

CHULA VISTA ELEMENTARY SCHOOL DISTRICT

**PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BOND**

AUDIT REPORT

JUNE 30, 2018

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS
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**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION 39 GENERAL OBLIGATION BONDS
PROPOSITION E
Introduction and Citizens' Oversight Committee Member Listing**

On November 6, 2012 the Chula Vista Elementary School District was successful under Proposition E in obtaining District voters to issue up to \$90,000,000 in General Obligation Bonds pursuant to a 55% vote in a bond election. The General Obligation Bonds are considered Proposition 39 bonds. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. Specifically, the District must conduct an annual, independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended.

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

The Chula Vista Elementary School District Proposition E Independent Citizens' Oversight Committee as of June 30, 2018 was comprised of the following members:

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Jason C. Hurtado-Prater	Chairperson - At Large Member Representative	September 2019
Floyd R. Strayer	Vice Chair - At Large Member Representative	September 2019
Jolyn DePriest, Ph. D.	Business Community Representative	September 2019
Sean R. Dunbar	Taxpayers Association Representative	September 2019
Dr. Diane Gerken	Business Community Representative	September 2019
Benjamin H. Lien	Parent of Student Representative	September 2019
Mary I. Helvie	Senior Citizens Organization Representative	September 2019
Martha Juarez	Parent of Student Representative	September 2019
Karyn Koenig	Parent of Student Representative	September 2019
Valerie Gerken Rios	At Large Member Representative	September 2019
James L. Smyth	At Large Member Representative	September 2019

INDEPENDENT AUDITOR'S REPORT

**Governing Board Members and
Citizens' Oversight Committee
Chula Vista Elementary School District
Chula Vista, California**

Report on Financial Statements

We have audited the accompanying financial statements of Proposition E Building Fund (21-39) of Chula Vista Elementary School District, which comprise the balance sheet as of June 30, 2018, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

As discussed in Note B, the financial statements present only the Proposition E Building Fund (21-39) which is specific to Proposition E and is not intended to present fairly the financial position and results of operations of Chula Vista Elementary School District in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Proposition E Building Fund (21-39) of Chula Vista Elementary School District as of June 30, 2018, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America required that the Management's Discussion and Analysis identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2019, on our consideration of Chula Vista Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal

control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chula Vista Elementary School District's internal control over financial reporting and compliance.

Report on Other Legal and regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated March 1, 2019 on our consideration of the District's compliance with the requirements of Proposition 39 with regards to the Proposition E Building Fund (21-39). That report is an integral part of our audit of the District's Proposition E Building Fund (21-39) for the fiscal year ended June 30, 2018 and should be considered in assessing the results of our financial audit.

Wilkinson Hobbey King & Co., LLP

El Cajon, California
March 1, 2019

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND GENERAL OBLIGATION BONDS**

Management Discussion and Analysis
for the Fiscal Year Ended June 30, 2018
(Unaudited)

This section of the Chula Vista Elementary School District's (CVESD) Proposition E Building Fund annual financial and performance report presents the discussion and analysis of the Proposition E bond program during the fiscal year that ended June 30, 2018. This Management Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements that immediately follow this section.

FINANCIAL HIGHLIGHTS

- In November 2012, local voters in School facilities Improvement District (SFID) No. 1 approved Proposition E, a \$90 million general obligation bond to provide funds to renovate and modernize facilities and improve technology at the District's oldest schools. In June 2013, the District issued \$31,000,000, 2012 Election, Series A, General Obligation Bonds. The Series B bonds were issued in February 2015 for \$14,000,000, and the Series C bonds were issued in January 2017 for \$45,000,000.
- Proceeds from the Series A and Series B were used in 2013 to install wireless local access networking technology improvements at 24 of the District's oldest school sites and to modernize Lilian J. Rice, Castle Park and Rosebank elementary schools during the summer of 2014 and Vista Square, Hilltop and Ella B. Allen elementary schools during the summer of 2015.
- Proceeds from the Series C were used for the modernization of Harborside, Karl H. Kellogg and John J. Montgomery elementary schools during the summer of 2018 and remaining funds will be used for the modernization of Sunnyside elementary school during the summer of 2019.
- The fund balance for the Proposition E Building Fund decreased by \$12 million in fiscal year 2017-18 mainly due to construction expenditures for the modernization of Harborside, Karl H. Kellogg and John J. Montgomery elementary schools.
- Revenues and Other Financing Sources were \$521,436 with expenditures at \$12.6 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts-management discussion and analysis (this section), the financial statements, and the performance audit required by state law.

