

**MEASURE "R" GENERAL  
OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2010**

DRAFT

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended June 30, 2010  
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The Board of Trustees and  
The Citizens' Bond Oversight Committee  
Banning Unified School District  
Banning, California

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the Measure "R" General Obligation Bond Building Fund (the "Fund") of Banning Unified School District (the "District") as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2010. 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 and the standards applicable to financial and 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 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 1A, the financial statements present only the individual Measure "R" General Obligation Bond Building Fund and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure "R" General Obligation Bond Building Fund of Banning Unified School District, as of June 30, 2010, and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2011 on our consideration of the Measure "R" General Obligation Bond Building Fund of Banning Unified School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

January 8, 2011

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*Financial Section*

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**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**

**Balance Sheet**

**June 30, 2010**

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**ASSETS**

Cash	\$	21,386,134
Accounts receivable		60,427

**Total Assets** \$ 21,446,561

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$	3,009,213
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**Fund Balances**

Unreserved		18,437,348
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**Total Liabilities and Fund Balance** \$ 21,446,561

The notes to financial statements are an integral part of this statement.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
 BANNING UNIFIED SCHOOL DISTRICT  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 For the Fiscal Year Ended June 30, 2010**

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<b>REVENUES</b>	
Interest earnings	\$ 349,035
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<b>EXPENDITURES</b>	
Plant Services:	
Classified Salaries	142,762
Employee Benefits	57,686
Services and other operating expenditures	24,811
Capital outlay	12,467,737
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<b>Total Expenditures</b>	<b>12,692,996</b>
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<b>Net Change in Fund Balance</b>	<b>(12,343,961)</b>
<b>Fund Balance, July 1, 2009</b>	<b>30,781,309</b>
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<b>Fund Balance, June 30, 2010</b>	<b>\$ 18,437,348</b>
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The notes to financial statements are an integral part of this statement.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

On November 7, 2006 the District voters authorized \$63 million in General Obligation Bonds (Measure "R") to be used to finance the acquisition, construction, and modernization of property and school facilities. In response, an advisory committee to the District's Governing Board and Superintendent, the Measure "R" Citizen's Bond Oversight Committee, was established. The committee's oversight goals include: informing the public on the expenditures of Bond proceeds and reviewing expenditure reports to ensure that Bond proceeds are expended only for purposes set for in Measure "R".

The bond proceeds and uses are accounted for in the District's Building Fund. The statements presented are for the Measure "R" General Obligation Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The Banning Unified School District accounts for its financial transactions in accordance with the policies and procedures of the California 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 of the Measure "R" General Obligation Bonds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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

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. 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.

**NOTE 2 – CASH**

Summary of Cash

Cash as of June 30, 2010 is classified in the accompanying financial statements as follows:

	Building Fund
Cash in county treasury	\$ 21,382,288
Cash on hand and in banks	3,846

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 no restriction on the percentage held in each authorized investment in relation to the District's entire investment portfolio.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 2 – CASH (continued)**

*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.

**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 web site. The table below identifies some of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Agency Securities	5 years	None	None
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None

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 Fund maintains an investment with the Riverside County Investment Pool with a fair value of approximately \$21,427,190 and an amortized book value of \$21,382,288. The average weighted maturity for this pool is 372 days.

**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 investment with the Riverside County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2010.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 2 – CASH (continued)**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, none of the District's bank balance of was exposed to custodial credit risk.

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 at June 30, 2010 in the amount of \$60,427 represent the amount due from the Riverside County Treasurer for interest earnings for the quarter ended June 30, 2010.

**NOTE 4 – MEASURE "R" GENERAL OBLIGATION BONDS**

The bonds were authorized at an election of the registered voters of the District held on November 7, 2006, at which more than 55 percent of the voters authorized the issuance and sale of \$63 million general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

**NOTE 4 – MEASURE "R" GENERAL OBLIGATION BONDS (continued)**

Series A

On March 15, 2007, the District issued \$13,500,000 of Series A, Election of 2006 General Obligation Bonds. The bonds were issued as follows: Current Interest Serial Bonds of \$3,750,000 with stated interest rates ranging between 4.0% to 5.0% and maturing between August 1, 2008 and 2021, as well as Current Interest Term Bonds of \$1,150,000, \$3,375,000 and \$5,225,000 with stated interest rates of 4.75%, 5.0% and 5.0% due August 1, 2023, 2027 and 2031, respectively. At June 30, 2010, the outstanding balance on the bonds was \$12,525,000.

