

**BANNING UNIFIED SCHOOL DISTRICT**

---

**GENERAL OBLIGATION BONDS,  
MEASURE L AND R  
AUDIT REPORT**

---

**JUNE 30, 2013**

**BANNING UNIFIED SCHOOL DISTRICT**

---

**GENERAL OBLIGATION BONDS,  
MEASURE L AND R  
FINANCIAL AUDIT**

---

**JUNE 30, 2013**

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**TABLE OF CONTENTS  
JUNE 30, 2013**

---

***FINANCIAL SECTION***

Independent Auditors' Report	2
Building Fund (Measure L and Measure R)	
Balance Sheet	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Notes to Financial Statements	6

***SUPPLEMENTARY INFORMATION***

Schedule of Long-Term Obligations	11
Reconciliation of Annual Financial Report With Audited General Obligation Bond Fund	13
Note to Supplementary Information	14

***INDEPENDENT AUDITORS' REPORT***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16
--	----

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

Financial Statement Findings	19
Summary Schedule of Prior Audit Findings	20



## INDEPENDENT AUDITORS' REPORT

Governing Board and  
Citizens Oversight Committee  
Banning Unified School District  
Banning, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Banning Unified School District's (the District), Building Fund (Measure L and Measure R), and the related notes to the financial statements, as of and for the year ended June 30, 2013, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' 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 of 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measure L and Measure R) of the Banning Unified School District at June 30, 2013, and the changes in financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure L and Measure R, and are not intended to present fairly the financial position and changes in financial position of Banning Unified School District in conformity with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the District Building Fund's (Measure L and Measure R) 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 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* in considering the District's Building Fund (Measure L and Measure R) internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vaurick Fine, Day & Co. LLP*

Rancho Cucamonga, California  
January 23, 2014

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**BALANCE SHEET  
JUNE 30, 2013**

---

**ASSETS**

Deposits and investments	\$ 3,048,662
Accounts receivable	<u>3,610</u>
<b>Total Assets</b>	<u><u>\$ 3,052,272</u></u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	<u>46,351</u>
<b>Total Liabilities</b>	<u><u>46,351</u></u>

**FUND BALANCE**

Restricted	
Capital projects funds (Measure R)	2,919,988
Capital projects funds (Measure L)	<u>85,933</u>
<b>Total Fund Balance</b>	<u><u>3,005,921</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 3,052,272</u></u>

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

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Measure R</u>	<u>Measure L</u>	<u>Total</u>
<b>REVENUES</b>			
Local income			
Interest income	\$ -	\$ 10,704	\$ 10,704
<b>Total Revenues</b>	<u>-</u>	<u>10,704</u>	<u>10,704</u>
<b>EXPENDITURES</b>			
Payroll and benefits	36,619	-	36,619
Professional services and other operating expenditures	142,065	25,525	167,590
Capital outlay	237,785	86,398	324,183
<b>Total Expenditures</b>	<u>416,469</u>	<u>111,923</u>	<u>528,392</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(416,469)</u>	<u>(101,219)</u>	<u>(517,688)</u>
<b>Other Financing Sources</b>			
Transfers in	401,880		401,880
<b>Total Other Financing Sources</b>	<u>401,880</u>	<u>-</u>	<u>401,880</u>
<b>NET CHANGE IN FUND BALANCE</b>	(14,589)	(101,219)	(115,808)
<b>FUND BALANCE - BEGINNING</b>	<u>2,934,577</u>	<u>187,152</u>	<u>3,121,729</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,919,988</u>	<u>\$ 85,933</u>	<u>\$ 3,005,921</u>

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

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

---

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

The accounting policies of the Banning Unified School District's (the District) Building Fund (Measure L and R) 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 Banning Unified 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 financial statements include only the Building Fund of the Banning Unified School District used to account for General Obligation Bonds, Measure L and R projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds, Measure L and R. These financial statements are not intended to present fairly the financial position and results of operations of the Banning Unified School District in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations 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**

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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**

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. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

---

**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.

**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/expenses during the reporting period. Actual results could differ from those estimates.

