

**NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N
BUILDING FUND (21)
GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2017**

**NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N
BUILDING FUND (21)
GENERAL OBLIGATION BONDS**
Financial Statements and Supplemental Information
Year Ended June 30, 2017

TABLE OF CONTENTS

INTRODUCTION	1
Introduction And Citizens' Oversight Committee Member Listing	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis.....	5
FINANCIAL STATEMENTS	8
Balance Sheet.....	8
Statement of Revenues, Expenditures, and Changes in Fund Balance	9
Notes to the Financial Statements	10
SUPPLEMENTARY INFORMATION	23
General Obligation Bonds Project List	23
OTHER INDEPENDENT AUDITORS' REPORTS	24
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 <i>Government Auditing Standards</i>	24
Independent Auditor's Report on Performance	26
AUDITOR'S RESULTS, FINDINGS & RECOMMENDATIONS	30
Schedule of Findings and Responses	30
Summary Schedule of Prior Audit Findings	31

Introduction

**NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
GENERAL OBLIGATION 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, 2017 was comprised of the following members:

Member Name	Member Type
Anne Campbell	President
Lori Anne Peoples	Senior Citizens' Organization Representative
*Vacant	Business Organization Representative
Santiago Ruiz	Taxpayer Organization Representative
Guadalupe Rojas	Parent/Guardian Representative
David Garcia Ozua	At-Large Representative
Sheryll Celladora	Parent-Teacher Representative

*The District has solicited and advertised in the local media for the open position as of June 30, 2017.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Proposition 39 Measure N Building Fund (21) of National School District, which comprise the balance sheet as of June 30, 2017, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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

Scope of Opinion

As discussed in Note B, the financial statements present only the Building Fund (21) which is specific to Proposition 39 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. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Proposition 39 Measure N Building Fund (21) of National School District as of June 30, 2017, 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

Other Information

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2018, on our consideration of National School 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. 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 National School 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 also issued our performance audit report dated March 30, 2018 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition 39 Measure N Building Fund (21). That report is an integral part of our audit of the District's Proposition 39 Measure N Building Fund (21) for the fiscal year ended June 30, 2017 and should be considered in assessing the results of our financial audit.

El Cajon, California
March 30, 2018

**NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
GENERAL OBLIGATION BONDS
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)**

This section of National School District's Proposition 39 Measure N Building Fund (21-00) annual financial statements and supplementary information presents our discussion and analysis of the bond funds during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's Proposition 39 Measure N Building Fund (21-00) bond financial statements and supplementary information, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The fund balance for Proposition 39 Building Fund (21-00) amounted to roughly \$2,267,429 as of June 30, 2017.
- Revenues and other financing sources for Proposition 39 Measure N Building Fund (21-00) were \$8,985,251 during the year ended June 30, 2017, while total expenditures and other financing uses were \$10,548,656.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the Proposition 39 Measure N Building Fund (21-00) bond financial statements, and the supplementary information required by state law.

The District accounts for Proposition 39 Measure N Building Fund (21-00) bond activity in the District's Building Fund. The Building Fund is a governmental fund type accounted for on a modified accrual basis of accounting that does not include capital assets nor long-term liabilities.

FINANCIAL ANALYSIS OF THE PROPOSITION 39 MEASURE N (21-00) BOND BUILDING FUND

Balance Sheet: The District's Proposition 39 Measure N Building Fund (21-00) balance as of June 30, 2017 was \$2,267,429. The \$2,239,183 of cash and cash equivalents represent cash held in an investment pool for purposes associated only with the bond authorization approved by the voters. It has been determined that Proposition 39 Measure N Building Fund (21-00) cannot be used for Routine Restricted Maintenance expenditures in the General Fund.

	June 30, 2017 Proposition 39 Measure N (21-00)	June 30, 2016 Proposition 39 Measure N (21-00)
Cash and cash equivalents	\$ 2,239,183	\$ 6,460,311
Accounts receivable	7,961	9,463
Due from other funds	53,374	32,750
Prepaid expenditures	-	79,060
Total Assets	<u>2,300,518</u>	<u>6,581,584</u>
Accounts payable	\$ 33,053	\$ 2,750,739
Due to other funds	36	11
Total Liabilities	<u>33,089</u>	<u>2,750,750</u>
Total Fund Balance	<u>2,267,429</u>	<u>3,830,834</u>

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
GENERAL OBLIGATION BONDS
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Fund Balance: The interest income reported represents funds earned on the cash held by the county treasurer. The total expenditures of \$9,918,112 represent only Proposition 39 Measure N Building Fund (21-00) authorized expenditures.

