

**SANTEE SCHOOL DISTRICT**

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**2006 GENERAL OBLIGATION BONDS  
FINANCIAL AND PERFORMANCE AUDITS**

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**JUNE 30, 2008**

**SANTEE SCHOOL DISTRICT  
BUILDING FUND**

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**FINANCIAL STATEMENT REPORT**

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**JUNE 30, 2008**

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

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JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

Governing Board and Citizens' Oversight Committee  
Santee School District  
Santee, California

We have audited the accompanying financial statements of the Election 2006 portion of the Building Fund of the Santee School District (the "District"), as of the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Election 2006 portion of the Building Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Election 2006 portion of the Building Fund of the District at June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Vavrinek, Trine, Day & Co., LLP*  
Rancho Cucamonga, California  
February 2, 2009

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**BALANCE SHEET  
JUNE 30, 2008**

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**ASSETS**

Investments	\$ 1,999,201
Accounts receivable	209,222
Due from Capital Facilities Fund	121,994
Total Assets	<u>\$ 2,330,417</u>

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

Accounts payable	\$ 1,844,585
Total Liabilities	<u>1,844,585</u>

**FUND EQUITY**

Fund balance	
Undesignated	<u>485,832</u>
Total Liabilities and Fund Equity	<u>\$ 2,330,417</u>

The accompanying notes are an integral part of these financial statements.

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

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**REVENUES**

Other local revenues \$ 643,826

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**EXPENDITURES**

Facilities acquisition and construction 17,329,492

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**EXCESS OF EXPENDITURES OVER REVENUES** (16,685,666)

**FUND BALANCE, BEGINNING OF YEAR** 17,171,498

**FUND BALANCE, END OF YEAR** \$ 485,832

The accompanying notes are an integral part of these financial statements.

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the Santee School District (the "District") bond funds conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Santee School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

**Financial Reporting Entity**

The audited financial statements includes only the Election 2006 portion of the Building Fund of the Santee School District that was established to account for the expenditures of the general obligation bonds issued in April 2007. These financial statements are not intended to present fairly the financial position and the changes in financial position of the Santee School District in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations of the Election 2006 portion of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**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.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their 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), except for unmatured interest on long-term obligations, which is recognized when due.

**Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Governing Board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**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 when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

**Fund Balance Reserves and Designations**

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

**Property Tax**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District. The District recognizes tax revenues when received.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

***NOTE 2 - INVESTMENTS***

**Summary of Investments**

Investments as of June 30, 2008, consist of the following:

Investment in County Treasury	<u>\$ 1,999,201</u>
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**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**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; the San Diego County Investment Pool.

**Investment 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.

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<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

**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 purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**Specific Identification**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted-Average Maturity in Days</u>
San Diego County Investment Pool	<u>\$ 2,005,998</u>	427

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2008.

**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. There were no investments in any one issuer that represent five percent (5%) or more of the total investments.

***NOTE 3 - RECEIVABLES***

Receivables at June 30, 2008, consist of the following:

Interest	\$ 87,474
Other Local	121,748
	<u>\$ 209,222</u>

***NOTE 4 - ACCOUNTS PAYABLE***

Accounts payable at June 30, 2008, consists of the following:

Vendor payables	<u>\$ 1,844,585</u>
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**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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*NOTE 5 - FUND BALANCE*

Fund balance is composed of the following element:

Unreserved	
Undesignated	<u>\$ 485,832</u>

*NOTE 6 - LONG-TERM OBLIGATIONS*

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2008, is shown below:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	<u>\$ 18,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,000,000</u>	<u>\$ 435,000</u>

General Obligation Bonds

**2006 General Obligation Bonds, Series A**

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2008
				Outstanding July 1, 2007	Issued Redeemed	
4/17/2007	4/17/2032	3.5% - 5.0%	<u>\$ 18,000,000</u>	<u>\$ 18,000,000</u>	<u>\$ -</u> <u>\$ -</u>	<u>\$ 18,000,000</u>