***NOTE 2 - INVESTMENTS***

**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 instrument; 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 agreement; 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.

**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 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.

**General Authorizations**

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

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The District maintains a building fund investment of \$3,048,662 with the Riverside County Investment Pool. The fair value of this investment is approximately \$3,039,821 with an average weighted maturity of 515 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 investments with the Riverside County Investment Pool have been rated AAA/V1 by Fitch Ratings.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

---

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2013, consisted of the following:

Interest	\$	2,377
Other local sources		1,233
<b>Total Accounts Receivable</b>	<b>\$</b>	<b>3,610</b>

**NOTE 4 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2013, consisted of the following:

Vendor payables	\$	26,026
Salaries and benefits		13
Construction		20,312
<b>Total Accounts Payable</b>	<b>\$</b>	<b>46,351</b>

**NOTE 5 - INTERFUND TRANSACTIONS**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2013, consisted of the County School Facilities Fund transferring \$401,880 to the Building Fund (Measure R and L) for reimbursement of costs.

---

---

***SUPPLEMENTARY INFORMATION***

---

---

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

---

**General Obligation Bonds**

The general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2011	Capital Appreciation	Redeemed	Outstanding June 30, 2012
3/13/03	8/1/17	2.00%-4.25%	\$ 7,999,674	\$ 7,399,471	\$ 78,233	\$ 225,000	\$ 7,252,704
6/4/04	8/1/25	3.00%-5.00%	4,000,037	3,496,148	40,609	150,000	3,386,757
2/8/07	8/1/31	4.00%-5.00%	13,500,000	11,825,000	-	-	11,825,000
7/9/08	8/1/33	3.50%-5.25%	23,999,288	24,761,934	242,065	50,000	24,953,999
				<u>\$ 47,482,553</u>	<u>\$ 360,907</u>	<u>\$ 425,000</u>	<u>\$ 47,418,460</u>

**2002 Election, Series A**

Bonds were authorized at an election of the registered voters of the District held on November 5, 2002, at which more than 55 percent of the voters authorized the issuance and sale of \$12 million Measure L 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 and principal of the bonds. In March 2003, the District issued current interest and capital appreciation bonds, 2002 Series A, General Obligation Bonds, in the amount of \$7,999,674. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

**2002 Election, Series B**

Bonds were authorized at an election of the registered voters of the District held on November 5, 2002, at which more than 55 percent of the voters authorized the issuance and sale of \$12 million Measure L 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 and principal of the bonds. In June 2004, the District issued current interest and capital appreciation bonds, 2002 Series A, General Obligation Bonds, in the amount of \$4,000,037. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

**2006 Election, Series A**

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 Measure R 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 and principal of the bonds. In February 2007, the District issued current interest bonds, 2006 Series A, General Obligation Bonds, in the amount of \$13,500,000. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

---

**2006 Election, Series B**

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 Measure R 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 and principal of the bonds. In July 2008, the District issued current interest and capital appreciation bonds, 2006 Series A, General Obligation Bonds, in the amount of \$23,999,288. The bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

**Debt Service Requirements to Maturity**

The bonds mature through 2034 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Principal Accretion</u>	<u>Total</u>
2014	\$ 525,000	\$ 1,994,549	\$ 394,978	\$ 2,914,527
2015	692,122	1,835,540	416,359	2,944,021
2016	771,876	1,816,190	431,305	3,019,371
2017	965,786	1,790,163	445,263	3,201,212
2018	1,127,920	1,893,126	459,176	3,480,222
2019-2023	7,605,511	9,398,322	2,326,876	19,330,709
2024-2028	13,028,057	7,535,302	1,159,202	21,722,561
2029-2033	18,402,188	3,638,094	93,381	22,133,663
2033-2034	4,300,000	112,875	-	4,412,875
Total	<u>\$ 47,418,460</u>	<u>\$ 30,014,161</u>	<u>\$ 5,726,540</u>	<u>\$ 83,159,161</u>

