

MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2016

San Diego

Los Angeles

San Francisco  
Bay Area

christywhite  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
For the Year Ended June 30, 2016  
Table of Contents**

---

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

**FINANCIAL SECTION**

Balance Sheet.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	7
Notes to Financial Statements.....	8

**SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule.....	19
Expenditures by Project.....	20

**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 <i>Government Auditing Standards</i> .....	21
Report on Performance .....	23

**FINDINGS AND RECOMMENDATIONS SECTION**

Schedule of Findings and Recommendations.....	27
Summary Schedule of Prior Audit Findings .....	28

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Introduction and Citizens' Bond Oversight Committee Member Listing  
June 30, 2016**

---

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, 2016 Series 2011 General Obligation Bonds totaling \$6,363,305 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, 2016, Series 2013 General Obligation Bonds totaling \$3,650,000 were still outstanding.

On May 15, 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, 2016, Series 2016 General Obligation Bonds totaling \$6,140,000 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, 2016**

---

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2016:

<u>Name</u>	<u>Representation</u>
Jasmine LaBurn, <i>Chair</i>	Bona Fide Taxpayers' Association
Leonard Lahtinen, <i>Vice Chair</i>	Senior Citizen Organization
Angelica Herrera	Parent-Teacher Organization
Danielle Elms	District Parent
Phyllis Greenberg	Member-at-Large
Jackie Kharazi	Member-at-Large
Mike Batuyong	Member-at-Large

*\*\* The Citizens' Oversight Committee is actively seeking a member  
from a business organization*

## 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 "Measure I Bond Building Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Measure I Bond Building Fund's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

Christy White, CPA

Michael Ash, CPA

Heather 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 opinions.

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure I general obligation bonds as issued by the District and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure I Bond Building Fund of Magnolia School District as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure I Proposition 39 Bond Building Fund's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017 on our consideration of the Measure I Bond Building Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure I Bond Building Fund's internal control over financial reporting and compliance.

*Report on Other Legal and Regulatory Requirements*

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated February 22, 2017 on our consideration of the Measure I Bond Building Fund's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2016 and should be considered in assessing the results of our financial audit.

*Christy White Associates*

San Diego, California  
February 22, 2017

---

---

# FINANCIAL SECTION

---

---

MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Balance Sheet  
June 30, 2016

---

**ASSETS**

Cash in county treasury	\$	5,671,922
Accounts receivable		<u>2,889</u>
<b>Total Assets</b>	\$	<u>5,674,811</u>

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$	<u>80,435</u>
<b>Total Liabilities</b>		<u>80,435</u>

**Fund Balance**

Restricted for capital projects		<u>5,594,376</u>
<b>Total Fund Balance</b>		<u>5,594,376</u>
<b>Total Liabilities and Fund Balance</b>	\$	<u>5,674,811</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, 2016**

---

<b>REVENUES</b>	
Interest revenue	\$ 13,624
<b>Total Revenues</b>	<u>13,624</u>
<b>EXPENDITURES</b>	
Facilities acquisition and construction	<u>1,275,004</u>
<b>Total Expenditures</b>	<u>1,275,004</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(1,261,380)</u>
<b>Other Financing Sources</b>	
Proceeds from sale of bonds	<u>6,017,200</u>
<b>Total Other Financing Sources</b>	<u>6,017,200</u>
<b>Net Change in Fund Balance</b>	4,755,820
<b>Fund Balance, July 1, 2015</b>	<u>838,556</u>
<b>Fund Balance, June 30, 2016</b>	<u>\$ 5,594,376</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, 2016**

---

**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, 2016, Series 2011 General Obligation Bonds totaling \$6,363,305 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, 2016, Series 2013 General Obligation Bonds totaling \$3,650,000 were still outstanding.

On May 15, 2016, the District issued \$6,140,000 of current interest general obligation bonds. The interest rates between 3.00% and 4.00% and mature on August 1, 2043.

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, 2016**

---

**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. Deposits 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, 2016**

---

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. 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.

**H. 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.

**I. 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.

**J. 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, 2016**

---

**NOTE 2 – CASH**

Cash as of June 30, 2016 consisted of \$5,671,922 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, 2016**

---

**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, 2016**

---

**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, 2016 of approximately \$5,685,893 and an amortized book value of \$5,671,922. The weighted average maturity for the Orange County Investment Pool is 339 days as of June 30, 2016.

