

**MEASURES "M" AND "O" GENERAL OBLIGATION
BONDS BUILDING FUND SUB-FUNDS OF
SAN MATEO UNION HIGH SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2011**



**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2011

Table of Contents

INTRODUCTION

Page

Introduction and Citizens' Oversight Committee Member Listing..... 1

FINANCIAL SECTION

Independent Auditors' Report..... 2
Basic Financial Statements:
 Balance Sheet 3
 Statement of Revenues, Expenditures, and Changes in Fund Balance..... 4
Notes to Financial Statements 5

OTHER INDEPENDENT AUDITORS' REPORTS

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.....10
Independent Auditors' Report on Performance 12

Introduction

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Introduction and Citizens' Oversight Committee Member Listing

June 30, 2011

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 8,000 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 million 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, which were then refunded on February 24, 2011. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of General Obligation Bonds. On June 15, 2011, the District issued \$89,999,989 of Election of 2010 Series 2011A, General Obligation Bonds. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) to finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) to pay certain costs of issuance associated with 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, 2011.

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

<u>Name</u>	<u>Title</u>
Patricia Griffin, Ph.D.	Chair
Richard Bojack	Member
Lee Manus-McNutt	Member
Mark Jones	Member
Julie Hoffman	Member
Sheila Surmonek	Member
John Doyla	Member

Financial Section



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Measures "M" and "O" General Obligation Bonds Building Fund Sub-Funds (the "Funds") of San Mateo Union High School District (the "District") as of June 30, 2011 and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2011. 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 Measures "M" and "O" General Obligation Bonds Building Fund Sub-Funds 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 Measures "M" and "O" General Obligation Bonds Building Fund Sub-Funds of San Mateo Union High School District as of June 30, 2011 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 4, 2011 on our consideration of the Measures "M" and "O" General Obligation Bonds Building Fund Sub-Funds 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.

December 4, 2011

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Balance Sheet

June 30, 2011

	<u>Measure "M"</u>	<u>Measure "O"</u>
ASSETS		
Cash	68,738,097	\$ 90,045,112
Due from other funds	<u>1,723,402</u>	<u>-</u>
Total Assets	<u>\$ 70,461,499</u>	<u>\$ 90,045,112</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 5,386,944	\$ -
Due to other funds	<u>2,293</u>	<u>-</u>
Total Liabilities	5,389,237	-
 Fund Balance		
Restricted for capital projects	<u>65,072,262</u>	<u>90,045,112</u>
Total Liabilities and Fund Balance	<u>\$ 70,461,499</u>	<u>\$ 90,045,112</u>

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

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**
*Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011*

	<u>Measure "M"</u>	<u>Measure "O"</u>
REVENUES		
Interest earnings	\$ 1,188,088	\$ 45,123
Total Revenues	<u>1,188,088</u>	<u>45,123</u>
EXPENDITURES		
Plant Services:		
Classified salaries	313,657	-
Benefits	96,915	-
Materials and supplies	85,567	-
Services and other operating expenditures	90,376	-
Capital outlay	68,732,515	-
Other Outgo:		
Debt issuance costs	331,803	743,815
Debt service - interest	623,486	-
Debt service - principal	65,000,000	-
Total Expenditures	<u>135,274,319</u>	<u>743,815</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(134,086,231)</u>	<u>(698,692)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds	-	89,999,989
Proceeds from sale of bond anticipation notes	65,000,000	-
Premium on debt issuance	955,289	743,815
Total Other Financing Sources (Uses)	<u>65,955,289</u>	<u>90,743,804</u>
Net Change in Fund Balance	(68,130,942)	90,045,112
Fund Balance, July 1, 2010	<u>133,203,204</u>	-
Fund Balance, June 30, 2011	<u>\$ 65,072,262</u>	<u>\$ 90,045,112</u>

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

MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS OF SAN MATEO UNION HIGH SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

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. On November 2, 2010, voters authorized an additional \$186,000,000 in General Obligation Bonds to 1) prepay the District's 2007 Certificates of Participation, 2) to finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) to pay certain costs of issuance associated with the bonds. The measures 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 Measures "M" and "O".

The Bond proceeds are accounted for in the District's Building Fund sub-funds using resource codes 0700 and 0600, where they are expended for the approved projects. The statements presented are for the individual Measures "M" and "O" General Obligation Bonds Building Fund sub-funds 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 Measures "M" and "O" General Obligation Bonds Building Fund sub-funds 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.

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.

MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS OF SAN MATEO UNION HIGH SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

NOTE 2 – CASH

Pooled Funds

In accordance with Education Code Section 41001, the District maintains all of its cash for the sub-funds in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2011, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 3 –GENERAL OBLIGATION BONDS

A. Measure "M"

Election

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 million of 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 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.

Bond Anticipation Notes

On February 17, 2010, the District issued \$65,000,000 of Election of 2006 General obligation bonds 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%. The notes matured on February 28, 2011.

On February 24, 2011, the District issued \$65,000,000 of Election 2006 General Obligation Bond Anticipation Notes to refund its outstanding 2010 General Obligation Bond Anticipation Notes. The notes were issued as: Current Interest Notes of \$40,150,000 with a stated interest rate of 0.65% due on February 15, 2012; Capital Appreciation Notes of \$24,850,000 with a stated interest rate of 3.75% fully maturing on February 15, 2015. At June 30, 2011, the outstanding principal balance of the notes was \$65,000,000.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 3 –GENERAL OBLIGATION BONDS (continued)

B. Measure "O"

Election

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of 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 County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) to finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) to pay certain costs of issuance associated with the bonds.

