

**PROPOSITION W AND MEASURE R BOND OF
LEMON GROVE SCHOOL DISTRICT
AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 2018**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
TABLE OF CONTENTS
JUNE 30, 2018

	<u>Page</u>
Introduction and Citizens' Bond Oversight Committee Member Listing	1
Independent Auditors' Report	3

FINANCIAL SECTION

Balance Sheet.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Notes to Financial Statements	7

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Independent Auditors' Report on Performance	20

FINDINGS AND RESPONSES SECTION

Audit Procedures and Results.....	22
Schedule of Findings and Recommendations	24

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
INTRODUCTION AND CITIZENS' BOND OVERSIGHT COMMITTEE MEMBERS LISTING
JUNE 30, 2018**

The Lemon Grove School District was established in 1893 and is located in the eastern portion of San Diego County. There were no changes to the District boundaries during the current fiscal year. The District operates four elementary schools, two K-8 schools, and one middle school. In addition, the District operates a licensed pre-school program.

On November 4, 2008, the Lemon Grove School District was successful in obtaining authorization from District voters to issue up to \$28,000,000 in general obligation bonds pursuant to a 55% vote in a Bond election under Proposition W. Proposition W was issued to construct science/technology labs; create a math, science and technology magnet middle school; repair and replace plumbing, heating and air conditioning systems and improve handicap access; renovate playgrounds and improve health and fitness facilities; upgrade existing facilities and improve energy efficiency; and construct a joint use library/media center. The general obligation bonds are considered Proposition 39 bonds.

On November 4, 2014, the Lemon Grove School District was successful in obtaining re-authorization from District voters to issue up to \$10,000,000 in general obligation reauthorization bonds pursuant to a 55% vote in a bond election under Measure R. Measure R was issued to repair and replace leaky roofs; renovate and modernize educational facilities; provide additional classrooms; and increase student access to classroom computers. The general obligation reauthorization bonds are considered Proposition 39 bonds.

The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

There have been issuances of Election 2008, Series, A, Series B, and Series C totaling \$17,999,480 for Proposition W. In May 2009, the District issued \$5,000,000, 2008 Election A general obligation bonds. The bonds mature August 1, 2033 and bears interest rate of 4.00% to 5.00%. In October 2010, the District issued \$7,999,480, 2008 Election, Series B general obligation bonds. The bonds mature on August 1, 2050 and bears an interest rate of 6.10% to 9.71%. In March 2011, the District issued \$5,000,000, 2008 Election, Series C general obligation bonds, with a stated interest rate of 2.00% to 5.00%, maturing August 1, 2028. At June 30, 2018, \$16,544,480 of the total Proposition W general obligation bonds were outstanding.

There have been issuances of Election 2014, Series, A, Series B Ed-Tech, Series C, and Series D Ed-Tech totaling \$9,635,000 for Measure R. In June 2015, the District issued \$5,000,000, 2014 Election Series A (GO Reauthorization Bonds) general obligation bonds. The 2014 Election Series A general obligation bonds, with a stated interest rate of 2.00% to 3.00%, matures August 2044. In June 2015, the District issued \$1,000,000, 2014 Election Series B (GO Reauthorization Bonds) general obligation Ed-Tech bonds. The 2014 Election Series B general obligation Ed-Tech bond, with a stated interest rate of 3.50% to 4.00%, maturing August 2018. In May 2017, the District issued \$3,000,000, 2014 Election Series C general obligation bonds. The 2014 Election Series C general obligation bond, with a stated interest rate of 3.00% to 5.00%, matures August 2026. In May 2017, the District issued \$1,000,000, 2014 Election Series D general obligation Ed-tech bonds. The 2014 Election Series D, general obligation Ed-Tech bonds, with a stated interest rate of 1.70%, matures August 2020. At June 30, 2018, \$9,083,623 of the total Measure R general obligation bonds were outstanding.