**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, 2016**

---

**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, 2016 were as follows:

	<b>Fair Market Value</b>
	<b><u>Uncategorized</u></b>
Investment in County Treasury	\$ 5,685,893
<b>Total fair market value of investments</b>	<b><u>\$ 5,685,893</u></b>

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

---

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2016, in the amount of \$2,889, represents interest earnings due from the Orange County Investment Pool for the quarter ended June 30, 2016.

**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, 2016:

	Beginning Balance July 1, 2015	Additions	Deletions	Ending Balance June 30, 2016	Due Within One Year
General obligation bonds	\$ 10,058,305	\$ 6,140,000	\$ 45,000	\$ 16,153,305	\$ 385,000
Accreted interest	1,204,261	389,369	-	1,593,630	-
Premium	1,019,415	308,390	57,301	1,270,504	68,723
Totals	\$ 12,281,981	\$ 6,837,759	\$ 102,301	\$ 19,017,439	\$ 453,723

**General Obligation Bond Summary**

	Date of Issue	Interest Rate %	Maturity Date	Original Issue	Outstanding July 1, 2015	Additions	Deductions	Outstanding June 30, 2016
Series 2011	5/19/2011	2.00-4.75%	August 1, 2041	\$ 6,498,305	\$ 6,398,305	\$ -	\$ 35,000	\$ 6,363,305
Series 2013	2/21/2013	2.00-4.00%	August 1, 2038	3,660,000	3,660,000	-	10,000	3,650,000
Series 2016	5/25/2016	3.00-4.00%	August 1, 2043	6,140,000	-	6,140,000	-	6,140,000
Totals				\$ 16,298,305	\$ 10,058,305	\$ 6,140,000	\$ 45,000	\$ 16,153,305

**MEASURE I BOND**  
**MAGNOLIA SCHOOL DISTRICT**  
**Notes to Financial Statements, continued**  
**June 30, 2016**

---

**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, 2016, Series 2011 General Obligation Bonds totaling \$6,363,305 were still outstanding.

The annual requirements to amortize the Measure I general obligation bonds payable of the District, outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,000	\$ 127,049	\$ 182,049
2018	25,000	158,235	183,235
2019	55,000	157,035	212,035
2020	90,000	154,860	244,860
2021	125,000	151,479	276,479
2022-2026	1,004,091	943,884	1,947,975
2027-2031	1,057,215	2,018,545	3,075,760
2032-2036	2,348,144	5,074,238	7,422,382
2037-2041	1,358,356	8,042,811	9,401,167
2042	245,499	1,864,501	2,110,000
Total	<u>\$ 6,363,305</u>	<u>\$ 18,692,637</u>	<u>\$ 25,055,942</u>

**MEASURE I BOND**  
**MAGNOLIA SCHOOL DISTRICT**  
**Notes to Financial Statements, continued**  
**June 30, 2016**

---

**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, 2016 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 20,000	\$ 130,521	\$ 150,521
2018	35,000	129,696	164,696
2019	40,000	128,571	168,571
2020	50,000	127,221	177,221
2021	55,000	125,371	180,371
2022-26	450,000	584,509	1,034,509
2027-31	770,000	493,784	1,263,784
2032-36	1,210,000	327,420	1,537,420
2037-39	1,020,000	63,200	1,083,200
	<u>\$ 3,650,000</u>	<u>\$ 2,110,293</u>	<u>\$ 5,760,293</u>

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2016**

---

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

**Election of 2010, Series 2016**

On May 15, 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, 2016 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 134,881	\$ 134,881
2018	125,000	205,900	330,900
2019	50,000	202,400	252,400
2020	60,000	200,200	260,200
2021	70,000	197,600	267,600
2022-2026	540,000	933,400	1,473,400
2027-2031	1,000,000	782,000	1,782,000
2032-2036	575,000	601,500	1,176,500
2037-2041	1,485,000	488,775	1,973,775
2042	2,235,000	84,525	2,319,525
Total	<u>\$ 6,140,000</u>	<u>\$ 3,831,181</u>	<u>\$ 9,971,181</u>

**NOTE 5 – CONSTRUCTION COMMITMENTS**

There were no outstanding construction commitments related to the Measure I Bond as of June 30, 2016.

