

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

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2009**

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**MEASURE "R" GENERAL OBLIGATION BOND BUILDING FUND OF  
BANNING UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
June 30, 2009**

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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, 2009, and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2009. 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, 2009, 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 December 13, 2009 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.

Murrieta, California  
December 13, 2009

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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, 2009**

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**ASSETS**

Cash	\$	31,305,999
Accounts receivable		122,318

**Total Assets** \$ 31,428,317

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$	646,230
Due to other funds		778

**Total Liabilities** 647,008

**Fund Balances**

Unreserved		30,781,309
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**Total Liabilities and Fund Balance** \$ 31,428,317

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, 2009**

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<b>REVENUES</b>	
Interest earnings	\$ 634,719
<b>EXPENDITURES</b>	
<b>Plant Services:</b>	
Classified Salaries	130,729
Employee Benefits	51,782
Services and other operating expenditures	38,430
Capital outlay	5,944,835
Debt issuance costs	522,212
<b>Total Expenditures</b>	<b>6,687,988</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(6,053,269)</b>
<b>Other Financing Sources/Uses</b>	
Interfunds transfers in	4,305,430
Proceeds from sale of bonds	23,999,287
Premium on issuance costs	522,212
<b>Total Other Financing Sources/Uses</b>	<b>28,826,929</b>
<b>Net Change in Fund Balance</b>	<b>22,773,660</b>
<b>Fund Balance, June 30, 2008</b>	<b>8,007,649</b>
<b>Fund Balance, June 30, 2009</b>	<b>\$ 30,781,309</b>

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, 2009**

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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; advising on bond construction priorities, reviewing school bond construction plans, verifying the project plans are in alignment with the budget, and ensuring compliance with conditions of 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, 2009**

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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**

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 maturities up to 30 years.

*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.

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

**Notes to Financial Statements**

**June 30, 2009**

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**NOTE 2 – CASH (continued)**

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:

<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

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 \$31,444,841 and an amortized book value of \$31,305,999. The average weighted maturity for this pool is 228 days.

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

**Notes to Financial Statements**

**June 30, 2009**

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**NOTE 2 – CASH (continued)**

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 rated Aaa/MR1 by Moody's Investor Service.

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, 2009 in the amount of \$122,318 represent the amount due from the Riverside County Treasurer for interest earnings for the quarter ended June 30, 2009.

**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.

Series A

On March 1, 2007, the District issued \$13,500,000 of Series A, Election of 2006 General Obligation Bonds. The bonds were issues 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 Term Bonds of \$1,150,000, \$3,375,000 and \$5,225,000 with a stated interest rate of 4.75%, 5.0% and 5.0% due August 1, 2023, 2027 and 2031, respectively. At June 30, 2009, the outstanding balance on the bonds was \$13,075,000.

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

**Notes to Financial Statements**

**June 30, 2009**

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

Series B

On July 9, 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 from 3.5% to 5.250% and fully maturing August 1, 2033, and \$1,794,289 Capital Appreciation Bonds with coupon yields to maturity between 4.78% and 5.24%, fully maturing on August 1, 2025. At June 30, 2009 the principal balance outstanding was \$23,999,289.

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-2010	\$ 550,000	\$ 1,186,982	\$ 1,736,982
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
2014-2019	2,665,000	8,421,431	11,086,431
2019-2024	3,602,714	10,763,337	14,366,051
2024-2029	9,881,575	8,719,832	18,601,407
2029-2034	19,500,000	3,404,970	22,904,970
<b>Total</b>	<b>\$ 37,074,289</b>	<b>\$ 39,395,028</b>	<b>\$ 76,469,317</b>

**NOTE 5 – INTERFUND ACTIVITIES**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund transfers for the 2008-09 fiscal year are as follows:

County School Facilities Fund transfer to	
Building Fund for reimbursement of prior year expenses	<u>\$ 4,305,431</u>

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

**Notes to Financial Statements**

**June 30, 2009**

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**NOTE 5 – INTERFUND ACTIVITIES (continued)**

Individual fund interfund receivable and payable balances as of June 30, 2009 are as follow:

Building Fund due to General Fund for incorrectly recorded disbursement	\$ 778
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**NOTE 6 – CONSTRUCTION COMMITMENTS**

At June 30, 2009, the District had commitments with respect to construction contracts of approximately \$10.0 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, 2009 and have issued our report thereon dated \_\_\_\_\_, 2009. 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 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 opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 is 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*.

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.

Murrieta, California  
December 13, 2009

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

### INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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, 2009 and have issued our report thereon dated December 13, 2009. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition 39 Measure "R" General Obligation Bond for the fiscal year ended June 30, 2009. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that the proceeds from the sale of the bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, including teacher and administrator salaries and other operating expenses.

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.

Murrieta, California  
December 13, 2009