	2017 Proposition 39 Measure N (21- 00)	2016 Proposition 39 Measure N (21- 00)
REVENUES		
Interest	\$ 43,394	\$ 50,468
Site lease fee	-	1
Cooling Premium Efficiency Program - incentive due	23,475	-
TOTAL REVENUES	<u>66,869</u>	<u>50,469</u>
EXPENDITURES		
Other operating expenses:		
Cost of issuance	140,000	-
Underwriter's discount	51,435	-
DSA fees	14,297	-
Construction testing fees	494	-
Miscellaneous fees	441	25,265
Capital outlay:		
DSA fees	12,343	93,000
Miscellaneous fees	2,350	6,635
Main construction	9,535,442	10,917,602
Consulting services including preliminary tests	29,852	153,979
Inspections	47,025	72,182
Other construction costs	7,597	-
Land improvements	76,836	-
TOTAL EXPENDITURES	<u>9,918,112</u>	<u>11,268,663</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds	8,100,000	-
Other sources	818,382	-
Other uses	(630,544)	-
TOTAL OTHER FINANCING SOURCES/USES	<u>8,287,838</u>	<u>-</u>
NET INCREASE (DECREASE) IN FUND BALANCE	(1,563,405)	(11,218,194)
FUND BALANCE, BEGINNING OF YEAR	<u>3,830,834</u>	<u>15,049,028</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,267,429</u></u>	<u><u>\$ 3,830,834</u></u>

**NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
GENERAL OBLIGATION BONDS
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017
(Unaudited)**

PROPOSITION 39 MEASURE N (21-00) BOND BUILDING FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the budget of the Proposition 39 Measure N Building Fund (21-00) is monitored and reviewed by our staff. When changes occur, the District makes revisions to the annual operating budget. Each year, on a single year basis, our staff prepares an annual budget. This amount is used to track expenditures in any single year. The budget reported is then utilized to compare against actual expenditures and our staff makes appropriate revisions to the annual operating budget. Then, it is forwarded to the Board for approval.

FACTORS BEARING ON THE PROPOSITION 39 MEASURE N (21-00) BOND BUILDING FUND'S FUTURE

The District's Proposition 39 Measure N Building Fund (21-00) will continue construction with respect to unfinished capital projects. Some of these projects include modernization of parking lots at Olivewood Elementary School and Palmer Way Elementary School. The projects related to these bond funds are expected to be completed by September 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's Proposition 39 Measure N Building Fund (21-00) bond finances and to determine the District's accountability for the money it receives. Additional financial information can be obtained by contacting the Office of the Assistant Superintendent for Business Services and Support, National School District, 1500 N Avenue, National City, California, 91950.

Financial Statements

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

Balance Sheet
June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 2,239,183
Accounts receivable	7,961
Due from other funds	<u>53,374</u>
Total Current Assets	<u><u>2,300,518</u></u>

TOTAL ASSETS	<u><u>\$ 2,300,518</u></u>
---------------------	----------------------------

LIABILITIES AND FUND BALANCE

Current Liabilities

Accounts payable	\$ 33,053
Due to other funds	<u>36</u>
Total Current Liabilities	<u><u>33,089</u></u>

Fund Balance

Restricted for capital projects	<u>2,267,429</u>
Total Fund Balance	<u><u>2,267,429</u></u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,300,518</u></u>
---	----------------------------

The accompanying notes are an integral part of this statement.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
GENERAL OBLIGATION BONDS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2017

REVENUES

Interest income	\$ 43,394
Other local income	<u>23,475</u>
TOTAL REVENUE	<u>66,869</u>

EXPENDITURES

Services and other operating expenditures	206,666
Capital Outlay:	
Land improvements	76,836
Buildings and improvements	<u>9,634,610</u>
TOTAL EXPENDITURES	<u>9,918,112</u>

**EXCESS (DEFICIENCY) OF REVENUES
OVER (UNDER) EXPENDITURES**

(9,851,243)

OTHER FINANCING SOURCES (USES):

Proceeds from sale of bonds	8,100,000
Other sources	818,382
Other uses	<u>(630,544)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>8,287,838</u>

NET CHANGE IN FUND BALANCE (1,563,405)

FUND BALANCE, BEGINNING OF YEAR 3,830,834

FUND BALANCE, END OF YEAR \$ 2,267,429

The accompanying notes are an integral part of this statement.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements
Year Ended June 30, 2017

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

Budgets and Budgetary Accounting

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

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

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 Imperial 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.

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.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2017

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.

Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflow of resources are recorded in accordance with GASB Statement numbers 63 and 65. At June 30, 2017 the District’s Proposition 39 Measure N Building Fund (21) did not have any Deferred Inflows or Deferred Outflows of Resources.