**LEMON GROVE SCHOOL DISTRICT
 PROPOSITION W AND MEASURE R BOND BUILDING FUND
 INTRODUCTION AND CITIZENS' BOND OVERSIGHT COMMITTEE MEMBERS LISTING,
 CONTINUED
 JUNE 30, 2018**

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 W and Measure R including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

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

Name	Position	Affiliation
Jon Pettis	Chair	Parent, At-Large Community
Gerard Selby	Vice Chair	Parent, At-Large Community
William Baber	Member	Taxpayers' Organization
Cary Demaree	Member	Parent, PTA, At-Large Community
Norberto Gonyea	Member	Parent, At-Large Community
Ilse Hanning	Member	Seniors, At-Large Community
Pastor Eric Miller	Member	Business Community, Senior, At-Large Community
Toni Shaw	Member	At-Large Community

INDEPENDENT AUDITORS' REPORT

Proposition W and Measure R
Citizens' Bond Oversight Committee and
Governing Board Members of the
Lemon Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lemon Grove School District Proposition W and Measure R Bond of Lemon Grove 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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

Licensed by the California

State Board of Accountancy

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lemon Grove School District Proposition W and Measure R Bond of Lemon Grove 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 Lemon Grove School District Proposition W and Measure R Bond and do not purport to, and do not present fairly the financial position of the Lemon Grove School District, as of June 30, 2018, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 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 Proposition W and Measure R 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 Proposition W and Measure R Bond Building Fund of Lemon Grove 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 March 12, 2019, on our consideration of the District's compliance with the requirements of Proposition 39 as it directly relates to the Proposition W and Measure R Bond Building Fund. That report is an integral part of our audit of the Proposition W and Measure R Bond of Lemon Grove School District, as of and for the year ended June 30, 2018, and should be considered in assessing the results of our financial audit.



San Diego, California
March 12, 2019

FINANCIAL SECTION

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
BALANCE SHEET
JUNE 30, 2018**

	<u>Proposition W</u>	<u>Measure R</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,526,695	\$ 5,178,627	\$ 6,705,322
Accounts receivable	8,457	27,996	36,453
Due from other funds	512	-	512
Total Assets	<u>\$ 1,535,664</u>	<u>\$ 5,206,623</u>	<u>\$ 6,742,287</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 6,268	\$ 1,500	\$ 7,768
Due to other funds	4,585	-	4,585
Total Liabilities	<u>10,853</u>	<u>1,500</u>	<u>12,353</u>
FUND BALANCE			
Restricted for capital projects	<u>1,524,811</u>	<u>5,205,123</u>	<u>6,729,934</u>
Total Fund Balance	<u>1,524,811</u>	<u>5,205,123</u>	<u>6,729,934</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,535,664</u>	<u>\$ 5,206,623</u>	<u>\$ 6,742,287</u>

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

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2018**

	<u>Proposition W</u>	<u>Measure R</u>	<u>Total</u>
REVENUES			
Interest	\$ 28,091	\$ 99,061	\$ 127,152
Total Revenues	<u>28,091</u>	<u>99,061</u>	<u>127,152</u>
EXPENDITURES			
Plant services and operations	24,954	-	24,954
Facilities acquisition and construction	343,010	2,599,383	2,942,393
Total Expenditures	<u>367,964</u>	<u>2,599,383</u>	<u>2,967,347</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(339,873)</u>	<u>(2,500,322)</u>	<u>(2,840,195)</u>
Net Change in Fund Balance	(339,873)	(2,500,322)	(2,840,195)
Fund Balance, July 1, 2017	1,864,683	7,705,446	9,570,129
Fund Balance, June 30, 2018	<u>\$ 1,524,810</u>	<u>\$ 5,205,124</u>	<u>\$ 6,729,934</u>

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

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lemon Grove School District was established in 1893 and is located in the eastern portion of San Diego County. There were no changes to the District boundaries during the current fiscal year. The District operates four elementary schools, two K-8 schools, and one middle school. In addition, the District operates a licensed pre-school program.

On November 4, 2008 the Lemon Grove School District was successful in obtaining authorization from District voters to issue up to \$28,000,000 in general obligation bonds pursuant to a 55% vote in a Bond election under Proposition W. The general obligation bonds are considered Proposition 39 bonds. On November 4, 2014 the Lemon Grove School District was successful in obtaining re-authorization from District voters to issue up to \$10,000,000 in general obligation reauthorization bonds pursuant to a 55% vote in a bond election under Measure R. The general obligation reauthorization bonds are considered Proposition 39 bonds.

