

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
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JUNE 30, 2018**

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**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
INTRODUCTION AND CITIZENS' BOND OVERSIGHT
COMMITTEE MEMBER LISTING
JUNE 30, 2018**

The Magnolia School District (the District) operates under a locally elected five-member Board form of government and provides educational services to grades K-6 as mandated by the State. The Magnolia School District was formed in 1895. The District is located in Orange County, primarily in the City of Anaheim. The District currently operates nine elementary schools.

On November 2, 2010, registered voters of the District authorized by more than 55% the issuance of \$16,300,000 of general obligation bonds to improve the quality of education, upgrade technology, repair leaky roofs, modernize classrooms, restrooms and school facilities, make health and safety improvements, make handicapped accessibility upgrades, install solar panels to improve energy efficiency, replace temporary portable classrooms, and increase campus security.

On May 19, 2011, the District issued Series 2011 of the Election 2010 General Obligation Bonds in the amount of \$6,498,305, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2018 Series 2011 General Obligation Bonds totaling \$6,283,305 were still outstanding.

On February 21, 2013 the District issued Series 2013 of the Election 2010 General Obligation Bonds in the amount of \$3,660,000, consisting of \$1,080,000 in serial bonds and \$2,580,000 in term bonds. The serial bonds have interest rates between 2.00% and 4.00% and mature on August 1, 2028. The term bonds have yield to maturities between 3.53% and 3.75% and maturity dates between August 1, 2033 and August 1, 2038. At June 30, 2018, Series 2013 General Obligation Bonds totaling \$3,595,000 were still outstanding.

On May 25, 2016, the District issued Series 2016 of the Election 2010 in the amount of \$6,140,000. The bonds have interest rates between 3.00% and 4.00% and mature on August 1, 2043. At June 30, 2018, Series 2016 General Obligation Bonds totaling \$6,015,000 were still outstanding.

Measure I is a Proposition 39 bond. The passage of Proposition 39 on November 7, 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 for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
INTRODUCTION AND CITIZENS' BOND OVERSIGHT
COMMITTEE MEMBER LISTING
JUNE 30, 2018**

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2018:

Name	Representation
Jasmine LaBurn, <i>Chair</i>	Bona Fide Taxpayers' Association
Mike Batuyong, <i>Vice Chair</i>	Member-at-Large
Angelica Herrera	Parent-Teacher Organization
Shirley Situ	Business Organization
Lupe Barron	Parent/Guardian of Student in the District
Cheryl Soave	Senior Citizens Association
Patricia Soave	Member-at-Large

INDEPENDENT AUDITORS' REPORT

Measure I Citizens' Bond Oversight Committee and
Governing Board Members of Magnolia School District
Anaheim, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Bond Building Fund of Magnolia School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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LOS ANGELES

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State Board of Accountancy

Opinion

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

Emphasis of Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters specific to the Measure I Bond Building Fund. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Measure I Bond Building Fund of Magnolia School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report of Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have issued our performance audit dated January 14, 2019, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Measure I Bond Building Fund. That report is an integral part of our audit of the Measure I Bond Building Fund of Magnolia School District as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California

January 14, 2019

FINANCIAL SECTION

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
BALANCE SHEET
JUNE 30, 2018**

ASSETS	
Cash in county treasury	\$ 663,201
Accounts receivable	<u>1,677</u>
Total Assets	<u>\$ 664,878</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	<u>\$ 41,551</u>
Total Liabilities	<u>41,551</u>
 Fund Balance	
Restricted for capital projects	<u>623,327</u>
Total Fund Balance	<u>623,327</u>
 Total Liabilities and Fund Balance	 <u>\$ 664,878</u>

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

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

REVENUES	
Interest revenue	\$ 37,131
Total Revenues	<u> 37,131</u>
EXPENDITURES	
Facilities acquisition and construction	<u> 2,605,058</u>
Total Expenditures	<u> 2,605,058</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u> (2,567,927)</u>
Net Change in Fund Balance	(2,567,927)
Fund Balance, July 1, 2017	<u> 3,191,254</u>
Fund Balance, June 30, 2018	<u>\$ 623,327</u>

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

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Magnolia School District (the “District”) was formed in 1895. The District is located in Orange County, primarily in the City of Anaheim. The District currently operates nine elementary schools. There were no changes in the boundaries of the District during the current year.