Fair Value Measurements

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

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

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

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

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Changes in Accounting Policies

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2017. Those newly implemented pronouncements are as follows:

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50 Pension Disclosures.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution – administered through trusts that meet the following criteria:

1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 77 - Tax Abatement Disclosures

The objective of this Statement is to improve usefulness of information about tax abatement agreements entered into by governmental agencies. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2017

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
2. The gross dollar amount of taxes abated during the period.
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has not entered into any tax abatement agreements. As a result, the adoption of GASB Statement No. 77 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 80 - Blending Requirements for Certain Component Units

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 82 - Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The Building Fund (21) did not have any salaries and as a result, the adoption of GASB Statement No. 82 did not result in a change to the financial statements or note disclosures.

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, 2017, the portion of cash in the San Diego County Treasury attributed to Building Fund (21) was \$2,239,183. The fair value of Building Fund (21)'s portion of this pool as of that date, as provided by the pool sponsor, was \$2,239,183. 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.

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

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 other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end the District was not exposed to credit risk.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

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. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

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

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

D. Accounts Receivable

As of June 30, 2017 accounts receivable consisted of:

	<u>Accounts Receivable</u>
Local Sources:	
Interest	\$ 7,961
Total Accounts Receivable	<u>\$ 7,961</u>

All receivables are expected to be collected within one year and as such no allowance for doubtful accounts has been established.

E. Accounts Payable

As of June 30, 2017 accounts payable consisted of:

	<u>Accounts Payable</u>
Vendors Payable	\$ 33,053
Total Accounts Payable	<u>\$ 33,053</u>

F. Interfund Balances and Activities

Balances due to and due from other funds as of June 30, 2017 consisted of:

	<u>Amount</u>	<u>Purpose</u>
Due from General Fund	<u>\$ 53,374</u>	Reimbursement of expenses
Due to General Fund	<u>\$ 36</u>	Reimbursement of expenses

All amounts due are scheduled to be repaid within one year.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

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.

In July 2016, the District issued \$8,100,000 of 2014 Election, Series B, General Obligation Bonds in order to improve District facilities, fund capitalized interest, pay the cost of issuance of the Series B Bonds. The issue consists of \$1,715,000 of Serial Bonds with an interest rate of 2.00-4.00% with annual maturities from August 1, 2019 through August 1, 2036 and \$6,385,000 of Term Bonds with an interest rate of 3.00-4.00% with annual maturities from August 2038 through August 2046. Principal payments on the bonds are due August of each year beginning August 1, 2019 while interest is payable semi-annual on February 1 and August 1 of each year through maturity. The bonds were sold at a premium.

The outstanding bonded debt of Proposition 39 Measure N Building Fund (21) is as follows:

Description	Date of Issuance	Interest Rate	Maturity Date	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Election 2014 Series A	05/05/2015	3.25-5.00%	08/01/2045	\$ 18,000,000	\$ -	\$ 50,000	\$ 17,950,000	\$ 295,000
2014 A Premium	05/05/2015		08/01/2045	480,929	-	16,680	464,249	16,680
Total 2014 Series A				<u>\$ 18,480,929</u>	<u>\$ -</u>	<u>\$ 66,680</u>	<u>\$ 18,414,249</u>	<u>\$ 311,680</u>
Election 2014 Series B	07/27/2016	2.00-4.00%	08/01/2046	\$ -	\$ 8,100,000	\$ -	\$ 8,100,000	\$ -
2014 B Premium	07/27/2016		08/01/2046	-	818,382	23,869	794,513	27,279
Total 2014 Series B				<u>\$ -</u>	<u>\$ 8,918,382</u>	<u>\$ 23,869</u>	<u>\$ 8,894,513</u>	<u>\$ 27,279</u>
TOTAL				<u>\$ 18,480,929</u>	<u>\$ 8,918,382</u>	<u>\$ 90,549</u>	<u>\$ 27,308,762</u>	<u>\$ 338,959</u>

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2017 is as follows:

Year Ended June 30	Principal	Interest	Total
2018	\$ 295,000	\$ 1,005,206	\$ 1,300,206
2019	345,000	989,206	1,334,206
2020	80,000	979,781	1,059,781
2021	115,000	977,831	1,092,831
2022	150,000	973,081	1,123,081
2023-2027	1,420,000	4,701,456	6,121,456
2028-2032	2,855,000	4,235,213	7,090,213
2033-2037	4,620,000	3,582,319	8,202,319
2038-2042	6,905,000	2,556,859	9,461,859
2043-2047	<u>9,265,000</u>	<u>922,700</u>	<u>10,187,700</u>
Total	<u>\$ 26,050,000</u>	<u>\$ 20,923,652</u>	<u>\$ 46,973,652</u>

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

Notes to the Financial Statements (Continued)

Year Ended June 30, 2017

H. Bond Premium

Bond premium arises when the market rate of interest is lower 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 as a premium. The premium is being amortized over the life of the bonds using the straight line method.

