

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



**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
Table of Contents**

INTRODUCTION

	<u>Page</u>
Introduction and Citizens' Oversight Committee Member Listing	1
Independent Auditors' Report.....	2

FINANCIAL SECTION

Financial Statements:	
Balance Sheet.....	3
Statement of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5

OTHER INDEPENDENT AUDITORS' REPORTS

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>	12
Independent Auditors' Report on Performance	14

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

San Mateo Union High School District (the District) consists of seven high schools and a continuation school, supported by a District Office. The District serves approximately 7,900 students.

On November 7, 2006, the voters of the San Mateo Union High School District approved by a 66.5% approval, Measure "M", authorizing the issuance and sale of \$298,000,000 of general obligation bonds. On June 4, 2008, the District issued Series 2008A of the Election of 2006 General Obligation bonds in the amount of \$62,700,000. On February 17, 2010, the District issued Series 2010A & 2010B of the Election of 2006 General Obligation Bonds in the amount of \$4,890,000 and \$65,110,000, respectively. On February 17, 2010, the District also issued Bond Anticipation Notes in the amount of \$65,000,000. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

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.

**SAN MATEO UNION HIGH SCHOOL DISTRICT
CITIZENS' OVERSIGHT COMMITTEE**

<u>Name</u>	<u>Title</u>
Mike Loy	President
Mildred Swan	Member
Evelyn Long	Member
Al Pucci, Ed.D.	Member
Patricia Griffin	Member
Richard Bojak	Member
Lee Manus-McNutt	Member
Mark Jones	Member

Independent Auditors' Reports

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, California

INDEPENDENT AUDITORS' REPORT

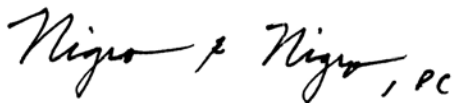
We have audited the accompanying balance sheet of the Measure "M" General Obligation Bond Building Fund (the "Fund") of San Mateo Union High School District (the "District") as of June 30, 2010 and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year 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 "M" 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 "M" General Obligation Bond Building Fund of San Mateo 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 November 29, 2010 on our consideration of the Measure "M" General Obligation Bond Building Fund of San Mateo 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.



November 29, 2010

Financial Section

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT
Balance Sheet
June 30, 2010**

ASSETS	
Cash	\$ 138,748,237
Accounts receivable	1,413
	<hr/>
Total Assets	\$ 138,749,650
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 5,542,723
Due to other funds	3,723
	<hr/>
Total Liabilities	5,546,446
Fund Balance	
Unreserved	133,203,204
	<hr/>
Total Liabilities and Fund Balance	\$ 138,749,650
	<hr/> <hr/>

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

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2010**

REVENUES	
Interest earnings	\$ 666,062
Total Revenues	666,062
EXPENDITURES	
Plant Services:	
Classified salaries	155,179
Benefits	42,317
Services and other operating expenditures	3,581
Capital outlay	33,816,440
Other Outgo:	
Debt issuance cost	763,049
Total Expenditures	34,780,566
Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,114,504)
OTHER FINANCING SOURCES/USES	
Proceeds from bond sales	135,000,000
Premium on debt issuance	763,049
Net Change in Fund Balance	101,648,545
Fund Balance, June 30, 2009	31,554,659
Fund Balance, June 30, 2010	\$ 133,203,204

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

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 7, 2006 the District voters authorized \$298,000,000 in General Obligation Bonds (Measure "M") for the purpose of financing the modernization and construction of school facilities within the District. 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 "M".

The Bond proceeds are accounted for in the District's Building Fund using resource code 0700 , where they are expended for the approved projects. The statements presented are for the individual Measure "M" 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 San Mateo 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 "M" 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 "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

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 "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2010

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:

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Mateo County Investment Pool with a fair value of approximately \$139,243,568 and an amortized book value of \$138,748,237. The average weighted maturity for the pooled investment is 174 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2010.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consisted of \$1,413 comprised solely of fourth quarter interest on cash held in the County Treasury.