---

---

## **SUPPLEMENTARY INFORMATION**

---

---

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2016**

---

	<b>Final Budget 2015-16</b>	<b>Actuals 2015-16</b>	<b>Variance</b>
<b>Revenues and Other Financing Sources</b>			
Interest revenue	\$ 700	\$ 13,624	\$ 12,924
Proceeds from sale of bonds	-	6,017,200	6,017,200
Total Revenues and Other Financing Sources	<u>700</u>	<u>6,030,824</u>	<u>6,030,124</u>
<b>Expenditures and Other Financing Uses</b>			
Classified salaries	70,720	64,102	6,618
Employee benefits	16,878	17,354	(476)
Books and supplies	2,500	2,632	(132)
Contracted services	90,750	106,847	(16,097)
Capital outlay	469,152	1,084,069	(614,917)
Total Expenditures and Other Financing Uses	<u>650,000</u>	<u>1,275,004</u>	<u>(625,004)</u>
Change in Fund Balance	(649,300)	4,755,820	5,405,120
Beginning Fund Balance	<u>838,556</u>	<u>838,556</u>	-
Ending Fund Balance	<u>\$ 189,256</u>	<u>\$ 5,594,376</u>	<u>\$ 5,405,120</u>

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Expenditures by Project  
For the Year Ended June 30, 2016**

---

Following is a summary of expenditures by Measure I project for the year ended June 30, 2016:

<u>Measure I Project</u>	<u>2015-2016 Expenditures</u>
School Office Modernization	\$ 1,091,992
District-Wide Bond Management	183,012
Total Expenditures	<u>\$ 1,275,004</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 Ash, CPA

Heather 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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Measure I Bond Building Fund's basic financial statements, and have issued our report thereon dated February 22, 2017.

**Internal Control over Financial Reporting**

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

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

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*

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Measure I Bond Building Fund's financial statements are free of 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  
February 22, 2017

## REPORT ON PERFORMANCE

### 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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Measure I Bond Building Fund's basic financial statements as listed in the table of contents.

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

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

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

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

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

Christy White, CPA

Michael Ash, CPA

Heather 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 opinions.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measure I General Obligation Bonds for the fiscal year ended June 30, 2016. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measure I Bonds were only used for the purposes set forth in the Measure I ballot language and not for any other purpose, such as teacher and administrative salaries.

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

<b>Internal Control Evaluation</b>
------------------------------------

**Procedures Performed:**

Inquiries were made of management regarding internal controls to:

- Prevent fraud or abuse regarding Measure I projects
- Ensure adequate separation of duties exists in the accounting for Measure I funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper sub-fund

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2015-16 financial statement balances for the Measure I Bond funds are not materially misstated.

**Results of Procedures Performed:**

The results of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations.

<b>Facilities Site Walk</b>
-----------------------------

**Procedures Performed:**

We performed a site walk to verify that Measure I funds expended for fiscal year ended June 30, 2016 were for valid facilities acquisition and construction purposes. CWA toured one construction project site where 2015-16 construction work occurred, Dr. Peter Marshall Elementary School.

<b>Facilities Site Walk (continued)</b>
---

**Results of Procedures Performed:**

CWA viewed the main office remodeling that was built to improve campus security. CWA viewed new doorway with security system, updated server cabinet with enhanced IT equipment to upgrade campus wide network, new walls, new carpeting, among other renovations.

<b>Tests of Expenditures</b>
------------------------------

**Procedures Performed:**

We tested \$526,088, or 41% of the 2015-16 facilities acquisition and construction expenditures for validity, allowability and accuracy. Expenditures sampled in our test included payments made to the construction management company, subcontractors and other vendors. We performed testing to verify that administrative salaries charged to Measure I was appropriate and allowable.

**Results of Procedures Performed:**

We found the expenditures tested to be in compliance with the terms of the Measure I ballot measure, Facilities Master Plan, and applicable State laws and regulations without exception.

<b>Tests of Contracts and Bid Procedures</b>
--

**Procedures Performed:**

For the fiscal year ended June 30, 2016, we performed testing of one contract to determine compliance with District policy and the provisions of the California Public Contract Code. We determined in our testing whether the proper bidding and approval procedures were followed for the contracts tested.

- Project: Maxwell Office Remodel. Contract award amount \$528,000.

**Results of Procedures Performed:**

We found that the contract tested followed proper bidding procedures, and was awarded to the lowest responsible bidder.

*Opinion*

In our opinion, based on the fieldwork described above as well as the other tests that we conducted, the District complied, in all material respects, with the compliance requirements for the Measure I General Obligation Bonds as listed and tested above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on accountability requirements pursuant to the passage of Proposition 39 and the enactment of AB 1908 (Chapter 44, Statutes of 2000). Accordingly, this report is not suitable for any other purpose.

*Christy White Associates*

San Diego, California  
February 22, 2017

---

---

**FINDINGS AND RECOMMENDATIONS  
SECTION**

---

---

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Schedule of Findings and Recommendations  
For the Year Ended June 30, 2016**

---

*There were no findings for the fiscal year 2015-16.*

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2016**

---

*There were no findings for the fiscal year 2014-15.*