



August 2, 2011

To: Lee Dulgeroff, Executive Director, Facilities Planning and Construction

From: Christy White, CPA

Re: ICOC Audit Recommendations for Fiscal Year 2010-11

This memo is in response to your inquiry about two recommendations that the Independent Citizens' Oversight Committee (ICOC) provided to the San Diego Unified School District Governing Board in a letter dated February 14, 2011.

Audit of Net Construction Proceeds

Per the ICOC report:

- a) *Future financial audits should not be limited to the "net construction proceeds" of the general obligation bonds issued by the District. Audits should include the costs of sale and issuing the bonds. The audit should cover the whole program. A net worth statement and a more detailed examination of interfund transfers should be provided.*

Auditor's Response:

The financial statements do include a statement of changes in fund balance (termed "net worth statement" by the ICOC) on page 5 of the financial statements. This presentation is as prescribed by Generally Accepted Governmental Auditing Standards, which differs slightly from for-profit financial statement presentation. We believe the presentation to be correct as reported.

As auditors we did audit interfund activity for allowability and compliance. The June 30, 2010 financial statements (page 4) and the footnotes (Note 6 on page 13) properly disclosed the interfund activity.

The Independent Auditor's Opinion uses the term "net construction proceeds" in the following manner:

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

Net construction proceeds refer to the net deposit from the bond sale after the cost of issuance (such as bond counsel, underwriter fees and financial advisor fees). It is the amount disbursed that the District receives for the construction program.

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As auditors, we do "audit" the whole program including issuance costs in terms of verifying the proper accounting for the sources and uses of bond sales as reported in the Official Statement. In addition, we have performed expanded audit procedures over the initial issuance to verify the reasonableness of issuance costs charged compared to industry norms, without exception.

In summary, we conclude that the use of the term "net construction proceeds" is not improper and in fact we were given a legal recommendation to use the term. However, given we do perform certain audit procedures over the proper recording and disclosure of the gross proceeds; we are willing to simply use the term "proceeds" in future report opinions.

Deferred Maintenance Plans for Proposition S Paid Facilities and Equipment

Per the ICOC report:

b) Future performance audits should include an analysis of the recurring cost and replacement plans maintaining or replacing the facilities and equipment purchased with bond financing. The purpose of the analysis is to assess the adequacy of these recurring funding plans and sources. The ICOC has raised concerns regarding the Districts ability to maintain facilities and technology equipment funded by limited one time Bond financing. Additionally, the ICOC is concerned if 40-year bond financing is continued for equipment with a useful life of five years or less.

Auditor's Response:

The ICOC has requested the performance audit scope be expanded to include an analysis of deferred maintenance funding plans for Proposition S paid facilities and equipment. We will consider this request as we conduct the performance audit for fiscal year 2010-11.

As a reminder, this item would be considered outside of what we believe to be the legal scope of the audit. Article XIII A of the California State Constitution requires "an annual independent financial audit of the proceeds from the sale of the bonds until all of those proceeds have been expended for the school facilities projects." For the performance audit, the Constitution requires "an annual, independent performance audit to ensure that the funds have been expended only on the specific projects listed." Thus, the focus of the audits from the State Constitution perspective is on the specific expenditures for school facilities projects from the bond proceeds. Future maintenance concerns, while a legitimate concern, was not contemplated in the State's audit requirements.