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 4 – MEASURE "M" GENERAL OBLIGATION BONDS

Series 2008A

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 County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

On June 18, 2008, the District issued \$62,700,000 of Election of 2006 Series 2008A, General Obligation Bonds. The bonds were issued as: Current Interest Serial Bonds of \$49,250,000 with stated interest rates ranging between 1.875% and 4.680% and fully maturing on September 1, 2030, Current Interest Term Bonds of \$13,450,000 with a stated interest rate of 4.530% due September 1, 2032. At June 30, 2010, the outstanding principal balance of the bonds was \$58,400,000.

Series 2010A

On February 17, 2010, the District issued \$4,890,000 of Election of 2006 Series 2010A, General Obligation Bonds. The bonds were issued as Current Interest Serial Bonds of \$4,890,000 with stated interest rates ranging between 0.3% and 3.0% and fully maturing on September 1, 2018. At June 30, 2010, the outstanding principal balance of the bonds was \$4,890,000.

Series 2010B

On February 17, 2010, the District issued \$65,110,000 of Election of 2006 Series 2010B, General Obligation Bonds. The bonds were issued as: Current Interest Serial Bonds of \$19,215,000 with stated interest rates ranging between 4.6% and 6.15% and fully maturing on September 1, 2027, and Current Interest Term Bonds of \$45,895,000 with a stated interest rate of 6.733% due September 1, 2034. At June 30, 2010, the outstanding principal balance of the bonds was \$65,110,000.

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2010

NOTE 4 – MEASURE "M" GENERAL OBLIGATION BONDS (continued)

2010 Bond Anticipation Notes "Series C"

On February 17, 2010, the District issued \$65,000,000 of Election of 2006 General Obligation Bond Anticipation Notes. The notes were issued to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization.

The notes were issued as: Current Interest Notes of \$65,000,000 with a stated interest rate of 2.0% and fully maturing on February 28, 2011. At June 30, 2010, the outstanding principal balance of the notes was \$65,000,000.

A summary of outstanding general obligation bonds and bond anticipation notes issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010
2008A	6/18/2008	2033	4.0%-5.0%	\$ 62,700,000	\$ 62,700,000	\$ -	\$ 4,300,000	58,400,000
2010A	2/17/2010	2018	4.6%-6.15%	4,890,000	-	4,890,000	-	4,890,000
2010B	2/17/2010	2035	5.0%-5.5%	65,110,000	-	65,110,000	-	65,110,000
2010C	2/17/2010	2011	2.0%	65,000,000	-	65,000,000	-	65,000,000
				<u>\$ 197,700,000</u>	<u>\$ 62,700,000</u>	<u>\$ 135,000,000</u>	<u>\$ 4,300,000</u>	<u>\$ 193,400,000</u>

The requirements to amortize outstanding general obligation bonds and bond anticipation notes are as follows:

Fiscal Year	Principal	Interest	Total
2010-11	\$ 67,585,000	\$ 6,461,122	\$ 74,046,122
2011-12	50,000	7,038,658	7,088,658
2012-13	120,000	7,036,358	7,156,358
2013-14	320,000	7,031,558	7,351,558
2014-15	615,000	7,017,933	7,632,933
2015-20	8,540,000	34,352,664	42,892,664
2020-25	20,730,000	31,255,862	51,985,862
2025-30	38,200,000	24,331,772	62,531,772
2030-35	57,240,000	10,982,878	68,222,878
Total	<u>\$ 193,400,000</u>	<u>\$ 135,508,805</u>	<u>\$ 328,908,805</u>

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2010

NOTE 5 – CONSTRUCTION COMMITMENTS

At June 30, 2010, the District had commitments with respect to unfinished Measure “M” capital projects of approximately \$20.9 million to be paid from a combination of state and local funds.