The 2014 Election Series B bonds issued July 27, 2016 was issued as a premium. The premium is being amortized over the life of the bonds using the straight line method.

The bond premium at June 30, 2017 to be amortized in future years was \$1,258,762. Premiums issued on the bonds resulted in an effective interest rate as follows:

	<u>2014-A Bonds</u>	<u>2014-B Bonds</u>
Total Interest Payments on Bonds	\$ 14,651,113	\$ 7,637,831
Less Bond premium	<u>(500,388)</u>	<u>(818,382)</u>
Net Interest Payments	<u>14,150,725</u>	<u>6,819,449</u>
 Par amount of Bonds	 \$ 18,000,000	 \$ 8,100,000
Periods	30	30
Effective Interest Rate	2.620%	2.806%

I. Construction Commitments

As of June 30, 2017 the Building Fund (21) had the following commitments with respect to unfinished capital projects:

<u>Construction in Progress</u>	<u>Commitment</u>	<u>Expected Date of Completion*</u>
Summer 2016 HVAC/Electrical Upgrade	\$ 470,447	November 2017
Olivewood Parking Lot	605,207	September 2018
Palmer Way Parking Lot	1,189,324	September 2018

* Expected date of completion subject to change.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

J. Subsequent Events

Implementation of New Accounting Guidance

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

Financial impact of implementing GASB Statement No. 75 has not yet been determined; however, it is expected that the Net OPEB Obligation will significantly increase. The District is currently in contact with an actuary to determine the complete fiscal impact.

GASB Statement No. 81 - Irrevocable Split Interest-Agreements

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts --- or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements --- in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

As of the date this audit report is issued, the District does not have any split-interest agreements. Consequently, implementation of GASB No 81 is not expected to have a financial or reporting impact on the District.

GASB Statement No. 85 - Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics:

1. Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
2. Reporting amounts previously reported as goodwill and “negative” goodwill.
3. Classifying real estate held by insurance entities.
4. Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
5. Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
7. Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
8. Classifying employer-paid member contributions for OPEB.
9. Simplifying certain aspects of the alternative measurement method for OPEB.
10. Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
Notes to the Financial Statements (Continued)
Year Ended June 30, 2017

Financial impact of implementing GASB Statement No. 85 has not yet been determined.

GASB Statement No. 86 - Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt--- are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes financial statements for debt that is defeased in substance.

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

As of the date this audit report was issued, the District did not have any defeasance of debt. Consequently, the implementation of GASB Statement No. 86 is not expected to have a fiscal impact on the District.

Supplementary Information

NATIONAL SCHOOL DISTRICT
PROPOSITION 39 MEASURE N BUILDING FUND (21)
 General Obligation Bonds Project List
 Year Ended June 30, 2017

Bond proceeds will be expended to modernize, replace, renovate, construct, acquire, equip, furnish and otherwise improve the facilities of the District located at the following locations:

Central School	Lincoln Acres School
El Toyon School	Palmer Way School
Ira Harbison School	Olivewood School
John Otis School	Rancho de La Nación School
Kimball School	National School District Office
Las Palmas School	

<u>Project Name</u>	<u>Location of Project</u>
HVAC repairs	Various
Electrical, fire alarm, and EMS upgrades	Various
Upgrade internet infrastructure	Various
Accessibility upgrades	Various
Safety and security upgrades	Various
Modernization of facilities	Various

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*

**Governing Board Members and
Citizens' Oversight Committee
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 balance sheet as of June 30, 2017, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2018.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

El Cajon, California
March 30, 2018

Independent Auditor's Report on Performance

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

We were engaged to conduct a performance audit of the National School District Proposition 39 Measure N Building Fund (21) for the year ended June 30, 2017.

Management's Responsibility for Performance Compliance

Our audit was limited to the objectives listed with the report which includes the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

Auditor's Responsibility

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the Measure N Building Fund (21) National School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition 39 Measure N General Obligation Bond for the fiscal year ended June 30, 2017. 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 Proposition 39 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 No 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 totaling approximately \$8,455,587 or approximately 85% 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.

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.

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, 2017 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.

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.

Opinion on Performance

In our opinion, the District complied, in all material respects, with the compliance requirements of Proposition 39 outlined in Article XIII A, Section 1(b)(3)(c) of the California Constitution, and with Measure N approved by the voters in the National School District on November 4, 2014.

Purpose of the Report

This report is intended solely for the information and use of the District's Governing Board, the Proposition 39 Measure N 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.

El Cajon, California
March 30, 2018

Auditor's Results, Findings & Recommendations

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

Schedule of Findings and Responses
Year Ended June 30, 2017

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, 2017

There were no audit findings noted for the fiscal year ended June 30, 2016.