, 2018, are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 4,550,000	\$ 1,945,300	\$ 6,495,300
2020	4,235,000	1,769,600	6,004,600
2021	870,000	1,667,500	2,537,500
2022	905,000	1,641,050	2,546,050
2023	925,000	1,622,750	2,547,750
2024 - 2028	5,080,000	7,581,400	12,661,400
2029 - 2033	6,450,000	6,170,600	12,620,600
2034 - 2038	7,990,000	4,623,000	12,613,000
2039 - 2043	9,720,000	2,857,600	12,577,600
2044 - 2047	9,275,000	760,100	10,035,100
Total	\$ 50,000,000	\$ 30,638,900	\$ 80,638,900

**NOTE 7 – CONSTRUCTION COMMITMENTS**

As of June 30, 2018, the District had commitments with respect to unfinished Measure JJ projects in the amount of \$11,690,308.

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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

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Measure JJ Independent Citizens' Oversight Committee and  
Governing Board Members of the  
Solana Beach School District  
Solana Beach, 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 Measure JJ Bond Building Fund, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Measure JJ Bond Building Fund's basic financial statements, and have issued our report thereon dated March 6, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Measure JJ Bond Building Fund'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 Measure JJ Bond Building Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Measure JJ Bond Building Fund's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
March 6, 2019

## REPORT ON PERFORMANCE

### Independent Auditors' Report

Measure JJ Independent Citizens' Oversight Committee and  
Governing Board Members of the  
Solana Beach School District  
Solana Beach, California

#### **Report on Performance**

We have audited Solana Beach School District's compliance with the performance audit procedures described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on Solana Beach School District's Measure JJ Bond Building Fund for the year ended June 30, 2018, as identified below.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to local school construction bonds.

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

Our responsibility is to express an opinion on compliance of Solana Beach School District's Measure JJ Bond Building Fund based on our performance audit of the types of compliance requirements referred to above. We conducted our performance audit in accordance with generally accepted government auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. Those standards require that we plan and perform the performance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the local school construction bonds noted on the following page occurred. An audit includes examining, on a test basis, evidence about Solana Beach School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our performance audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Solana Beach School District's compliance with those requirements.

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## **Opinion on Performance**

In our opinion, Solana Beach School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Measure JJ Bond Building Fund noted below for the year ended June 30, 2018.

## **Procedures Performed**

In connection with the performance audit referred to above, we selected and tested transactions and records to determine Solana Beach School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Measure JJ Bond Building Fund. Additional agreed upon procedures relating the Measure JJ Bond Building Fund may also be included.

The results of the procedures performed and the related results are further described in the accompanying performance audit results following this Report on Performance.

A handwritten signature in black ink that reads "Christy White Associates". The signature is written in a cursive, flowing style.

San Diego, California  
March 6, 2019

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
AUDIT PROCEDURES AND RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**SECTION I – FINANCIAL AUDIT PROCEDURES AND RESULTS**

**Financial Statements**

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As mentioned in the Report on Financial Statements, we have issued an unmodified opinion over the financial statements of the Measure JJ Bond Building Fund as of and for the year ended June 30, 2018.

**Internal Control Evaluation**

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We tested internal controls over financial reporting and compliance with laws, regulations, or provisions of contracts or agreements and have determined through our inquiry of management and our evaluation of District processes that no significant deficiencies were noted.

**SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS**

**Facility Project Expenditures**

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We selected a representative sample of expenditures charged to the Measure JJ Bond Building Fund and reviewed supporting documentation to ensure funds were properly expended on specific project(s) listed in the text of the Measure JJ ballot.

We tested \$26,092,571 of warrant expenditures (approximately 67% of current year expenditures) for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure JJ ballot language, the District approved facilities plan, and applicable state laws and regulations.

**Personnel Expenditures**

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We reviewed salaries and benefits charged to the Measure JJ Bond Building Fund to verify that the personnel expenditures were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General, which concluded that “a school district may use Proposition 39 school bond proceeds to pay the salaries of district employees to the extent they perform administrative oversight work on construction projects authorized by a voter approved bond measure.”