On November 2, 2010, registered voters of the District authorized the issuance of \$16,300,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction, and improvement of school facilities.

On May 19, 2011, the District issued \$6,498,305 of general obligation bonds, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2018, Series 2011 General Obligation Bonds totaling \$6,283,305 were still outstanding.

On February 21, 2013 the District issued \$3,660,000 of general obligation bonds consisting of \$1,080,000 in serial bonds and \$2,580,000 in term bonds. The serial bonds have interest rates between 2.00% and 4.00% and mature on August 1, 2028. The term bonds have yield to maturities between 3.53% and 3.75% and maturity dates between August 1, 2033 and August 1, 2038. At June 30, 2018, Series 2013 General Obligation Bonds totaling \$3,595,000 were still outstanding.

On May 25, 2016, the District issued Series 2016 of the Election 2010 in the amount of \$6,140,000. The bonds have interest rates between 3.00% and 4.00% and mature on August 1, 2043. At June 30, 2018, Series 2016 General Obligation Bonds totaling \$6,015,000 were still outstanding.

An advisory committee to the District’s Governing Board and Superintendent, called the Citizens’ Bond Oversight Committee, was established. The Committee’s oversight goals include: actively review and report on the proper expenditure of taxpayers’ money for school construction; monitor District compliance with Article XIII A of the California Constitution and advise the public accordingly; provide for communication with and from the community on all issues related to Measure I Bond; and report to the Magnolia School District Board of Education at least once per year on all Measure I activities.

The deposit and use of bond proceeds are accounted for in a separate sub-fund of the District’s Building Fund. The statements presented are for the individual Measure I Bond and are not intended to be a complete presentation of the District’s financial position or results of operations.

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Policies

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

C. Basis of Accounting

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

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

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

E. Cash and Investments

In accordance with Education Code Section 41001, the District maintains a portion of its cash in the Orange County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

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

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned*. The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

I. Interfund Borrowing

The District's policy is to comply with Education Code Section 42603 which permits temporary borrowing between funds so long as the temporary loan is repaid in the same fiscal year; or in the following fiscal year if the transfer took place within the final 120 calendar days of a fiscal year. The borrowing shall occur only when the fund or account receiving the money will earn sufficient income, during the current fiscal year, to repay the amount transferred. In addition, no more than 75 percent of the maximum of moneys held in any fund or account during a current fiscal year may be transferred.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH

Cash as of June 30, 2018 consisted of \$663,201 deposited in the Orange County Treasury Investment Pool.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH (continued)

General Authorizations

The authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy:

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

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH (continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Orange County Investment Pool with a fair value at June 30, 2018 of approximately \$659,811 and an amortized book value of \$663,201. The weighted average maturity for the Orange County Investment Pool is 302 days as of June 30, 2018.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This may be measured by the assignment of a rating by a nationally recognized credit rating organization. The Orange County Investment Pool is rated AAA by Standard & Poor's.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018

NOTE 2 – CASH (continued)

Fair Value

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

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

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

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

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

The District's fair value measurements at June 30, 2018 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	\$ 659,811
Total fair market value of investments	<u>\$ 659,811</u>

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, in the amount of \$1,677, represents interest earnings due from the Orange County Investment Pool for the quarter ended June 30, 2018.

NOTE 4 – MEASURE “I” GENERAL OBLIGATION BONDS

Following is a summary of the District’s outstanding Measure I general obligation bonds, and unamortized premiums on issuance of the Measure I general obligation bonds, as of June 30, 2018:

	Beginning Balance July 1, 2017	Additions	Deletions	Ending Balance June 30, 2018	Due Within One Year
General obligation bonds	\$ 16,078,305	\$ -	\$ 185,000	\$ 15,893,305	\$ 470,000
Accreted interest	1,699,182	384,643	-	2,083,825	-
Premium	1,201,781	-	68,723	1,133,058	68,723
Totals	\$ 18,979,268	\$ 384,643	\$ 253,723	\$ 19,110,188	\$ 538,723

General Obligation Bond Summary

	Date of Issue	Interest Rate %	Maturity Date	Original Issue	Outstanding July 1, 2017	Additions	Deductions	Outstanding June 30, 2018
Series 2011	5/19/2011	2.00-7.26%	August 1, 2041	\$ 6,498,305	\$ 6,308,305	\$ -	\$ 25,000	\$ 6,283,305
Series 2013	2/21/2013	2.00-4.00%	August 1, 2038	3,660,000	3,630,000	-	35,000	3,595,000
Series 2016	5/25/2016	3.00-4.00%	August 1, 2043	6,140,000	6,140,000	-	125,000	6,015,000
Totals				\$ 16,298,305	\$ 16,078,305	\$ -	\$ 185,000	\$ 15,893,305

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 4 – MEASURE “I” GENERAL OBLIGATION BONDS (continued)

Election 2010, Series 2011

On November 2, 2010, registered voters of the District authorized the issuance of \$16,300,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities.