The District accounts for Proposition E bond activity in the District's Building Fund. The Building Fund is a governmental fund type accounted for on a modified accrual basis of accounting.

FINANCIAL ANALYSIS OF PROPOSITION E BUILDING FUND

Balance sheet

The District's Proposition E Building Fund balance as of June 30, 2018 was \$31,203,598 (see Table A-1). The \$40.8 million in Cash in County Treasury represents cash held at the San Diego County Treasurer for purposes associated only with the bond authorization approved by the voters. The funds are used to finance the modernization of school sites.

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND GENERAL OBLIGATION BONDS**

Management Discussion and Analysis
for the Fiscal Year Ended June 30, 2018
(Unaudited)

Construction began during the summer of 2018. for Harborside Elementary, Karl H. Kellogg Elementary and John J. Montgomery Elementary. Sunnyside Elementary is scheduled for modernization during the summer of 2019.

Table A-1 Propositoin E Building Fund Balance Sheet			
	Governmental Activities		Percentage Increase (Decrease)
	<u>2018</u>	<u>2017</u>	
Cash in County Treasury	\$ 40,845,269	\$ 43,302,067	-5.67%
Other Current Assets	<u>60,516</u>	<u>125,033</u>	-51.60%
Total Assets	\$ 40,905,785	\$ 43,427,100	-5.81%
Total Liabilities	<u>9,702,187</u>	<u>179,618</u>	5301.57%
Total Fund Balance	\$ 31,203,598	\$ 43,247,482	

Fund Balance (or Change in Fund Balance)

The District's total Proposition E Building Bond revenue from interest income increased by \$298,705. The total expenditures increased by \$10.4 million. There were no funds received from other financing sources since no bonds were issued during 2017-18. The total revenue comprised mainly of the interest income. The total expenditures of \$12.6 million represents only Proposition E authorized expenditures.

Table A-2 Change and Fund Balance			
			Percentage Increase (Decrease)
	<u>2018</u>	<u>2017</u>	
Total Revenues	\$ 521,436	\$ 222,731	134.11%
Total Expenditures	<u>12,565,320</u>	<u>2,138,874</u>	487.47%
Excess of Expenditures over Revenue	\$ (12,043,884)	\$ (1,916,143)	528.55%
Other Financing Sources	<u>-</u>	<u>45,163,625</u>	-100.00%
Change in fund balance	\$ (12,043,884)	\$ 43,247,482	
Beginning Fund Balance	<u>43,247,482</u>	<u>\$ -</u>	
Ending Fund Balance	\$ 31,203,598	43,247,482	

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND GENERAL OBLIGATION BONDS**

Management Discussion and Analysis
for the Fiscal Year Ended June 30, 2018
(Unaudited)

FACTORS BEARING ON THE DISTRICT BOND PROGRAM'S FUTURE

At the time these financial statements were prepared and audited, the District had approved contracts with various prime construction contractors totaling \$10,867,145 for the summer 2019 modernization of Sunnyside elementary school.