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

The statements presented are for the individual Proposition W and Measure R Bond Building Fund of the District, consisting of the net construction proceeds, as issued by the District, through the County of San Diego, and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

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

C. Basis of Accounting

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

The financial statements are presented on the modified accrual basis of accounting. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collectible within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

D. Encumbrances

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

E. Cash and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

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

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.

**LEMON GROVE SCHOOL DISTRICT
 PROPOSITION W AND MEASURE R BOND BUILDING FUND
 NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
 JUNE 30, 2018**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in Proposition W and Measure R is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and cash equivalents as of June 30, 2018 are classified in the accompanying financial statements as follows:

	Proposition W		Measure R		Total
Cash in county treasury	\$ 1,526,695	\$	5,178,627	\$	6,705,322
Total	\$ 1,526,695	\$	5,178,627	\$	6,705,322

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.

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS, continued

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, 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.

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS, continued

Interest Rate Risk, continued

The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value. The weighted average maturity for this pool as of June 30, 2018 is 345 days. The total fair value as of June 30, 2018 is as follows:

	Proposition W		Mesure R		Total
Book value as of June 30, 2018	\$ 1,526,695	\$	5,178,627	\$	6,705,322
Market loss	(9,873)		(33,486)		(43,359)
Fair value at June 30, 2018	\$ 1,516,822	\$	5,145,141	\$	6,661,963

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were not rated.

Concentration of Credit Risk

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

Fair Value

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

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

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

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 2 – CASH AND INVESTMENTS, continued

Fair Value, continued

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

Uncategorized - Investments in the San Diego County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. The District held uncategorized investments related to the Proposition W and Measure R Bond Building Fund's investment in the San Diego County Treasury as follows:

	Proposition W	Measure R	Total
	Uncategorized	Uncategorized	Uncategorized
Investment in county treasury	\$ 1,516,822	\$ 5,145,141	\$ 6,661,963
Total	\$ 1,516,822	\$ 5,145,141	\$ 6,661,963

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 consist of the following:

	Proposition W	Measure R	Total
Interest	\$ 8,457	\$ 27,996	\$ 36,453
Total	\$ 8,457	\$ 27,996	\$ 36,453

NOTE 4 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2018 were as follows:

	Proposition W
Due from the Building Fund to the General Fund for OPEB contributions.	\$ 4,585
Due from the General Fund to the Building Fund for correction of OPEB contributions.	512
Total	\$ 5,097

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable as of June 30, 2018 consisted of the following:

	Proposition W	Measure R	Total
Payroll	\$ 1,734	\$ -	\$ 1,734
Construction	4,534	1,500	6,034
Total	<u>\$ 6,268</u>	<u>\$ 1,500</u>	<u>\$ 7,768</u>

NOTE 6 – PROPOSITION W AND MEASURE R GENERAL OBLIGATION BONDS

A. Proposition W

As of June 30, 2018, the principal balance outstanding on the District’s Proposition W general obligation bonds is indicated as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding			Bonds Outstanding
					July 01, 2017	Additions	Deductions	June 30, 2018
2008 Election, Series A	5/7/2009	8/1/2033	4.00 - 5.00%	\$ 5,000,000	\$ 4,490,000	\$ -	\$ 65,000	\$ 4,425,000
2008 Election, Series B	9/23/2010	8/1/2050	6.10 - 9.71%	7,999,480	7,999,480	-	-	7,999,480
2008 Election, Series C	3/15/2011	8/1/2028	2.00 - 5.00%	5,000,000	4,290,000	-	170,000	4,120,000
Total					<u>\$ 16,779,480</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 16,544,480</u>

