

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N**  
**BUILDING FUND (21)**  
**GENERAL OBLIGATIONS BOND**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**JUNE 30, 2015**

**NATIONAL SCHOOL DISTRICT  
PROPOSITION 39 MEASURE N  
BUILDING FUND (21)  
GENERAL OBLIGATION BONDS  
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**NATIONAL SCHOOL DISTRICT  
PROPOSITION 39 MEASURE N  
BUILDING FUND (21)  
GENERAL OBLIGATIONS BONDS  
INTRODUCTION AND CITIZENS' OVERSIGHT COMMITTEE MEMBER LISTING**

On November 4, 2014 the National School District was successful in obtaining authorization from District voters to issue up to \$26,100,000 in General Obligations Bonds pursuant to a 55% vote in a Bond election under Measure N. The General Obligation Bonds are considered Proposition 39 bonds. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual, independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended.

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

The Bonds may be issued under the provisions of the California Education Code (starting at Section 15100), under the provisions of the California Government Code (starting at Section 53506), or under any other provision of law authorizing the issuance of general obligation bonds by school districts. The Bonds may be issued in series by the District from time to time, and each series of Bonds shall mature within the legal limitations set forth in the applicable law under which the Bonds are issued.

The National School District Measure N Citizens' Oversight Committee as of June 30, 2015 was comprised of the following members:

<u>Member Name</u>	<u>Member Type</u>
Anne Campbell	President
Rosalie Alvarado	Clerk
Dave Pairis	Business Organization Representative
Santiago Ruiz	Taxpayer Organization Representative
Guadalupe Rojas	Parent/Guardian Representative
Carolina Howard	Parent-Teacher Representative
Manuela Ramirez	At-Large Representative

## INDEPENDENT AUDITOR'S REPORT

**Governing Board Members and  
Citizens' Oversight Committee  
National School District  
National City, California**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Proposition 39 Measure N Building Fund (21) of National School District, which comprise the statement of financial position as of June 30, 2015, and the related statement of activities for the year then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Emphasis of Matter**

As discussed in Note B, the financial statements present Building Fund (21) which is specific to Measure N, and is not intended to present fairly the financial position and results of operations of National School District in conformity with accounting principles generally accepted in the United States of America. Also, described in Note B to the financial statements, in 2015, the District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – and amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Proposition 39 Measure N Building Fund (21) of National School District as of June 30, 2015, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016, on our consideration of National School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
January 27, 2016

## **FINANCIAL STATEMENTS**

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Statement of Financial Position  
June 30, 2015

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 17,035,662
Accounts receivable	10,723
Due from other funds	<u>1,102,785</u>
<b>Total Current Assets</b>	<u>18,149,170</u>

**TOTAL ASSETS** \$ 18,149,170

**LIABILITIES AND FUND BALANCE**

**Current Liabilities**

Accounts payable	<u>\$ 3,100,143</u>
<b>TOTAL LIABILITIES</b>	<u>3,100,143</u>

**FUND BALANCE**

Restricted for capital projects	<u>15,049,027</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 18,149,170</u>

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Statement of Activities  
June 30, 2015

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**REVENUES**

Interest income	\$ 10,723
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<b>TOTAL REVENUES</b>	<u>10,723</u>
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**EXPENDITURES**

Services and other operating expenditures	474,337
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Capital Outlay:

Construction projects	2,938,960
Underground utility locator services	10,863
Surveys, testing, and consulting	4,809
Rental expenses	6,001
Other	<u>1,063</u>

<b>TOTAL EXPENDITURES</b>	<u>3,436,033</u>
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<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	(3,425,310)
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**OTHER FINANCING SOURCES (USES)**

Proceeds from sale of bonds	18,000,000
Other sources	500,388
Other uses	<u>(26,051)</u>

<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>18,474,337</u>
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<b>NET CHANGE IN FUND BALANCE</b>	15,049,027
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<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>
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<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 15,049,027</u></u>
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**NATIONAL SCHOOL DISTRICT  
PROPOSITION 39 MEASURE N BUILDING FUND (21)**

Notes to the Financial Statements  
Year Ended June 30, 2015

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**A. Definition of the Fund**

The Building Fund (21) was formed to account for property acquisition and construction of new schools, as well as renovation of current schools for the National School District (District), through expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2014.

**B. Summary of Significant Accounting Policies**

*Basis of Presentation*

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

*Fund Structure*

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

*Basis of Accounting*

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

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

*Budgets and Budgetary Accounting*

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

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**

Notes to the Financial Statements  
Year Ended June 30, 2015

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*Encumbrances*

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Cash in County Treasury*

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code §53648 et.seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

*Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. Accounts receivable are recorded net of estimated uncollectible amounts. There were no significant receivables that are not scheduled for collection within one year of year-end.