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CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to determine the District's accountability for the money it receives. Additional financial information can be obtained by contacting the following:

Office of the Deputy Superintendent
Chula Vista Elementary School District
84 East "J" Street
Chula Vista, CA 91910

FINANCIAL STATEMENTS

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS**

Balance Sheet

June 30, 2018

ASSETS

Current Assets

Cash in county treasury	\$ 40,845,269
Accounts receivable	60,516
Total Current Assets	<u>40,905,785</u>

TOTAL ASSETS \$ 40,905,785

LIABILITIES AND FUND BALANCE

Current Liabilities

Accounts payable	\$ 9,696,178
Due to other funds	6,009
Total Current Liabilities	<u>9,702,187</u>

Total Liabilities 9,702,187

Fund Balance

Restricted for capital projects	31,203,598
Total Fund Balance	<u>31,203,598</u>

TOTAL LIABILITIES AND FUND BALANCE \$ 40,905,785

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2018

REVENUES	
Interest income	\$ 521,436
TOTAL REVENUES	521,436
EXPENDITURES	
Other operating expenses:	
Supplies	82,350
Non capitalized equipment	198,564
Insurance	21,132
Rent	11,264
Other construction services	79,006
Capital outlay:	
Land improvements	52,285
Blueprinting	372
Other reimburseables	712,987
Architect planning	1,613,019
Building improvements	9,243,014
Building tests and exams	43,283
Network infrastructure	29,895
Office of State Architect	114,750
Construction management	309,786
Hazardous material test & removal	12,137
Telephone system	41,476
TOTAL EXPENSES	12,565,320
NET CHANGE IN FUND BALANCE	(12,043,884)
FUND BALANCE, BEGINNING OF YEAR	43,247,482
FUND BALANCE, END OF YEAR	\$ 31,203,598

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements

Year Ended June 30, 2018

A. Definition of the Fund

The Building Fund (21-39) was formed to account for property acquisition and construction of new schools as well as renovation of current schools for the Chula Vista Elementary School District (District), through expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2012. Fund (21-39) is one of the Building Funds of the District.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* by the American Institute of Certified Public Accountants.

Fund Structure

The accompanying financial statements are used to account for the transactions of the Building Fund (21-39) specific to Proposition E as defined in Note A and are not intended to present fairly the financial position and results of operations of Chula Vista Elementary School District in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

Building Fund (21-39) is maintained on the modified accrual basis of accounting. Its revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered). With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

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

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements
Year Ended June 30, 2018

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Use of Estimates

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

Cash in County Treasury

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the San Diego County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code §53648 et.seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. Accounts receivable are recorded net of estimated uncollectible amounts. There were no significant receivables that are not scheduled for collection within one year of year-end.

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements
Year Ended June 30, 2018

Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts has been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements
Year Ended June 30, 2018

Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflow of resources are recorded in accordance with GASB Statement numbers 63 and 65. At June 30, 2018 the District's Proposition E Building Fund (21-39) did not have any Deferred Inflows or Deferred Outflows of Resources.

Fair Value Measurements

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

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

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

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

For the current fiscal year the District's Building Fund (21-39) did not have any recurring or nonrecurring fair value measurements.

C. Cash and Investments

Cash in County Treasury

The District maintains significantly all of its cash in the San Diego County Treasury as part of the common investment pool. As of June 30, 2018, the portion of cash in the San Diego County Treasury attributed to Building Fund (21-39) was \$40,845,269. The fair value of Building Fund (21-39)'s portion of this pool as of that date, as provided by the pool sponsor, was \$40,845,269. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement 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.

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements

Year Ended June 30, 2018

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

Investments

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 deposits 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.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investments risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or their counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District's Building Fund (21-39) was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. At year end, the District's Building Fund (21-39) was not exposed to custodial credit risk.

c. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements
Year Ended June 30, 2018

d. Concentration of Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. At year end, the District's Building Fund (21-39) was not exposed to custodial credit risk.

e. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's Building Fund (21) manages its exposure to interest rate risk by investing in the county pool.

f. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District's Building Fund (21) was not exposed to foreign currency risk.

d. Investment Accounting Policy

The District is required by GASB statement No. 31 to disclose its policy for determining which investments, if any are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts using a cost-based measure; however, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's Investments in external investment pools are reported in conformity with GASB Statement No. 77 unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS**

Notes to the Financial Statements
Year Ended June 30, 2018

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's Investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

This Table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's 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 Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS
Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

C. Accounts Receivable

As of June 30, 2018 accounts receivable consisted of:

	Accounts Receivable
Interest receivable	\$ 60,516
Total Accounts Receivable	\$ 60,516

Accounts receivable are expected to be collected within one year, as a result no allowance for doubtful accounts has been established.