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
GENERAL OBLIGATION BOND FUND  
JUNE 30, 2013**

---

There were no adjustments to the Unaudited Actual General Obligation Bond Fund, which required reconciliation to the audited financial statements at June 30, 2013.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

---

***NOTE 1 - PURPOSE OF SCHEDULES***

**Schedule of Long-Term Obligations**

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Building Fund Election Banning Unified School District, Measure L and R obligations. The repayment obligation is satisfied through the assessment of local property taxes paid to the County of Riverside and accounted for within the Debt Service Fund of the District.

**Reconciliation of Annual Financial Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (General Obligation Bonds, Measure L and R) reported on the Unaudited Actual Financial Report to the audited financial statements.

---

---

***INDEPENDENT AUDITORS' REPORT***

---

---



**INDEPENDENT AUDITORS' 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 and  
Citizens Oversight Committee  
Banning Unified School District  
Banning, 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 accompanying financial statements of the Banning Unified School District (the District) Building Fund (General Obligation Bonds, Measure L and Measure R), and the related notes of the financial statements as of and for the year ended June 30, 2013, and have issued our report thereon dated December 10, 2013.

As discussed in Note 1, the financial statements present only the Building Fund specific to General Obligation Bonds, Measure L and Measure R, and are not intended to present fairly the financial position and changes in financial position of Banning Unified School District in conformity with accounting principles generally accepted in the United States of America.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Banning Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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. *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.

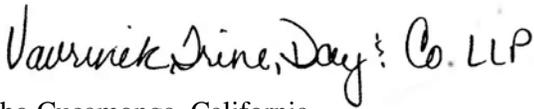
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given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

## Compliance and Other Matters

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

## Purpose of this Report

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



Rancho Cucamonga, California

January 23, 2014

---

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

---

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2013**

---

None reported.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2013**

---

There were no audit findings reported in the prior year's schedule of financial statement findings.

**BANNING UNIFIED SCHOOL DISTRICT**

---

**GENERAL OBLIGATION BONDS,  
MEASURE L AND R  
PERFORMANCE AUDIT**

---

**JUNE 30, 2013**

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**PERFORMANCE AUDIT  
TABLE OF CONTENTS  
JUNE 30, 2013**

---

Independent Auditors' Report on Performance	2
Authority for Issuance	3
Purpose of Issuance	3
Authority for the Audit	3
Objectives of the Audit	4
Scope of the Audit	4
Procedures Performed	4
Conclusion	5
Schedule of Findings and Questioned Costs	6



**INDEPENDENT AUDITORS' REPORT ON PERFORMANCE**

Governing Board and  
Citizens Oversight Committee  
Banning Unified School District  
Banning, California

We were engaged to conduct a performance audit of the Banning Unified School District (the District), General Obligation Bonds, Measure L and R funds for the year ended June 30, 2013.

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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining 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.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended General Obligation Bonds, Measure L and R funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Rancho Cucamonga, California  
January 23, 2014

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**JUNE 30, 2013**

---

***AUTHORITY FOR ISSUANCE***

The General Obligation Bonds, Measure L and R Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County on July 18, 2002 and July 20, 2006 (the County Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on July 18, 2002 and July 20, 2006 (the District Resolution).

The District received authorization at elections held on November 5, 2002 and November 7, 2006, to issue general obligation bonds in aggregate principal amounts not to exceed \$12,000,000 under the 2002 Election and \$63,000,000 under the 2006 Election to finance specific construction and renovation projects approved by eligible voters within the District. The measure required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2002 and 2006 Authorizations). The Bonds represent the second series of the authorized bonds to be issued under the 2002 and 2006 Authorizations.