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Notes to the Financial Statements  
Year Ended June 30, 2015

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*Fund Balances – Governmental Funds*

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** – represents amounts that can only be used for a specific purpose because of a formal action by the District’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

**Unassigned Fund Balance** – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**

Notes to the Financial Statements  
Year Ended June 30, 2015

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*GASB 68 and GASB 71 Implementation*

In June, 2012 the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - and Amendment of GASB No. 27*, which is effective for fiscal years beginning after June 15, 2014. The District has implemented the provisions of this Statement for the year ended June 30, 2015.

The Statement requires numerous new pension disclosures in the notes to the financial statements and two new 10-year schedules as required supplementary information. Also, for the first time the District is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions, a net pension liability for its proportionate shares of the collective pension expense, collective deferred outflows of resources and deferred inflows of resources related to pensions, and collective net pension liability. The reporting of these new amounts on the government-wide financial statements, along with the effect of the restatement of the beginning net position, if any, will also affect the District's government-wide net position.

In November, 2013 the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date -- and Amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The District has implemented the provisions of this Statement for the year ended June 30, 2015.

**C. Cash and Investments**

*Cash in County Treasury*

The District maintains significantly all of its cash in the San Diego County Treasury as part of the common investment pool. As of June 30, 2015, the portion of cash in county treasury attributed to Building Fund (21) was \$17,035,662. The fair value of Building Fund (21)'s portion of this pool as of that date, as provided by the pool sponsor, was \$17,035,662. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investments in the pool is reported in the accounting financial statements as amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Notes to the Financial Statements  
Year Ended June 30, 2015

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*Analysis of Specific Deposit and Investment Risks*

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

a. *Credit Risk*

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

b. *Custodial Credit Risk*

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

c. *Concentration of Credit Risk*

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District's Building Fund (21) was not exposed to concentration of credit risk.

d. *Interest Rate Risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's Building Fund (21) manages its exposure to interest rate risk by investing in the county pool.

e. *Foreign Currency Risk*

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

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**

Notes to the Financial Statements  
Year Ended June 30, 2015

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f. *Investment Accounting Policy*

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

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

*General Authorizations*

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

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 Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Notes to the Financial Statements  
Year Ended June 30, 2015

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**D. Accounts Receivable**

As of June 30, 2015 accounts receivable consisted of:

Interest	<u>\$ 10,723</u>
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**E. Accounts Payable**

As of June 30, 2015 accounts payable consisted of:

Vendors payable	<u>\$ 3,100,143</u>
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**F. Interfund Transactions**

As of June 30, 2015 interfund transactions consisted of:

Due from other funds - Special Reserve Fund	<u>\$ 1,102,785</u>
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**G. General Obligation Bonds**

In May 2015 the District issued \$18,000,000 of 2014 Election, Series A, General Obligation Bonds in order to improve facilities and educational technology in the District's facilities. The issue consists of Serial Bonds with an interest rate of 3.25-5.00% with annual maturities from August 1, 2016 through August 1, 2045. Principal payments on the bonds are due August of each year beginning August 1, 2016 while interest is payable semi-annually on February 1 and August 1 of each year through maturity. The bonds were sold at a premium.

General obligation bonds at June 30, 2015 consisted of the following:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>
2014 Election Series A	05/05/2015	3.25-5.00%	8/1/2045	<u>\$ 18,000,000</u>
	<u>Balance 07/01/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/2015</u>
2014 Election Series A	<u>\$ -</u>	<u>\$ 18,000,000</u>	<u>\$ -</u>	<u>\$ 18,000,000</u>

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Notes to the Financial Statements  
Year Ended June 30, 2015

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The annual requirements to amortize the bonds outstanding at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 520,053	\$ 520,053
2017	50,000	702,581	752,581
2018	295,000	693,956	988,956
2019	345,000	677,956	1,022,956
2020	-	669,331	669,331
2021-2025	745,000	3,280,931	4,025,931
2026-2030	1,890,000	2,952,656	4,842,656
2031-2035	3,185,000	2,490,928	5,675,928
2036-2040	4,590,000	1,804,015	6,394,015
2041-2045	5,635,000	833,406	6,468,406
2046-2050	1,265,000	25,300	1,290,300
Totals	<u>\$ 18,000,000</u>	<u>\$ 14,651,113</u>	<u>\$ 32,651,113</u>

**H. Bond Premium**

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

The 2014 Election Series A bonds issued May 5, 2015 was issued at a premium. The premium is being amortized over the life of the bonds using the straight line method.

