

MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2013

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, 2013  
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**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Introduction and Citizens' Bond Oversight Committee Member Listing  
June 30, 2013**

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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, 2013, Series 2011 General Obligation Bonds totaling \$6,473,305 were still outstanding, excluding accreted interest of \$506,891.

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, 2013, Series 2013 General Obligation Bonds totaling \$3,660,000 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, continued  
June 30, 2013**

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The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2013:

<b>Name</b>	<b>Representation</b>
Gary Shields, <i>Chair</i>	Member-at-Large
Alyson Crockett, <i>Vice Chair</i>	Parent-Teacher Organization
Leonard Lahtinen	Senior Citizen Organization
Jasmine LaBurn	Bona Fide Taxpayers' Association
Daisy Tan	Parent of MSD Student
Phyllis Greenberg	Member-at-Large
Stephanie Parra*	Member-at-Large

*\* Elected August 22, 2013*

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

## INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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*Licensed by the California  
State Board of Accountancy*

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, 2013, 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.

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, 2013, 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 January 13, 2014 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 January 13, 2014 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, 2013 and should be considered in assessing the results of our financial audit.

*Christy White Associates*

San Diego, California  
January 13, 2014

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## **FINANCIAL SECTION**

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**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Balance Sheet  
June 30, 2013**

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<b>ASSETS</b>	
Cash in county treasury	\$ 4,066,721
Accounts receivable	1,043
Due from other funds	<u>1,104</u>
<b>Total Assets</b>	<b>\$ <u>4,068,868</u></b>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 29,707
Due to other funds	<u>4,967</u>
<b>Total Liabilities</b>	<b><u>34,674</u></b>
 <b>Fund Balance</b>	
Restricted for capital projects	<u>4,034,194</u>
<b>Total Fund Balance</b>	<b><u>4,034,194</u></b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>4,068,868</u></b>

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, 2013**

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<b>REVENUES</b>	
Interest revenue	\$ 7,994
<b>Total Revenues</b>	<u>7,994</u>
<b>EXPENDITURES</b>	
Facilities acquisition and construction	2,527,273
Bond issuance costs	164,109
<b>Total Expenditures</b>	<u>2,691,382</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(2,683,388)</u>
<b>Other Financing Sources</b>	
Proceeds from sale of bonds	3,495,891
Premium on debt issuance	164,109
<b>Total Other Financing Sources</b>	<u>3,660,000</u>
<b>Net Change in Fund Balance</b>	976,612
<b>Fund Balance, July 1, 2012</b>	<u>3,057,582</u>
<b>Fund Balance, June 30, 2013</b>	<u>\$ 4,034,194</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, 2013**

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**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, 2013, Series 2011 General Obligation Bonds totaling \$6,473,305 were still outstanding, excluding accreted interest of \$506,891.

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, 2013, Series 2013 General Obligation Bonds totaling \$3,660,000 were still outstanding.

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

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

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**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.

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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

**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.

**H. Fund Balance**

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

**I. Interfund Borrowing**

The District's policy is to comply with Education Code Section 42603 which permits temporary borrowing between funds so long as the temporary loan is repaid in the same fiscal year; or in the following fiscal year if the transfer took place within the final 120 calendar days of a fiscal year.

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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

**I. Interfund Borrowing (continued)**

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.

**NOTE 2 – CASH**

Cash as of June 30, 2013 consisted of \$4,066,721 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, 2013**

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**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, 2013**

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**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, 2013 of approximately \$4,063,068 and an amortized book value of \$4,066,721. The weighted average maturity for the Orange County Investment Pool is 300 days as of June 30, 2013.

**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.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2013, in the amount of \$1,043, represents interest earnings due from the Orange County Investment Pool for the quarter ended June 30, 2013.



**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 4 – INTERFUND TRANSACTIONS**

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related costs as reimbursement. All other interfund transactions are treated as transfers.

**Due From/Due To Other Funds**

- Measure I Building Fund due to the General Fund in the amount of \$4,967, as of June 30, 2013, for year end PERS related costs.
- General Fund due to the Measure I Building Fund in the amount of \$1,104, as of June 30, 2013, for year end payroll adjustments.

**NOTE 5 – 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, 2013:

	Beginning Balance July 1, 2012	Additions	Deletions	Ending Balance June 30, 2013	Due Within One Year
General obligation bonds	\$ 6,498,305	\$ 3,660,000	\$ 25,000	\$ 10,133,305	\$ 75,000
Accreted interest	347,955	158,936	-	506,891	-
Premium	254,842	52,582	8,788	298,636	10,891
Totals	\$ 7,101,102	\$ 3,871,518	\$ 33,788	\$ 10,938,832	\$ 85,891

**General Obligation Bond Summary**

Series	Date of Issue	Current Interest Rate %	Yield to Maturity	Maturity Date	Original Issue	Outstanding July 1, 2012	Additions	Deletions	Outstanding June 30, 2013
Series 2011	5/19/2011	2.00-4.75%	6.23-7.26%	2041	\$ 6,498,305	\$ 6,498,305	\$ -	\$ 25,000	\$ 6,473,305
Series 2013	2/21/2013	2.00-4.00%	3.53-3.75%	2039	3,660,000	-	3,660,000	-	3,660,000
Totals					\$ 10,158,305	\$ 6,498,305	\$ 3,660,000	\$ 25,000	\$ 10,133,305

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 5 – 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, 2013, Series 2011 General Obligation Bonds totaling \$6,473,305 were still outstanding, excluding accreted interest of \$506,891.