2008 Election, Series A

On May 7, 2009, the District issued 2008 Election Series A general obligation bonds in the amount of \$5,000,000 with interest rates ranging from 4.00% to 5.00%. At June 30, 2018, the principal balance outstanding was \$4,425,000. The annual requirements to amortize 2008 Election, Series A general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ -	\$ 247,944	\$ 247,944
2020	20,000	247,569	267,569
2021	40,000	246,394	286,394
2022	80,000	243,944	323,944
2023	85,000	240,488	325,488
2024 - 2028	1,650,000	1,019,903	2,669,903
2029 - 2033	2,150,000	378,500	2,528,500
2034	400,000	10,250	410,250
Total	<u>\$ 4,425,000</u>	<u>\$ 2,634,992</u>	<u>\$ 7,059,992</u>

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 6 – PROPOSITION W AND MEASURE R GENERAL OBLIGATION BONDS, continued

A. Proposition W, (continued)

2008 Election, Series B

On September 23, 2010, the District issued 2008 Election Series A general obligation bonds in the amount of \$7,999,480 with interest rates ranging from 4.00% to 5.00%. At June 30, 2018, the principal balance outstanding was \$7,999,480. The annual requirements to amortize 2008 Election, Series B general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ -	\$ -	\$ -
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024-2028	-	-	-
2029-2033	70,561	3,447,340	3,517,901
2034-2038	724,218	4,309,175	5,033,393
2039-2043	2,483,309	3,998,875	6,482,184
2044-2048	3,636,207	1,074,210	4,710,417
2049-2051	1,085,185	-	1,085,185
Total	\$ 7,999,480	\$ 12,829,600	\$ 20,829,080

2008 Election, Series C

On March 15, 2011, the District issued 2008 Election, Series C general obligation bonds in the amount of \$5,000,000 with interest rates ranging from 2.00% to 5.00%. At June 30, 2018, the principal balance outstanding was \$4,120,000. The annual requirements to amortize 2008 Election, Series C general obligation bonds payable outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 270,000	\$ 195,700	\$ 465,700
2020	290,000	184,900	474,900
2021	320,000	173,300	493,300
2022	335,000	157,300	492,300
2023	395,000	140,550	535,550
2024 - 2028	1,925,000	415,025	2,340,025
2029	585,000	29,250	614,250
Total	\$ 4,120,000	\$ 1,296,025	\$ 5,416,025

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 6 – PROPOSITION W AND MEASURE R GENERAL OBLIGATION BONDS, continued

B. Measure R

As of June 30, 2018, the principal balance outstanding on the District’s Measure R general obligation bonds is indicated as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2018
					Outstanding July 01, 2017	Additions	Deductions	
2014 Election, Series A	6/15/2015	8/1/2044	2.00 - 3.00%	\$ 5,000,000	\$ 4,950,000	\$ -	\$ 140,000	\$ 4,810,000
2014 Election, Series B Ed-Tech	6/15/2015	8/1/2018	3.50 - 4.00%	1,000,000	685,000	-	335,000	350,000
2014 Election, Series C	5/15/2017	8/1/2026	3.00 - 5.00%	3,000,000	3,000,000	-	-	3,000,000
2014 Election, Series D Ed-Tech	5/15/2017	8/1/2020	1.70%	1,000,000	1,000,000	-	76,377	923,623
Total					\$ 9,635,000	\$ -	\$ 551,377	\$ 9,083,623

2014 Election, Series A

On June 15, 2015, the District issued \$5,000,000, 2014 Election Series A (reauthorization) general obligation bonds. The 2014 Election Series A general obligation bond has a stated interest rate of 2.00% to 3.00%. At June 30, 2018, the principal balance outstanding was \$4,810,000. The annual requirements to amortize 2014 Election Series A general obligation bonds payable outstanding as of June 30, 2018, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 186,500	\$ 186,500
2020	-	186,500	186,500
2021	-	186,500	186,500
2022	-	186,500	186,500
2023	140,000	186,500	326,500
2024-2028	775,000	864,900	1,639,900
2029-2033	910,000	708,800	1,618,800
2034-2038	1,070,000	514,400	1,584,400
2039-2043	1,300,000	283,600	1,583,600
2044-2045	615,000	37,200	652,200
Total	\$ 4,810,000	\$ 3,341,400	\$ 8,151,400

LEMON GROVE SCHOOL DISTRICT
 PROPOSITION W AND MEASURE R BOND BUILDING FUND
 NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
 JUNE 30, 2018