D. Accounts Payable

As of June 30, 2018 accounts payable consisted of:

	Account Payable
Vendor payables	\$ 9,696,178
Total Accounts Payable	\$ 9,696,178

E. Due From Other Funds

Due to other funds at June 30, 2018 consisted of:

Due To Other Funds - General Fund	\$ 5,659
Due To Other Funds - Building Fund	350
Total Due To Other Funds	\$ 6,009

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS

Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

F. General Obligation Bonds

In June 2013, the District issued \$31,000,000, 2012 Election, Series A, General Obligation Bonds. The issue consisted of \$31,000,000 of current interest bonds with interest rates ranging from 2.00% to 5.50% with annual maturities from August 2014 through August 2037. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2014. The bonds were authorized at an election of the registered voters of Improvement District No. 1 held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of the bonds in order to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities as approved by the voters for schools in Improvement District No. 1.

In February 2015 the District issued \$14,000,000, 2012 Election, Series B, General Obligation Bonds. The issue consisted of \$14,000,000 of current interest bonds with interest rates ranging from 3.00% to 5.00% with annual maturities from August 2016 through August 2039. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2015.

The bonds were authorized at an election of the registered voters of improvement District No. 1 held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of the bonds in order to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities as approved by the voters for schools in Improvement District No. 1. The bonds represent the second set of bonds pursuant to the authorization.

In January 2017, the District issued \$45,000,000, 2012 Election, Series C, General Obligation Bonds, issued a premium of \$2,430,996, of which \$163,625 was allocated to the Building Fund and the remaining amount of \$2,267,371 to the Debt Service Fund. The issue consisted of \$45,000,000 of current interest bonds with interest rates ranging from 4.00% to 5.00% with annual maturities from August 2017 through August 2041. Interest on the bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2017. The bonds were authorized at an election of the registered voters of Improvement District No. 1 held on November 6, 2012 at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of the bonds in order to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities as approved by the voters for schools in Improvement District No. 1.

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS**

Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

The annual requirements to amortize the general obligation bonds payable outstanding at June 30, 2018 is as follows:

Year Ending June 30,	Principal	Interest	Total
2019	1,100,000	3,290,177	4,390,177
2020	695,000	3,253,727	3,948,727
2021	840,000	3,219,927	4,059,927
2022	1,010,000	3,178,877	4,188,877
2023	1,190,000	3,129,777	4,319,777
2024-2028	9,190,000	14,534,288	23,724,288
2029-2033	15,790,000	11,916,424	27,706,424
2034-2038	24,475,000	7,899,702	32,374,702
2039-2043	27,085,000	2,254,194	29,339,194
Totals	<u>\$ 81,375,000</u>	<u>\$ 52,677,093</u>	<u>\$ 134,052,093</u>

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS**

Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

The outstanding bonded debt of Proposition E Building Fund (21-39) at June 30, 2018 is as follows:

Description	Date of Issue	Interest rate	Maturity Date	Original Issue Amount	Balance Beginning of Year	Current Year Increases	Current Year Decreases	Balance End of Year
2012 Election Series A	06/13/13	2.00-5.50%	08/01/37					
Principal				\$ 31,000,000	\$ 25,840,000	-	\$ 845,000	\$ 24,995,000
Premium				960,059	800,256	-	26,169	\$ 774,087
Total 2012A				<u>31,960,059</u>	<u>26,640,256</u>	<u>-</u>	<u>871,169</u>	<u>25,769,087</u>
2012 Election Series B	02/05/15	3.00-5.00%	08/01/39					
Principal				14,000,000	12,740,000	-	1,360,000	\$ 11,380,000
Premium				764,272	695,488	-	74,244	\$ 621,244
Total 2012B				<u>14,764,272</u>	<u>13,435,488</u>	<u>-</u>	<u>1,434,244</u>	<u>12,001,244</u>
2012 Election Series C	01/05/17	4.00-5.00%	08/01/41					
Principal				45,000,000	45,000,000	-	-	\$ 45,000,000
Premium				2,430,996	2,430,996	-	-	\$ 2,430,996
Total 2012C				<u>47,430,996</u>	<u>47,430,996</u>	<u>-</u>	<u>-</u>	<u>47,430,996</u>
Total General Obligation Bonds Payable				<u>\$ 94,155,327</u>	<u>87,506,740</u>	<u>\$ -</u>	<u>\$ 2,305,413</u>	<u>\$ 85,201,327</u>