The annual requirements to amortize the Measure I general obligation bonds payable of the District, outstanding as of June 30, 2013, are as follows:

Year ended				
June 30,	Principal	Interest	Total	
2014	\$ 75,000	\$ 96,938	\$ 171,938	
2015	-	96,188	96,188	
2016	35,000	95,838	130,838	
2017	55,000	127,049	182,049	
2018	25,000	158,235	183,235	
2019-2023	645,000	749,756	1,394,756	
2024-2028	1,015,499	1,359,330	2,374,829	
2029-2033	2,082,156	2,504,594	4,586,750	
2034-2038	1,509,207	6,857,077	8,366,284	
2039-2042	1,031,443	6,936,597	7,968,040	
Total	\$ 6,473,305	\$ 18,981,602	\$ 25,454,907	

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Notes to Financial Statements, continued  
June 30, 2013**

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**NOTE 5 – 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, 2013 are as follows:

Year ended				
June 30,	Principal	Interest	Total	
2014	\$ -	\$ 117,919	\$ 117,919	
2015	-	131,021	131,021	
2016	10,000	130,921	140,921	
2017	20,000	130,521	150,521	
2018	35,000	129,696	164,696	
2019-2023	290,000	624,206	914,206	
2024-2028	570,000	553,066	1,123,066	
2029-2033	925,000	438,725	1,363,725	
2034-2038	1,445,000	226,780	1,671,780	
2039	365,000	7,300	372,300	
Total	\$ 3,660,000	\$ 2,490,155	\$ 6,150,155	

**NOTE 6 – CONSTRUCTION COMMITMENTS**

There were no outstanding construction commitments related to the Measure I Bond as of June 30, 2013.

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## **SUPPLEMENTARY INFORMATION**

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**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2013**

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	<b>Final Budget 2012-13</b>	<b>Actuals 2012-13</b>	<b>Variance</b>
<b>Revenues and Other Financing Sources</b>			
Interest revenue	\$ 28,000	\$ 7,994	\$ (20,006)
Proceeds from sale of bonds	3,495,891	3,495,891	-
Premium on debt issuance	-	164,109	164,109
Total Revenues and Other Financing Sources	<u>3,523,891</u>	<u>3,667,994</u>	<u>144,103</u>
<b>Expenditures and Other Financing Uses</b>			
Classified salaries	178,014	172,499	5,515
Employee benefits	48,270	49,605	(1,335)
Contracted services	156,175	58,087	98,088
Capital outlay	2,698,592	2,247,082	451,510
Bond issuance costs	-	164,109	(164,109)
Total Expenditures and Other Financing Uses	<u>3,081,051</u>	<u>2,691,382</u>	<u>389,669</u>
Change in Fund Balance	442,840	976,612	533,772
Beginning Fund Balance	<u>3,057,582</u>	<u>3,057,582</u>	-
Ending Fund Balance	<u>\$ 3,500,422</u>	<u>\$ 4,034,194</u>	<u>\$ 533,772</u>

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Expenditures by Project  
For the Year Ended June 30, 2013**

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Following is a summary of expenditures by Measure I project for the year ended June 30, 2013:

<u>Measure I Project</u>	<u>2012-13 Expenditures</u>
School Fencing	\$ 175,412
Restrooms Phase II ADA	2,030,171
School Playgrounds	12,163
School Technology Upgrades	28,494
School Office Modernization	842
District-Wide Bond Management	280,191
Total Expenditures	<u>\$ 2,527,273</u>

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**OTHER INDEPENDENT AUDITORS'  
REPORTS**

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**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

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, 2013, 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 January 13, 2014.

**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.

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

LOS ANGELES

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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  
January 13, 2014

REPORT ON PERFORMANCE

Independent Auditors' Report

Christy White, CPA

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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, 2013, 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.

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, 2013. 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>
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**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 2012-13 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>
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**Procedures Performed:**

We performed a site walk to verify that Measure I funds expended for fiscal year ended June 30, 2013 were for valid facilities acquisition and construction purposes. CWA toured three construction project sites where 2012-13 construction work occurred, including Walt Disney and Dr. Peter Marshall school sites.

**Facilities Site Walk (continued)**

**Results of Procedures Performed:**

CWA viewed the bathroom projects at each school site as of November 7, 2013, which included demolition and complete renovation of school site bathrooms. In addition, we viewed security fencing construction at each site we toured.

**Tests of Expenditures**

**Procedures Performed:**

We tested \$1,515,121, or 60% of the 2012-13 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.

**Tests of Contracts and Bid Procedures**

Through our testing and inquiries we noted that all projects during the year were completed through lease leaseback arrangements.