- On May 19, 2011, the District issued \$6,498,305 of general obligation bonds, consisting of \$2,480,000 in current interest bonds, \$3,225,040 in capital appreciation bonds, and \$793,265 in convertible capital appreciation bonds. The current interest bonds have interest rates between 2.00% and 4.75% and mature on August 1, 2031. The capital appreciation bonds have yield to maturities between 6.23% and 7.26% and maturity dates between August 1, 2025 and August 1, 2041. The convertible capital appreciation bonds include an option to convert to current interest bonds on August 1, 2016. At June 30, 2018, Series 2011 General Obligation Bonds totaling \$6,283,305 were still outstanding.

The annual requirements to amortize the Measure I general obligation bonds payable of the District, outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 55,000	\$ 157,035	\$ 212,035
2020	90,000	154,860	244,860
2021	125,000	151,479	276,479
2022	170,000	146,473	316,473
2023	205,000	139,910	344,910
2024-2028	1,015,499	1,359,330	2,374,829
2029-2033	2,082,156	2,504,594	4,586,750
2034-2038	1,509,207	6,857,077	8,366,284
2039-2042	1,031,443	6,936,597	7,968,040
Total	<u>\$ 6,283,305</u>	<u>\$ 18,407,355</u>	<u>\$ 24,690,660</u>

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 4 – MEASURE “I” GENERAL OBLIGATION BONDS (continued)

Election of 2010, Series 2013

On November 2, 2010, registered voters of the District authorized the issuance of \$16,300,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities.

On February 21, 2013, the District issued \$3,660,000 of general obligations bonds consisting of \$1,080,000 in serial bonds and \$2,580,000 in term bonds. The serial bonds have interest rates between 2.00% and 4.00% and mature on August 1, 2028. The term bonds have yield to maturities between 3.53% and 3.75% and maturity dates between August 1, 2033 and August 1, 2038.

The annual requirements to amortize the Series 2013 bonds outstanding as of June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 40,000	\$ 128,571	\$ 168,571
2020	50,000	127,221	177,221
2021	55,000	125,371	180,371
2022	65,000	122,971	187,971
2023	80,000	120,071	200,071
2024-2028	570,000	553,066	1,123,066
2029-2033	925,000	438,725	1,363,725
2034-2038	1,445,000	226,780	1,671,780
2039	365,000	7,300	372,300
	<u>\$ 3,595,000</u>	<u>\$ 1,850,076</u>	<u>\$ 5,445,076</u>

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 4 – MEASURE “I” GENERAL OBLIGATION BONDS (continued)

Election of 2010, Series 2016

On May 25, 2016, the District issued \$6,140,000 of current interest general obligation bonds. The bonds have interest rates between 3.00% and 4.00% and mature on August 1, 2043.

The annual requirements to amortize the Series 2016 bonds outstanding as of June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 50,000	\$ 202,400	\$ 252,400
2020	60,000	200,200	260,200
2021	70,000	197,600	267,600
2022	80,000	194,600	274,600
2023	90,000	191,200	281,200
2024-2028	705,000	883,900	1,588,900
2029-2033	995,000	697,100	1,692,100
2034-2038	460,000	567,075	1,027,075
2039-2043	3,405,000	354,825	3,759,825
2043-2044	100,000	1,500	101,500
Total	<u>\$ 6,015,000</u>	<u>\$ 3,490,400</u>	<u>\$ 9,505,400</u>

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2018 there were no construction commitments.