Bond Premium

Bond premium arises when the market rate of interest is higher than the stated interest rate on the bond. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the bond and then amortize the premium over the life of the bond. The premiums are amortized over the life of the bond using effective interest rate method.

	2012 Series A	2012 Series B	2012 Series C
Total Interest	\$ 17,592,565	\$ 6,454,065	\$ 39,427,896
Less Bond Premium	<u>(960,059)</u>	<u>(764,272)</u>	<u>(2,430,996)</u>
Net Interest	\$ 16,632,506	\$ 5,689,793	\$ 36,996,900
Par Amounts of Bonds	\$ 31,000,000	\$ 14,000,000	\$ 45,000,000
Periods	25	25	25
Effective Interest Rate	2.15%	1.63%	3.29%

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS**

Notes to the Financial Statements (Continued)
Year Ended June 30, 2018

G. Construction Commitments

<u>Construction in Process:</u>	<u>Commitments</u>	<u>Expected Date of Final Completion*</u>
Modernization - Harborside	\$ 7,691,638	August 2018
Modernization - Kellogg	\$ 7,510,421	August 2018
Modernization - Montgomery	\$ 8,588,487	August 2018
Modernization - Sunnyside	\$ 10,393,522	August 2019

H. Subsequent Events

New Bond Issue was Approved

A bond issue was approved on November 6, 2018. The ballot question was to make school safety, security, technology, and energy efficiency improvements; repair, construct, acquire and equip classrooms and educational facilities and reduce overcrowding; and replace aging plumbing, sewer and electrical systems shall Chula Vista Elementary School District issue \$150 million in bonds at legal rates, levy \$0.02 per \$100 of assessed valuation (raising an average of \$10 million annually) while bonds are outstanding, with taxpayer oversight, annual audits and no projected increase in the District's current bond tax rate.

Supplementary Information

**CHULA VISTA ELEMENTARY SCHOOL DISTRICT
 PROPOSITION E BUILDING FUND
 GENERAL OBLIGATION BOND PROJECT LIST
 Year Ended June 30, 2018**

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

Harborside	Kellogg
Montgomery	Sunnyside

- Upgrade computer labs and classrooms with up-to-date computers and wireless technology.
- Enhance technology infrastructure.
- Install energy cost-saving systems.
- Improve student safety by installing additional lighting, fencing, and security equipment.
- Repair and modernize aging school facilities.
- Replace relocatable classrooms that exceeded useful life and replace with new or permanent structures.
- Improve and/or replace heating, ventilation, and air-conditioning systems to improve energy efficiency.
- Upgrade playground safety fall zones.
- Upgrades for Americans with Disabilities Act compliance such as the installation of panic hardware and accessibility infrastructure.
- Upgrade and modernize restroom and classroom accessories and lighting.
- Upgrade and modernize electrical systems.
- Upgrade and modernize to energy efficient window systems.
- Upgrade and modernization of food services facilities.

OTHER INDEPENDENT AUDITORS' REPORTS

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

**Governing Board Members and
Citizens’ Bond Oversight Committee
Chula Vista Elementary School District
Chula Vista, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Proposition E Building Fund (21-39) of Chula Vista Elementary School District, which comprise the balance sheet as of June 30, 2018, and the related statements of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chula Vista Elementary School District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chula Vista Elementary School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Chula Vista Elementary School District’s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wilkinson Hobbly King & Co., LLP

El Cajon, California
March 1, 2019

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

**Governing Board Members and
Citizens' Bond Oversight Committee
Chula Vista Elementary School District
Chula Vista, California**

We were engaged to conduct a performance audit of the Chula Vista Elementary School District Proposition E Building Bond (21-39) for the year ended June 30, 2018.

