

**MEASURE "V" GENERAL OBLIGATION  
BOND BUILDING FUND OF  
VICTOR VALLEY UNION  
HIGH SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2010**

**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

**AUDIT REPORT**

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

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**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT  
Introduction and Citizens' Oversight Committee Member Listing  
June 30, 2010**

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Victor Valley Union High School District (the District) consists of three high schools, three middle schools, and one alternative education center supported by a District Office and an operations center. The District serves approximately 10,800 students.

On November 4, 2008, the voters of the Victor Valley Union High School District approved by more than 55% Measure "V", authorizing the issuance and sale of \$500,000,000 of general obligation bonds. On October 7, 2009, the District issued Series 2009 of the Election of 2008 General Obligation Bonds in the amount of \$69,999,600. The bonds were issued to finance the acquisition, construction, modernization, and equipping of school facilities and to pay costs of issuance of the bonds.

Measure "V" was a Proposition 39 bond, issued pursuant to the provisions of the Education Code of the State of California and pursuant to a resolution adopted by the Board of Education of the District.

The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2010.

**VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

<b>Name</b>	<b>Title</b>	<b>Representation</b>
Scott Priester	Chairperson	Parent/Guardian of Child in District
Jiles Smith	Vice Chairperson	Business Organization Representative
Cristina Duran	Member	Parent/Guardian of Child in District -Active in Parent Teacher Organization
Mark Fine	Member	At-Large Community Member
Charley Glasper	Member	At-Large Community Member, Taxpayer Organization Representative & Member of Senior Citizen Organization
Latonya Myers	Member	Parent/Guardian of Child in District-Active in Parent Teacher Organization
Arnold Rocha	Member	At-Large Community Member



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*Independent Auditors' Reports*

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The Board of Trustees and the  
Citizens' Bond Oversight Committee  
Victor Valley Union High School District  
Victorville, California

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the Measure "V" General Obligation Bond Building Fund (the "Fund") of Victor Valley Union High 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 "V" 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 "V" General Obligation Bond Building Fund of Victor Valley Union High 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 October 9, 2010 on our consideration of the Measure "V" General Obligation Bond Building Fund of Victor Valley Union High 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.

*Nigro & Nigro, PC*

October 9, 2010

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*Financial Section*

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MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Balance Sheet

June 30, 2010

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<b>ASSETS</b>	
Cash	\$ 51,505,865
Accounts receivable	171,900
Due from other funds	<u>10,000,000</u>
<b>Total Assets</b>	<b>\$ <u>61,677,765</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 4,522,250
Fund Balance	
Unreserved	<u>57,155,515</u>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>61,677,765</u></b>

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



**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH 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	\$ 504,111
<b>EXPENDITURES</b>	
Plant Services:	
Services and other operating expenditures	2,773,536
Capital outlay	13,246,697
<b>Total Expenditures</b>	16,020,233
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(15,516,122)
<b>Other Financing Sources/Uses</b>	
Proceeds from sale of bonds	69,999,600
Premium on issuance of bonds	2,672,037
<b>Total Other Financing Sources/Uses</b>	72,671,637
<b>Net Change in Fund Balance</b>	57,155,515
<b>Fund Balance, June 30, 2009</b>	-
<b>Fund Balance, June 30, 2010</b>	\$ 57,155,515

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

**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

On November 4, 2008 the District voters authorized \$500,000,000 in General Obligation Bonds (Measure "V") for the purpose of financing the acquisition, modernization, construction, and equipping of certain District schools, sites and facilities. The measure required a minimum 55% vote for passage. In response, an advisory committee to the District's Governing Board and Superintendent, the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include ensuring compliance with conditions of Measure "V".

The Bond proceeds are accounted for in the District's Building Fund, where they are expended for the approved projects. The statements presented are for the individual Measure "V" 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 Victor Valley Union High School District accounts for its financial transactions in accordance with the policies and procedures of the 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 "V" General Obligation Bond Building Fund 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 of accounting 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 "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH 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

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.

*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 "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 2 – CASH (continued)**

General Authorizations

Except for investments by trustees of debt proceeds, 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>
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 District maintains an investment with the San Bernardino County Investment Pool with a fair value of approximately \$51,768,545 and an amortized book value of \$51,505,865.

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 San Bernardino County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2010.

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 either an external investment pool or mutual funds and are therefore exempt.