SUPPLEMENTARY INFORMATION

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
EXPENDITURES BY PROJECT
FOR THE YEAR ENDED JUNE 30, 2018**

Following is a summary of expenditures by Measure I project for the year ended June 30, 2018:

Measure I Project	Expenditures
Schweitzer Remodel	\$ 14,000.00
Salk Roof	521,190
Baden Powell Office	1,096,919
Geo Expenses for Office Remodel	223,745
District-Wide Bond Management	749,205
Total Expenditures	<u>\$ 2,605,058</u>

**OTHER INDEPENDENT AUDITORS'
REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Independent Auditors' Report

Measure I Citizens' Bond Oversight Committee and
Governing Board Members of
Magnolia School District
Anaheim, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I Bond Building Fund of Magnolia School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Magnolia School District's basic financial statements of the Measure I Bond Building Fund, and have issued our report thereon dated January 14, 2019.

Internal Control over Financial Reporting

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

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

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State Board of Accountancy*

Internal Control over Financial Reporting (continued)

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

Purpose of this Report

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

Christy White Associates

San Diego, California
January 14, 2019

REPORT ON PERFORMANCE

Independent Auditors' Report

Measure I Citizens' Bond Oversight Committee and
Governing Board Members of
Magnolia School District
Anaheim, California

Report on Performance

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Performance

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

Procedures Performed

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

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

Christy White Associates

San Diego, California
January 14, 2019

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – FINANCIAL AUDIT PROCEDURES

Financial Statements

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

Internal Control Evaluation

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

SECTION II – PERFORMANCE AUDIT PROCEDURES

Facility Project Expenditures

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

We tested approximately \$1,066,181 of non-personnel expenditures or 41% of total 2017-18 Measure I Bond Building Fund expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of Measure I ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

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

We reviewed a listing of all employees charged to the Measure I Bond Building Fund and found that all employees held positions applicable to the local school construction bond. Further, we selected a sample of one (1) of the two (2) employees charged to review personnel files and personnel action reports for proper allocation of salaries and benefits. Based on our testing, salary transactions were not used for general administration operations. Personnel costs charged to the Measure I Bond Building Fund appeared allowable.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES (Continued)

Facilities Site Walk

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

A facilities site walk was performed at Dr. Albert Schweitzer Elementary School. We viewed a newly built conference room built for children to use for their timed breaks. Also viewed was the relocated supply room and the newly expanded restrooms. The health office was expanded and given its own restroom. A new security system was installed at the front of the office. Based on our site walk, the projects at Dr. Albert Schweitzer Elementary School appear to be successfully advancing as expected and funds appear expended for authorized bond projects.

Facilities site walks were also performed for projects at Baden Powell Elementary School. We viewed a new modular building that houses two conference rooms, a health office, supply room, restrooms, and mailboxes. Based on our site walks, the projects for the school sites appear to be successfully completed and funds appear to be expended for authorized bond projects.

Facilities site walks were also performed for projects at Salk Elementary School. We viewed new roofing that prevents leaking during rain storms. Based on our site walks, the projects for the school sites appear to be successfully completed and funds appear to be expended for authorized bond projects.

Contract and Bid Procedures

We reviewed a listing of contracts awarded during the fiscal year ended June 30, 2018 and selected a sample to ensure that contracts for public projects followed appropriate bidding procedures per applicable Public Contract Code. Additionally, we reviewed overall expenditures by vendor in order to determine if multiple projects under the applicable bidding threshold were identified to suggest any possible bid-splitting.

- Project: Salk, Marshall, and Pyles Roof Project

Based on our review of overall expenditures and projects by vendor, no instances or possible indications of bid-splitting were identified. The District appears to be properly reviewing projects and applying appropriate procedures over contract and bidding procedures.

**MEASURE I BOND
MAGNOLIA SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017**

Citizen Oversight Committee

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

We found that the District successfully compiled a CBOC with an active member from each of the required representations. No members of the CBOC are also an employee, official, vendor or consultant of the District. Refer to the Introduction and CBOC Member Listing for a listing of current members as of June 30, 2018.

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

PART I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS	<u>Unmodified</u>
Type of auditors’ report issued	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to the financial statements?	<u>No</u>
 STATE PERFORMANCE	
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditor’s report issued on performance for local school construction bonds:	<u>Unmodified</u>

PART II – FINANCIAL STATEMENT FINDINGS

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

PART III – STATE PERFORMANCE FINDINGS

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

**MEASURE I BOND BUILDING FUND
MAGNOLIA SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

PART IV – PRIOR AUDIT FINDINGS

There were no findings and recommendations during the prior year ended June 30, 2017.