NOTE 6 – EXPENDITURES BY PROJECT

Below is a summary of the expenditures by project for the 2009-10 fiscal year:

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
Aragon High School Air Conditioning/Chillers	0002	\$ 81,306
AHS, CHS, HHS, MHS Field Modernization	0004	1,376,371
AHS, CHS, HHS, MHS Pool System Replacement	0005	586,331
San Mateo High School Biotech Project	0007	1,238,388
Aragon High School Theatre	0008	719,015
Hillsdale High School Theatre	0009	202,573
Aragon High School Kitchen Renovation	0010	420,525
Burlingame High School Cafeteria Renovation	0011	224,537
Burlingame High School Gym & Locker Room Renovation	0012	4,502,489
Capuchino High School New Classroom Building	0013	1,095,776
Aragon High School Student Services Building Expansion	0015	1,831,740
Aragon High School Industrial Arts Building	0016	112,775
Burlingame High School Industrial Arts Building	0017	619,610
Capuchino High School Child Development Center	0018	511,384
Capuchino High School Science Building Roof Windows	0019	384,587
Capuchino High School Theatre Renovation	0020	1,091,848
Hillsdale High School Gym, Wrestling & Dance Room	0021	3,113,769
Hillsdale High School HVAC Piping & Control Replacement	0022	1,410,322
Hillsdale High School Industrial Arts Building & Cafeteria Renovation	0023	673,009
Mills High School Book Locker Replacement	0024	326,081
Mills High School New Classroom Building	0025	2,062,472
Mills High School Building 'A' Renovation & Locker Room	0026	5,498,357
San Mateo High School Music Renovation	0027	120,611
District-Wide Theatres Program	0030	24,023
Burlingame High School Theatre Renovation	0031	337,368
Aragon High School Miscellaneous Civil Projects	0033	80,475
Burlingame High School Miscellaneous Civil Projects	0034	117,818
Capuchino High School Miscellaneous Civil Projects	0035	49,154
Hillsdale High School Miscellaneous Civil Projects	0036	89,499
Mills High School Miscellaneous Civil Projects	0037	113,801
District-Wide Computer Equipment	0038	(243)
Aragon High School Locker Room & Gym Renovation	0040	121,388
Mills High School HVAC Piping & Control	0041	106,258
Mills High School Theatre & Gym Renovation	0042	239,866
San Mateo High School Performing Arts Center Renovation	0043	325,759
San Mateo High School Miscellaneous Civil Projects	0044	49,265
Capuchino High School Robotic Arts	0047	337,298
Solar Installation & Re-Roof	0048	3,159,265
Measure 'M' Administrative Costs	8500	662,647
Measure 'M' Debt Issuance Costs	8500	763,049
Total Expenditures		<u>\$ 34,780,566</u>

**MEASURE "M" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 7 – INTERFUND TRANSACTIONS

Due From/Due To Other Funds

As of June 30, 2010 the Building Fund Measure “M” owed the General Fund \$3,723 to reimburse for bond-related expenditures incurred.

Other Independent Auditors' Reports

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, 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 "M" General Obligation Bond Building Fund of San Mateo Union High School District (the "District") as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated November 29, 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 San Mateo 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 San Mateo Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Mateo Union High School District's internal control over financial reporting.

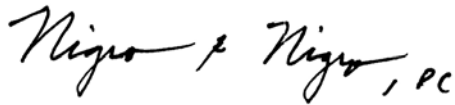
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 "M" General Obligation Bond Building Fund of San Mateo 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 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 San Mateo Union High School District and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

November 29, 2010

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, California

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have examined San Mateo Union High School District's compliance with the performance requirements for the Proposition 39 Measure "M" 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 is to determine with reasonable assurance that:

- The expenditures charged to the San Mateo Union High School District Measure "M" Bond are documented.
- Expenditures charged to Measure "M" have been made in accordance with the bond project list approved by the voters through the approval of the Measure.
- 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 "M" with regards to the approved bond projects list. We performed the following procedures:

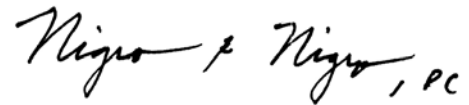
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We reviewed the approved project listing as set out in the Measure "M" 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 Measure "M" Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We tested approximately \$38.7 million in expenditures, 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 subcontractors and other vendors.
- We visited construction sites to ensure that expenditures made corresponded with the actual work performed at the site.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to the Uniform Construction Cost Accounting procedures.
- 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 "M" 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.

A handwritten signature in cursive script that reads "Nigro & Nigro, PC". The signature is written in black ink and is positioned above the date.

November 29, 2010