***PURPOSE OF THE ISSUANCES***

The proceeds of the Bonds will be used to finance the repair, renovation, rehabilitation, replacement, construction, acquisition, improvement, furnishing and equipping of school facilities and the acquisition of land within the District. The Bond Project List includes upgrade and major repair projects on Banning High School, Coombs Intermediate School, Nicolet Middle School, Central Elementary School, Hemmerling Elementary School, and Hoffer Elementary School.

***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizen's oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**JUNE 30, 2013**

---

5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of General Obligation Bonds, Measure L and R.
2. Determine whether salary transactions, charged to the Building Fund were in support of General Obligation Bonds, Measure L and R and not for District general administration or operations.

***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2012 to June 30, 2013. The population of 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 proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2013, 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 period July 1 2012 through June 30, 2013, for the Building Fund (General Obligation Bonds, Measure L and R). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and General Obligation Bonds, Measure L and R as to the approved bond projects list. We performed the following procedures:

1. We verified that a separate Building Fund of the District has been established to account for the receipt of Measure L and Measure R bond proceeds and expenditure of the funds for the period July 1, 2012 through June 30, 2013.
2. We verified that the District did not receive any proceeds associated with the sale of General Obligation Bonds in the fiscal year ending June 30, 2013.
3. We selected a sample of expenditures, including salaries and benefits, for the period starting July 1, 2012 and ending June 30, 2013, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
4. Our sample included 28 transactions totaling \$450,695. This represents 85.3 percent of the total expenditures of \$528,392, including expenditures related to transferred funds.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**JUNE 30, 2013**

---

5. We verified that funds from the Building Fund (Measure L and Measure R) were generally expended for the construction, renovation, furnishing, and equipping of District facilities constituting authorized bond projects.
6. We verified that the District used formal bid procedures for those contracts over the construction bid level requirements in accordance with the *Education Code* requirements and District policies.
7. We reviewed the Citizens' Oversight Committee minutes and found that the committee met the required number of times during the year for both the Measure L and Measure R projects. We also reviewed the Citizens' Oversight Committee members and found that the committee consisted of only five of the seven required members for Measure L and Measure R.

***CONCLUSION***

Except as noted in the Schedule of Findings and Questioned Costs section, the results of our tests indicated that, in all significant respects, the Banning Unified School District has properly accounted for the expenditures held in the Building Fund (Measure L and Measure R), and that such expenditures were made for authorized Bond projects.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

---

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
60000	Miscellaneous

**2012-1 Citizens' Oversight Committee (60000)**

**Criteria**

Assembly Bill 1908 (AB 1908), *Education Code* Section 15278, require the Citizens' Oversight Committee to be formed to actively review and report on activities related to Proposition 39 General Obligation Bond expenditures. The Committee is to consist of at least seven members and include the following:

- a) a member active in the business community of the District,
- b) a member active in a Senior Citizen's organization,
- c) a member active in a bona fide taxpayer association,
- d) a parent or guardian of a student in the District, and
- e) a parent or guardian of a student in the District who is also a member of a Parent-Teacher organization.

**Comment**

During the 2012-2013 fiscal year, the Banning Unified School District maintained one Citizens' Oversight Committee for both Measure L and Measure R projects. The committee consisted of the full seven members, but the committee did not meet the requirement that it had a member active in a bona fide taxpayer association.

**Questioned Costs**

None.

**Recommendation**

The District must actively advertise, solicit and recruit community members meeting the specific criteria established for the Citizens' Oversight Committee and encourage community participation on the Oversight Committee.

**BANNING UNIFIED SCHOOL DISTRICT  
BUILDING FUND (MEASURE L AND MEASURE R)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

---

**Management Response**

The District will continue to seek members, meeting the criteria outlined in *Education Code* Section 15278 and AB 1908, by placing an advertisement in the local newspaper, posting the openings on the District's webpage, and encouraging administrators and staff to offer names of possible candidates. In addition, we have sent correspondence to the previous committee members who have stepped down to ask for their possible recommendations.

We now have three interested parties: a parent, a business owner in the community, and a member of the Banning High staff. The member of the high school staff will not be allowed to become a member as specifically stipulated.