Series B

On August 1, 2008, the District issued \$23,999,289 of Series B, Election of 2006 General Obligation Bonds. The bonds were issued as \$22,205,000 Current Interest Serial Bonds with stated interest rates ranging from 3.5% to 5.25% and fully maturing August 1, 2033, and \$1,794,289 Capital Appreciation Serial Bonds with reoffering yield to maturity ranging from 4.78% to 5.24%, fully maturing on August 1, 2025. At June 30, 2010 the principal balance outstanding was \$23,999,289, and the accreted interest outstanding was \$337,957.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2010 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-2011	\$ 700,000	\$ 1,735,338	\$ 2,435,338
2011-2012	-	1,721,337	1,721,337
2012-2013	50,000	1,721,338	1,771,338
2013-2014	125,000	1,720,463	1,845,463
2014-2015	275,000	1,715,400	1,990,400
2015-2020	2,974,013	8,739,319	11,713,332
2020-2025	3,980,487	11,093,888	15,074,375
2025-2030	12,219,789	7,386,773	19,606,562
2030-2034	16,200,000	2,374,188	18,574,188
<b>Total</b>	<b>\$ 36,524,289</b>	<b>\$ 38,208,044</b>	<b>\$ 74,732,333</b>

**NOTE 5 – CONSTRUCTION COMMITMENTS**

At June 30, 2010, the District had commitments with respect to construction contracts of approximately \$18.6 million to be paid from a combination of State and local funds.

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*Other Independent Auditors' Reports*

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The Board of Trustees and  
The Citizens' Bond Oversight Committee  
Banning Unified School District  
Banning, California

**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***

We have audited the financial statements of the Measure "R" General Obligation Bond Building Fund of Banning Unified School District (the "District") as of and for the year ended June 30, 2010 and have issued our report thereon dated January 8, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Banning Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Banning Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Banning Unified School District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure "R" General Obligation Bond Building Fund of Banning Unified School District'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2010-1, and 2010-2

Banning Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Bond Oversight Committee, the District Governing Board, management, and the taxpayers of Banning Unified School District and is not intended to be and should not be used by anyone other than the specified parties.

January 8, 2011

The Board of Trustees and  
The Citizens' Bond Oversight Committee  
Banning Unified School District  
Banning, California

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have examined the Banning Unified School District's compliance with the performance requirement for the Proposition 39 Measure "R" General Obligation Bond for the year ended June 30, 2010, under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Objectives

The objectives of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- Expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure "R".
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

### Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2009 to June 30, 2010. The expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than the proceeds of the bonds, were also included within the scope of our audit. Expenditures incurred subsequent to June 30, 2010 were not reviewed or included within the scope of our audit or in this report.

### Procedures Performed

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2010 for the Building Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measure "R" with regards to the approved bond projects list. We performed the following procedures:

To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We tested payments made to the construction management company and reviewed the terms of the contract.
- We tested approximately \$4.5 million in bond fund invoices paid, which is a combination of 2009-10 expenditures and payments on liabilities accrued as of June 30, 2010 and paid in 2010-11. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to the construction management company, subcontractors and other vendors.
- We reviewed the approved project listing as set out in the Measure "R" election documents.
- We visited construction sites to ensure that expenditures made corresponded with the actual work performed at the site.
- We verified that funds from the Building Fund were generally expended for the construction, reconstruction, acquisition, furnishing and equipping of District facilities constituting the authorized bond projects, and we verified that funds held in the Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to Public Contract Code Section 20111.
- We verified that the District did not exceed change order limitations in excess of 10% pursuant to Public Contract Code.

Our audit of compliance made for the purpose set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Measure "R" General Obligation Bond proceeds listed and tested above.

This report is intended for the information of the Board of Trustees, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.

January 8, 2011

**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Responses  
June 30, 2010**

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**Finding 2010-1: Oversight Committee Minutes**

The District is required to maintain the minutes of the proceedings of the citizens' oversight committee and all documents received and reports issued for public record and be made available on an Internet website maintained by the governing board. Currently, the District maintains a physical copy of the minutes in the Business Services Department.

**Recommendation:** We recommend the District include the citizen's oversight committee meeting minutes on the District's website to be available for public view.

**District Response:**

**Finding 2010-2: Oversight Committee Formation**

In accordance with Education Code Section 15282, the citizens' oversight committee shall consist of at least seven members to serve for a term of two years without compensation and for no more than two consecutive terms. While consisting of a minimum of at least seven members, the citizens' oversight committee shall be comprised of representatives from five specific groups. The District currently has five Committee members that represent four groups. The Committee is lacking a representative from the bona fide taxpayers' organization and has not been actively advertising to fill the position.

**Recommendation:** We recommend the District advertise to obtain a minimum of seven Committee Members that are comprised of all five representative groups.

**District Response:**