There were no significant amounts of expenditures related to personnel during the year ended June 30, 2018

**Facilities Site Walk**

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We verified that funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects by review of supporting documentation as previously noted under Facility Project Expenditures but also through performance of two facilities site walks.

Facilities site walks were performed for projects at Skyline Elementary School and Solana Highlands Elementary School. We toured the school site of Skyline Elementary School and physically observed the newly constructed school site. Additionally, we physically observed the renovated school site at Solana Highlands Elementary School. Based on our site walks, the projects for the school sites appear to be successfully completed and funds appear to be expended for authorized bond projects.

**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
AUDIT PROCEDURES AND RESULTS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018**

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**SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS, continued**

**Test of Contracts and Bid Procedures**

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For the year ended June 30, 2018, we inquired with the bond program staff and determined that there were no contracts that went to bid in the current fiscal year. Additionally, we reviewed the governing board meeting minutes in order to verify this information.

**Contracts and Change Orders**

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We reviewed a listing of contracts and change orders during the fiscal year ended June 30, 2018 and selected a sample to ensure that change orders were properly approved and in accordance with District policies. Additionally, cumulative change orders for any given contract were reviewed to ensure that total change orders did not exceed ten percent of the total original contract. All change orders appear to be properly reviewed and approved by management and the governing board in accordance with District policy.

**Independent Citizens' Oversight Committee**

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In accordance with Assembly Bill (AB) 1908 and Education Code (Ed Code) Section 15278, the District is required to establish an Independent Citizens' Oversight Committee for Proposition 39 bonds to include one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers' association, parent/guardian of a child enrolled in the District and a parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. Additionally, no employee or official of the District shall be appointed to the Independent Citizens' Oversight Committee.

We found that the District successfully compiled an Independent Citizens' Oversight Committee with an active member from each of the required representations. No members of the citizens' bond oversight committee are also employees, official, vendor or consultant of the District. Refer to the Introduction and Independent Citizens' Oversight Committee Member Listing for a listing of current members as of June 30, 2018.

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**SCHEDULE OF FINDINGS  
AND RECOMMENDATIONS**

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**SOLANA BEACH SCHOOL DISTRICT  
 MEASURE JJ BOND BUILDING FUND  
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
 FOR THE YEAR ENDED JUNE 30, 2018**

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**PART I – SUMMARY OF AUDITORS’ RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to the financial statements?	<u>No</u>

**PERFORMANCE AUDIT**

Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on performance for local school construction bonds:	<u>Unmodified</u>

**PART II – FINANCIAL STATEMENT FINDINGS**

There were no findings or recommendations related to the financial statements in 2017-18

**PART III – STATE PERFORMANCE FINDINGS**

There were no findings or recommendations related to local school construction bonds in 2017-18.



**SOLANA BEACH SCHOOL DISTRICT  
MEASURE JJ BOND BUILDING FUND  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2018**

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**PART IV – PRIOR AUDIT FINDINGS**

**FINDING #2017-001: ACCOUNTS PAYABLE ACCRUALS**

**Criteria:** Accrual accounting requires that expenditures be recorded in the period in which they are incurred. Internal controls should be implemented to ensure that accounting transactions are recorded in the proper period and follow proper accrual accounting standards.

**Condition:** During testing for unrecorded liabilities, we noted the following expenditures for services performed prior to June 30, 2017 that should have been recorded as accrued liabilities as of the balance sheet date.

- McCarthy Building Companies, Inc. invoice in the amount of \$498,262.
- Balfour Beatty Construction invoice in the amount of \$1,201,140.

**Effect:** Misstatements of accounts payable liabilities in the amount of \$1,699,402. The balances presented in the Financial Section reflect the adjustments noted above.

**Cause:** Inadequate controls over recording of accounts payable during the year-end closing process.

**Recommendation:** We recommend that the District implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

**District Response:** The two invoices that should have been accrued for the 2016-17 fiscal year, were unfortunately paid in the 2017-18 fiscal year. The invoice dates were not caught to accurately accrue the invoices. These should have been caught and were an oversight by the business department. In the future, the business department will have a second person look over the invoices that are being paid in June and July to check for dates that should be accurately reflected as an accrual.

**Current Status:** Implemented.