NOTE 6 – PROPOSITION W AND MEASURE R GENERAL OBLIGATION BONDS, *continued*

B. Measure R, (continued)

2014 Election Series B-Ed Tech

On June 15, 2015, the District issued \$1,000,000 2014 Election Series B (reauthorization) general obligation Ed-Tech bonds. The 2014 Election Series B general obligation Ed-Tech bond has a stated interest rate of 3.50% to 4.00%. At June 30, 2018, the principal balance outstanding was \$350,000. The annual requirements to amortize Series B Ed-Tech general obligation bonds payable outstanding as of June 30, 2018, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 350,000	\$ 14,000	\$ 364,000
Total	\$ 350,000	\$ 14,000	\$ 364,000

2014 Election, Series C

On May 15, 2017, the District issued 2014 Election, Series C general obligation bonds in the amount of \$3,000,000 with interest rates ranging from 3.00% to 5.00%. At June 30, 2018, the principal balance outstanding was \$3,000,000. The annual requirements to amortize 2014 Election, Series C general obligation bonds payable outstanding as of June 30, 2018, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 135,841	\$ 135,841
2020	90,000	120,450	210,450
2021	80,000	117,750	197,750
2022	540,000	115,350	655,350
2023	450,000	93,750	543,750
2024-2027	1,840,000	177,200	2,017,200
Total	\$ 3,000,000	\$ 760,341	\$ 3,760,341

**LEMON GROVE SCHOOL DISTRICT
PROPOSITION W AND MEASURE R BOND BUILDING FUND
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED
JUNE 30, 2018**

NOTE 6 – PROPOSITION W AND MEASURE R GENERAL OBLIGATION BONDS, continued

B. Measure R, (continued)

2014 Election, Series D Ed-Tech

On May 15, 2017, the District issued 2014 Election, Series D Ed-Tech general obligation bond in the amount of \$1,000,000 with an interest rate of 1.70%. At June 30, 2018, the principal balance outstanding was \$923,623. The annual requirements to amortize 2014 Election, Series D Ed-Tech general obligation payable outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 76,377	\$ 18,948	\$ 171,702
2020	411,883	12,653	424,536
2021	435,363	5,551	440,914
Total	\$ 923,623	\$ 37,152	\$ 1,037,152

NOTE 7 – PROPOSITION W AND MEASURE R EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the year ended June 30, 2018:

Project	Proposition W	Measure R	Total
Districtwide Devices and Technology Systems	\$ -	\$ 970,351	\$ 970,351
Districtwide Existing Solar Energy Photovoltaic Systems	-	765,000	765,000
Districtwide Photo System Replacement	-	400,000	400,000
Lemon Grove Academy Turf Field Renovation	-	350,000	350,000
Safety/Security Communications	-	328,406	328,406
Districtwide Fiber/Cabling, Networking	-	111,853	111,853
Bond Management	39,558	2,179	41,737
Total	\$ 39,558	\$ 2,927,789	\$ 2,967,347

NOTE 8 – CONSTRUCTION COMMITMENTS

As of June 30, 2018, the District had commitments with respect to unfinished capital projects as follows:

	Proposition W	Measure R	Total Construction Commitments
\$	122	\$ 134,241	\$ 134,363
\$	122	\$ 134,241	\$ 134,363

**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

Independent Auditors' Report

Proposition W and Measure R's Bond Oversight Committee and
Governing Board Members of the
Lemon Grove, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Proposition W and Measure R Bond Building Fund Lemon Grove 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 Lemon Grove School District's basic financial statements of the Proposition W and Measure R Bond Building Fund, and have issued our report thereon dated March 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lemon Grove 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 Proposition W and Measure R Bond Building Fund, but not for the purpose of expressing an opinion on the effectiveness of Lemon Grove School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lemon Grove 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.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
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 Lemon Grove School District's financial statements of the Proposition W and Measure R 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.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
March 12, 2019

REPORT ON PERFORMANCE

Independent Auditors' Report

Proposition W and Measure R Bond
Citizens' Bond Oversight Committee and
Governing Board Members of the
Lemon Grove, California

Report on Performance

We have audited Lemon Grove 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 Lemon Grove School District's Proposition W and Measure R Bond Building Fund for the year ended June 30, 2018, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of Lemon Grove School District's Proposition W and Measure R 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 sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. An audit includes examining, on a test basis, evidence about Lemon Grove School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the evidence obtained in our performance audit provides a reasonable basis for our findings and conclusions based on our audit objectives. However, our audit does not provide a legal determination of Lemon Grove School District's compliance with those requirements.