***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. However, the results of our auditing procedures disclosed a non-compliance with Education Code, as described in the accompanying schedule of findings and responses as finding #2013-1.

Magnolia School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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  
January 13, 2014

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**FINDINGS AND RECOMMENDATIONS  
SECTION**

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**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Schedule of Findings and Recommendations  
For the Year Ended June 30, 2013**

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**FINDING #2013-1: CITIZENS' OVERSIGHT COMMITTEE MEMBERSHIP COMPOSITION**

**Criteria:** Pursuant to Education Code section 15282, the citizens' oversight committee shall consist of at least seven members, comprised of an active member of a business organization, an active member of a senior citizens' organization, a member from a bona fide taxpayers' organization, a member who is the parent or guardian of a child enrolled in the district and a member who is both a parent or guardian of a child enrolled in the District and active in a parent-teacher organization. In addition, no employee or official of the District shall be appointed to the citizens' oversight committee.

**Condition:** In our review of the composition of the citizens' oversight committee for Measure I, despite District efforts to advertise for and recruit members, we found that the committee lacked representation in one of the required positions. At June 30, 2013, the committee lacked a member of a business organization, and did not meet the requirement of at least seven members. On August 22, 2013 the Citizens' Oversight Committee did elect a member to be in compliance with having at least seven members on the COC. However, the Citizens' Oversight Committee is still actively seeking a member from an active business organization.

**Cause:** The District has attempted to fill the vacant position but has been unable to do so due to lack of interest shown by the community.

**Effect:** The Measure I Citizens' Oversight Committee is out of compliance with Education Code section 15282.

**Perspective:** Through interviews and inquiry with District management, we noted the previously mentioned deficiencies in the composition of the Citizens' Oversight Committee.

**Recommendation:** To comply with Education Code section 15282 and to effectively monitor the Measure I projects, the Citizens' Oversight Committee needs to add a member to meet the aforementioned representational requirements.

**District Response:** The law is that the COC must consist of 7 members, and certain of them serve such roles. The law simply sets forth the requirement, and does not say what to do if candidates cannot be found. We believe that by maintaining a full Committee, and being mindful of the requirements when a new position arises, is a reasonable approach to the difficulties of recruiting members.

So, if, after a good effort of recruitment (ads, posting notice at school sites, Chamber of Commerce, etc.) no candidates have been identified for a certain role, then by appointing a member at large the District is meeting the 7 member rule, instead of simply leaving it vacant. If it was left vacant then both the 7 member rule and the position requirement would be unfulfilled. We believe having a full COC is a better result, and the Bylaws address this by providing:

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Schedule of Findings and Recommendations  
For the Year Ended June 30, 2013**

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**FINDING #2013-1: CITIZENS' OVERSIGHT COMMITTEE MEMBERSHIP COMPOSITION**  
**(continued)**

"The District will document its best efforts to appoint a Committee consisting of members meeting the criteria set forth in Section 5.1. In the event that the District is unable to identify a member meeting one of the criteria, then the District Board shall appoint a member of the community at large to fill that position, and when there becomes a vacancy on the Commission, shall again undertake its best efforts to result in a Committee with members meeting each of the criteria set forth in Section 5.1."

**MEASURE I BOND  
MAGNOLIA SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013**

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**FINDING #2012-1: CITIZENS' OVERSIGHT COMMITTEE MEMBERSHIP COMPOSITION**

**Criteria:** Pursuant to Education Code section 15282, the citizens' oversight committee shall consist of at least seven members, comprised of an active member of a business organization, an active member of a senior citizens' organization, a member from a bona fide taxpayers' organization, a member who is the parent or guardian of a child enrolled in the district and a member who is both a parent or guardian of a child enrolled in the District and active in a parent-teacher organization. In addition, no employee or official of the District shall be appointed to the citizens' oversight committee.

**Condition:** In our review of the composition of the citizens' oversight committee for Measure I, despite District efforts to advertise for and recruit members, we found that the committee lacked representation in two required positions. At June 30, 2012, the committee lacked a member of a business organization, and an at-large member of the community to meet the requirement of at least seven members.

**Cause:** Lack of oversight by the Measure I Citizens' Oversight Committee and a lack of interest shown by the community.

**Effect:** The Measure I Citizens' Oversight Committee is out of compliance with Education Code section 15282.

**Perspective:** Through interviews and inquiry with District management, we noted the previously mentioned deficiencies in the composition of the Citizens' Oversight Committee.

**Recommendation:** To comply with Education Code section 15282 and to effectively monitor the Measure I projects, the Citizens' Oversight Committee needs to add two additional members meeting the aforementioned representational requirements.

**District Response:** The District is making every effort to recruit members to comply with the Education Code; however, we cannot mandate that citizens volunteer. We have documented our efforts, per recommendation of our Bond Counsel Jones Hall. Every effort to obtain the additional members in their role on the Oversight Committee will continue to be made with the hope that we will find volunteers who will fulfill these roles.

**Status:** See Finding 2013-1.