Management's Responsibility for Performance Compliance

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

Auditor's Responsibility

We conducted this performance audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives.

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

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Proposition 39 Proposition E General Obligation Bond for the fiscal year ended June 30, 2018. The objective of the audit of compliance applicable to Chula Vista Elementary School District is to determine with reasonable assurance that:

- The proceeds from the sale of the Proposition E Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure to modernize, replace, renovate, construct, acquire, equip, furnish, and otherwise improve facilities of the District.

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

Internal Control Evaluation

Procedure Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Proposition E resources
- Prevent material misstatement in the Proposition E Building Fund (21-39) financial statements
- Ensure all expenditures are properly allocated
- Ensure adequate separation of duties exists in the accounting of Proposition E funds All purchase requisitions are reviewed for proper supporting documentation. The Project Manager or appropriate District employee submits back up information to the business office to initiate a purchase requisition. The Project Manager, Superintendent, and Business Manager verifies that the requested purchase is an allowable project cost in accordance with the Proposition E ballots initiative approved by local voters, as well as the Board approved budget, and that all expenditures are properly recorded by project and expense category.

Results of Procedures Performed

The results of our audit determined the internal control procedures as implemented are sufficient to meet the financial and compliance objectives required by generally accepted accounting principles and applicable laws and regulations.

Tests of Expenditures

Procedures Performed:

We tested expenditures to determine whether Proposition E funds were spent solely on voter and Board approved school facilities. Our testing included a sample of vendors, totaling approximately \$11,906,591 or 97% of the total expenditures for the year.

Results of Procedures Performed:

We found no instances where expenditures tested were not in compliance with the terms of the Proposition E ballot measure and applicable state laws and regulations.

Tests of Contracts and Bid Procedures

Procedures Performed

We reviewed the District's board minutes for approval of construction contracts and change orders, if any, to determine compliance with the District's policy and Public Contract Code provisions related to biddings and contracting.

Results of Procedures Performed

We noted no instances where the District was out of compliance with respect to contracts and bidding procedures.

Facilities Site Review

Procedures Performed

We reviewed the Independent Citizens' Oversight Committee minutes and agenda and other pertinent information on Proposition E designated projects and determined that Proposition E funds expended for the year ended June 30, 2018 were for valid facilities acquisition and construction purposes as stated in the Bond Project List. Auditors performed walk through of significant bond projects.

Results of Procedures Performed:

Based on our review of the minutes and agenda of the Independent Citizens' Oversight Committee, the documentation and pertinent information of the Proposition E designated projects, and the explanation of management, it appears the construction work performed was consistent with the Bond Project List.

Citizens' Oversight Committee

Procedures Performed:

We have reviewed the minutes of the Independent Citizens' Oversight Committee meetings to verify compliance with Education Code sections 15278 through 15282.

Results of Procedures Performed:

We have determined the Chula Vista Elementary School District's Proposition E Independent Citizens' Oversight Committee and its involvement is in compliance with Education Code Sections 15278 through 15282.

Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above not necessarily disclose all instances of noncompliance.

Opinion on Performance

In our opinion, the District complied, in all material respects, with the compliance requirements of Proposition 39 outlined in Article XIII A, Section 1(b)(3)(c) of the California Constitution, and with Proposition E approved by the voters in the Chula Vista Elementary School District on November 6, 2012.

Purpose of the Report

This report is intended solely for the information and use of the District's Governing Board, the Proposition 39 Proposition E Independent Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Chula Vista Elementary School District and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson *Hobby* *King & Co., LLP*

El Cajon, California
March 1, 2019

FINDINGS AND RECOMMENDATIONS

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS
Schedule of Findings and Responses
Year Ended June 30, 2018

There were no findings to report.

CHULA VISTA ELEMENTARY SCHOOL DISTRICT
PROPOSITION E BUILDING FUND
GENERAL OBLIGATION BONDS
Schedule of Prior Audit Findings
Year Ended June 30, 2018

There were no audit findings noted for the fiscal year ended June 30, 2018