**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**Debt Service Requirements**

The General Obligation Bonds, Series A, mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 435,000	\$ 952,533	\$ 1,387,533
2010	-	838,238	838,238
2011	-	838,238	838,238
2012	-	838,238	838,238
2013	30,000	837,638	867,638
2014-2018	980,000	4,111,787	5,091,787
2019-2023	2,890,000	3,728,462	6,618,462
2024-2028	5,820,000	2,758,680	8,578,680
2029-2032	7,845,000	837,375	8,682,375
Total	<u>\$ 18,000,000</u>	<u>\$ 15,741,189</u>	<u>\$ 33,741,189</u>

***NOTE 7 - COMMITMENTS AND CONTINGENCIES***

As of June 30, 2008, the Building Fund had the following commitments as defined by the bond documents:

**Upgrade and Major Repair of Existing Facilities**

Cajon Park  
Carlton Hills  
Carlton Oaks  
Cherit Harrit  
Hill Creek  
Pepper Drive  
Prospect Avenue  
Rio Seco  
Sycamore Canyon

**SANTEE SCHOOL DISTRICT**

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**2006 GENERAL OBLIGATION BONDS  
AGREED-UPON PROCEDURES REPORT**

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**JUNE 30, 2008**



**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES**

Governing Board and Citizens' Oversight Committee  
Santee School District  
Santee, California

We have performed the agreed-upon procedures, which were agreed to by the management of the Santee School District (the "District") and the Citizens' Oversight Committee, to review the expenditures of the issuance for the 2006 General Obligation Bond Series A funds for the period of July 1, 2007 through June 30, 2008, for the purpose of verifying if the use of the funds is within the scope of the published materials specifying the intended use of bond funds. We used election documents and the District resolutions as the guidance for the intended use of the funds. Management is responsible for Santee School District's compliance with those requirements. This engagement to perform agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and meets the compliance requirements to perform an "audit" as outlined in subparagraph (c) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

*Financial Summary*

1. The general obligation bond funds were authorized at an election of the registered voters of the District held on November 7, 2006. Bonds were authorized at an issuance of \$18,000,000 principal amounts for the purpose of financing the addition and modernization of school facilities. The bonds were issued in 2007 and sold in the amount of \$18,000,000.
2. Total expenditures from July 1, 2007 through June 30, 2008, were \$17,329,492.
3. An analysis of expenditures is as follows:

Capital outlay	<u>\$ 17,329,492</u>
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4. Available unspent funds from the bond as of June 30, 2008, are:

Balance as of July 1, 2007	\$ 17,171,498
General obligation bonds issued	-
Interest earned in Building Fund	643,826
Total expenditures	<u>(17,329,492)</u>
Amount Available	<u>\$ 485,832</u>

*Agreed-Upon Procedures Performed*

1. Verify that the expenditure of funds were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net funds from the sale of the General Obligation Bonds were deposited in total into the District's accounts by obtaining settlement statement for the new bond issue and verifying amounts deposited into the Building Fund.
3. Select the ten highest and ten lowest invoices on each individual project (using judgment for the selection process). For projects with less than 20 invoices, select all invoices. For each invoice selected, verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election materials and District resolutions that were distributed to the voters.

*Results of Procedures*

1. The general obligations bond fund expenditures were accounted for separately in the Building Fund of the District.
2. The net proceeds from the sale of the general obligation bonds were deposited into the appropriate accounts within the Building Fund.
3. Our review of the expenditures for the period of July 1, 2007 through June 30, 2008, did not reveal any items that were paid from the general obligation bond funds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on November 7, 2006.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Santee School District and the Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than those specified parties.

*Vautink, Trine, Day & Co., LLP*  
Rancho Cucamonga, California  
February 2, 2009



**SANTEE SCHOOL DISTRICT  
GENERAL OBLIGATION BONDS ELECTION 2006  
BUILDING FUND**

**SCHEDULE OF DISBURSEMENTS BY SITE  
FOR THE PERIOD ENDING JUNE 30, 2008**

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Cajon Park	\$ 6,313,168
Carlton Hills	1,844,311
Carlton Oaks	2,337,902
Chet Harrit	690,265
Hill Creek	779,793
Pepper Drive	410,581
Prospect Avenue	584,236
Rio Seco	2,281,331
Sycamore Canyon	2,087,905
Total	<u>\$ 17,329,492</u>