Premium issued on the bonds resulted in an effective interest rate as follows:

	<u>2014-A Bonds</u>
Total Interest Payments on Bonds	\$ 14,651,113
Less Bond Premium	(500,388)
Net Interest Payments	<u>\$ 14,150,725</u>
Par amount of Bonds	\$ 18,000,000
Periods	30
Effective Interest Rate	2.620%

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**

Notes to the Financial Statements  
Year Ended June 30, 2015

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**I. Subsequent Events**

New Accounting Pronouncements

GASB Statement No. 72

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, Fair Value Measurement and Application. The primary objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches:

The Market Approach: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

The Cost Approach: This approach reflects the amount that would be required to replace the present service capacity of the asset.

The Income Approach: This approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

In addition to establishing fair value techniques the Statement establishes a hierarchy of inputs to valuation techniques and requires additional note disclosures about fair value in the financial statements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

This Statement is effective for years beginning after June 15, 2015 and as such the District is implementing effective for the 2015-16 fiscal year.

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55 and is effective for financial statement periods beginning after June 15, 2015 and as such the District is implementing effective for the 2015-16 fiscal year.

**OTHER INDEPENDENT AUDITORS' REPORTS**

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

**To the Board of Directors  
National School District  
National City, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Proposition 39 Measure N Building Fund (21) of National School District, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2016.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
January 27, 2016

## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

**Governing Board Members and  
Citizens Bond Oversight Committee  
National School District  
National City, California**

We have audited the financial statements of the Proposition 39 Measure N Building Fund (21) of National School District as of and for the fiscal year ended June 30, 2015 and have issued our report thereon dated January 27, 2016. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition 39 Measure N Building Fund (21) General Obligation Bonds for the fiscal year ended June 30, 2015. The objective of the audit of compliance applicable to National School District is to determine with reasonable assurance that:

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

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

### **Internal Control Evaluation**

#### Procedure Performed:

Inquiries were made of management regarding internal controls to:

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

All purchase requisitions are reviewed and approved by the appropriate District personnel for accuracy and completeness. Our construction projects were done using a Request For Proposal (RFP) process. The RFP committee (Assistant Superintendent of Business Services, Director of Maintenance, Operations, and Facilities, a representative from our Architectural Firm, a representative from the San Diego County Office of Education, and the Director of Maintenance of Operations and Transportation from the Coronado Unified School District) selected the best applicant for the project. The Governing Board then awarded a contract to the vendor selected.

Both the Assistant Superintendent of Business Services and Director of Maintenance, Operations, and Facilities review and verify that the project expenditures are an allowable project cost in accordance with the Measure N ballots initiative approved by local voters, as well as the Board approved budget.

Once the Assistant Superintendent of Business Services and Director of Maintenance, Operations, and Facilities verify that the services were satisfactorily performed and/or the items were received and installed properly, they sign off on the invoice. The Accounting Technician/Accounts Payable then verifies and processes it for payment. The San Diego County Office of Education's Commercial Warrant Audit Unit pulls selected payments for audit and inspects the invoice and supporting documents to ensure compliance with procurement regulations and good business practices before payment is released.

#### Results of Procedures Performed

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

#### **Tests of Expenditures**

##### Procedures Performed:

We tested expenditures to determine whether Measure N funds were spent solely on voter and Board approved school facilities projects as set forth in the Bond Project Lists and language of the Measure N ballot measures. Our testing included a sample of vendors and payroll payments, totaling approximately \$3,091,532 or approximately 90% of total expenditures for the year.

##### Results of Procedures Performed:

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

#### **Facilities Site Review**

##### Procedures Performed:

We reviewed the Independent Citizens' Oversight Committee minutes and agenda and other pertinent information on Measure N designated projects and determined the Measure N funds expended for the year ended June 30, 2015 were for valid facilities acquisition and construction purposes as stated in the Bond Project List. Auditors performed walk through of significant bond projects.

Results of Procedures Performed:

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

**Tests of Contracts and Bid Procedures**

Procedures Performed:

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

Results of Procedures Performed:

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

**Citizens' Oversight Committee**

Procedures Performed:

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

Results of Procedures Performed:

We have determined the National School District's Proposition 39 Measure N Building Fund (21) Citizens' Oversight Committee and its involvement is in compliance with Education Code sections 15278 through 15282.

Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Proposition 39 Measure N Building Fund (21), for the fiscal year ended June 30, 2015.

This report is intended solely for the information and use of the District's Governing Board, the Measure N Bond Citizens' Oversight Committee, management, others within the entity, and the taxpayers of National School District and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
January 27, 2016

## **FINDINGS AND RECOMMENDATIONS**

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Schedule of Findings and Responses  
Year Ended June 30, 2015

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There were no findings to report.

**NATIONAL SCHOOL DISTRICT**  
**PROPOSITION 39 MEASURE N BUILDING FUND (21)**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2015

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June 30, 2015 was the first audit for Proposition 39 Measure N Building Fund (21).