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

Corporate Office:

348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229

tel: 619.270.8222

fax: 619.260.9085

www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Opinion on Performance

In our opinion, Lemon Grove School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the Proposition W and Measure R 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 Lemon Grove School District's compliance with the state laws and regulations applicable to the Financial Audit Procedures and Performance Audit Procedures over the Proposition W and Measure R Bond Building Fund. Additional agreed upon procedures relating the Proposition W and Measure R 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
March 12, 2019

FINDINGS AND RESPONSES SECTION

**PROPOSITION W AND MEASURE R BOND BUILDING FUND
LEMON GROVE SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS
JUNE 30, 2018**

SECTION I – FINANCIAL AUDIT PROCEDURES AND RESULTS

Financial Statements

As mentioned in the Report on Financial Statements, we have issued an unmodified opinion over the financial statements of the Proposition W and Measure R Bond Building Fund as of and for the 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 AND RESULTS

Facility Project Expenditures

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

We tested \$313,331 of non-personnel expenditures or 85% of total 2017-18 the Proposition W and \$966,355 or 37% of Measure R Bond Building Fund expenditures for validity, allowability and accuracy and concluded that the sampled expenditures were in compliance with the terms of the Proposition W and Measure R Bond Building Fund ballot language, the District approved facilities plan, and applicable state laws and regulations.

Personnel Expenditures

We reviewed salaries and benefits charged to the Proposition W and Measure R 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 Proposition W and Measure R Bond Building Fund Bond Building Fund and found that all employees held positions applicable to the local school construction bond. Based on our testing, salary transactions were not used for general administration operations. Personnel costs charged to the Proposition W and Measure R Bond Building Fund appeared allowable.

**PROPOSITION W AND MEASURE R BOND BUILDING FUND
LEMON GROVE SCHOOL DISTRICT
AUDIT PROCEDURES AND RESULTS, CONTINUED
JUNE 30, 2018**

SECTION II – PERFORMANCE AUDIT PROCEDURES AND RESULTS, 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 a facilities site walk(s).

A facilities site walk was performed with assistance from the Erica Balakian, Executive Director General Services. We toured Palm Middle School which is being leased to Liberty Charter High School and Lemon Grove Academy. We physically observed the newly installed solar panels at Liberty Charter School, turf field renovations, Meraki updates, and new VOIP phones installations at Lemon Grove Academy. Based on our site walk, the projects at appear to be successfully advancing as expected and funds appear expended for authorized bond projects.

Contract and Bid Procedures

Part of our audit procedures includes reviewing a listing of contracts awarded during the year ended June 30, 2018 and selecting a sample to ensure that contracts for public projects followed appropriate bidding procedures per applicable Public Contract Code. During the year ended June 30, 2018, the District utilized services of SD FACJPA for construction contracts., the JPA did not award any projects. 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.

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.

Contracts and Change Orders

Part of our audit procedures includes reviewing a listing of change orders issued during the year ended June 30, 2018 and selecting a sample to ensure that contracts for public projects followed appropriate procedures per applicable Public Contract Code. During the year ended June 30, 2018, the District utilized services of SD FACJPA for construction contracts. There were no change orders issued during the fiscal year.

Citizens' Bond Oversight Committee (CBOC)

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.

**PROPOSITION W AND MEASURE R BOND BUILDING FUND
 LEMON GROVE SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND RECOMMENDATIONS
 JUNE 30, 2018**

FINANCIAL STATEMENTS

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

AUDIT 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 or recommendations related to local school construction bonds in 2017-18.

PART IV – PRIOR AUDIT FINDINGS

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