**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2010 in the amount of \$171,900 represent the amount due from the San Bernardino County Treasurer for interest earnings for the quarter ended June 30, 2010.

**NOTE 4 - INTERFUND ACTIVITIES**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. 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.

**Due From/Due To Other Funds**

Interfund receivables and payables balances as of June 30, 2010 are as follows:

General Fund due to Building Fund for temporary cash flow	<u><u>\$ 10,000,000</u></u>
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**MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2010**

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**NOTE 5 – MEASURE "V" GENERAL OBLIGATION BONDS**

Series 2009

On October 7, 2009, the District issued Series 2009 of the Election of 2008 General Obligation Bonds in the amount of \$69,999,600. The issue consisted of: a) Current Interest Term Bonds of \$37,545,000 with a stated interest rate of 5% due August 1, 2034, b) Term Bonds of \$13,206,758 with a stated interest rate of 5.75% due August 1, 2031, and c) Capital Appreciation Serial Bonds of \$19,247,841 with stated yields ranging from 1.75% to 5.77% and fully maturing on August 1, 2028. At June 30, 2010, the outstanding principal balance of the bonds was \$69,999,600.

The requirements to amortize outstanding general obligation bonds are as follows:

Fiscal Year	Principal	Interest	Total
2010-2011	\$ -	\$ 1,533,088	\$ 1,533,088
2011-2012	139,851	1,877,250	2,017,101
2012-2013	-	1,877,250	1,877,250
2013-2014	709,052	1,877,250	2,586,302
2014-2015	810,699	1,877,250	2,687,949
2015-2020	5,699,168	9,386,250	15,085,418
2020-2025	5,213,858	16,010,250	21,224,108
2025-2030	10,828,119	16,010,250	26,838,369
2030-2035	46,598,853	8,880,287	55,479,140
Total	<u>\$ 69,999,600</u>	<u>\$ 59,329,125</u>	<u>\$ 129,328,725</u>

**NOTE 6 – CONSTRUCTION COMMITMENTS**

At June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$54.5 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  
Victor Valley Union High School District  
Victorville, 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 "V" General Obligation Bond Building Fund of Victor Valley Union High School District (the "District") as of and for the year ended June 30, 2010 and have issued our report thereon dated October 9, 2010. 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 Victor Valley Union High 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 Victor Valley Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Victor Valley Union High 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.

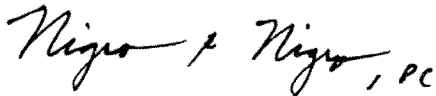


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure "V" General Obligation Bond Building Fund of Victor Valley Union High 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

Victor Valley Union High School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive, flowing style.

October 9, 2010



The Board of Trustees and the  
Citizens' Bond Oversight Committee  
Victor Valley Union High School District  
Victorville, California

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have examined the Victor Valley Union High Unified School District's (the "District") compliance with the performance requirements for the Proposition 39 Measure "V" General Obligation Bond for the fiscal 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 are 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 "V".
- 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 "V" 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 \$11.5 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 "V" election documents.
- 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 sampled 5 contracts and verified compliance with Public Contract Code bid requirements, board approvals, that invoices paid were within the contract terms and change orders were approved.
- 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 "V" General Obligation Bond proceeds listed and tested above, except as noted in finding 2010-1.

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.

*Nigro & Nigro, PC*

October 9, 2010

MEASURE "V" GENERAL OBLIGATION BOND BUILDING FUND OF  
VICTOR VALLEY UNION HIGH SCHOOL DISTRICT

Schedule of Audit Findings

June 30, 2010

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**Finding 2010-1: Board Minutes**

Education Code Section 15280(b) states: "Minutes of the proceedings of the citizens' oversight committee and all documents received and reports issued shall be a matter of public record and be made available on an Internet website maintained by the governing board." Currently, the only information available on the website is the agenda of the previous meeting. No minutes of previous meetings are available. All other documents and reports are kept in the Business Services Department.

**Recommendation:** In order to be in compliance with the Education Code, the District must include the citizen's oversight committee meeting minutes, all documents, and reports on the District's website to be available for public view.

**District Response:** Through an oversight on the District's part, the agenda and minutes of the Citizens' Bond Oversight Committee meetings were not placed on the website. The District will immediately and in the future place the information on the website in accordance with Education Code 15280(b).