A summary of outstanding Measures "M" and "O" general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
2008A	6/18/2008	2032	4.0%-5.0%	\$ 62,700,000	\$ 58,400,000	\$ -	\$ 375,000	\$ 58,025,000
2010A	2/17/2010	2018	5.0% - 5.5%	4,890,000	4,890,000	-	2,210,000	2,680,000
2010B	2/17/2010	2034	4.6% - 6.15%	65,110,000	65,110,000	-	-	65,110,000
2011A	6/15/2011	2041	2.23% - 6.7%	89,999,989	-	89,999,989	-	89,999,989
				<u>\$ 222,699,989</u>	<u>\$ 128,400,000</u>	<u>\$ 89,999,989</u>	<u>\$ 2,585,000</u>	<u>\$ 215,814,989</u>

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

Fiscal Year	Principal	Interest	Total
2011-12	\$ 50,000	\$ 7,038,658	\$ 7,088,658
2012-13	120,000	9,102,210	9,222,210
2013-14	320,000	8,737,308	9,057,308
2014-15	615,000	8,723,683	9,338,683
2015-16	970,657	8,705,576	9,676,233
2016-21	11,559,853	43,010,474	54,570,327
2021-26	27,101,059	42,343,451	69,444,510
2026-31	46,790,978	58,271,038	105,062,016
2031-36	59,211,217	85,251,398	144,462,615
2036-41	28,494,251	94,733,419	123,227,670
2041-43	40,581,974	18,124,061	58,706,035
Total	<u>\$ 215,814,989</u>	<u>\$ 384,041,276</u>	<u>\$ 599,856,265</u>

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 3 –GENERAL OBLIGATION BONDS (continued)

The requirements to amortize outstanding bond anticipation notes are as follows:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 40,150,000	\$ 782,925	\$ 40,932,925
2012-13	-	-	-
2013-14	-	-	-
2014-15	24,850,000	4,895,000	29,745,000
Total	<u>\$ 65,000,000</u>	<u>\$ 5,677,925</u>	<u>\$ 70,677,925</u>

NOTE 4 – CONSTRUCTION COMMITMENTS

At June 30, 2011, the District had commitments with respect to unfinished Measure "M" capital projects of approximately \$16.6 million.

NOTE 5 – EXPENDITURES BY PROJECT

Below is a summary of Measure "M" expenditures by project for the 2010-11 fiscal year:

Project Description	Project Number	Expenditures
Aragon High School Air Conditioning/Chillers	0002	\$ 1,050
AHS, CHS, HHS, MHS Field Modernization	0004	39,289
AHS, CHS, HHS, MHS Pool System Replacement	0005	5,727,626
San Mateo High School Biotech Project	0007	2,632,637
Aragon High School Theatre	0008	2,760,101
Hillsdale High School Theatre	0009	888,343
Aragon High School Kitchen Renovation	0010	1,845
Burlingame High School Cafeteria Renovation	0011	38,135
Burlingame High School Gym & Locker Room Renovation	0012	2,064,295
Capuchino High School New Classroom Building	0013	14,225,588
Aragon High School Student Services Building Expansion	0015	11,481
Aragon High School Industrial Arts Building	0016	155,218
Burlingame High School Industrial Arts Building	0017	941,351
Capuchino High School Child Development Center	0018	2,041
Capuchino High School Science Building Roof Windows	0019	3,934
Capuchino High School Theatre Renovation	0020	3,144,272
Hillsdale High School Gym, Wrestling & Dance Room	0021	809,742
Hillsdale High School HVAC Piping & Control Replacement	0022	7,026
Hillsdale High School Industrial Arts Building & Cafeteria Renovation	0023	7,161,102
Mills High School New Classroom Building	0025	2,651,758
Mills High School Building 'A' Renovation & Locker Room	0026	1,392,084

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND SUB-FUNDS
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 5 – EXPENDITURES BY PROJECT (continued)

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
San Mateo High School Music Renovation	0027	\$ 60
Burlingame High School Theatre Renovation	0031	1,269,608
Aragon High School Miscellaneous Civil Projects	0033	246,063
Burlingame High School Miscellaneous Civil Projects	0034	334,039
Capuchino High School Miscellaneous Civil Projects	0035	103,076
Hillsdale High School Miscellaneous Civil Projects	0036	620,780
Mills High School Miscellaneous Civil Projects	0037	343,795
Aragon High School Locker Room & Gym Renovation	0040	449,735
Mills High School HVAC Piping & Control	0041	1,112,732
Mills High School Theatre & Gym Renovation	0042	1,105,556
San Mateo High School Performing Arts Center Renovation	0043	1,379,474
San Mateo High School Miscellaneous Civil Projects	0044	153,703
Capuchino High School Robotic Arts	0047	225,517
Solar Installation & Re-Roof	0048	16,329,075
Measure 'M' Administrative Costs	8500	<u>986,899</u>
 Total Expenditures		 69,319,030
 Measure 'M' Other Outgo	 8500	 <u>65,955,289</u>
 Total Expenditures		 <u><u>\$ 135,274,319</u></u>

NOTE 6 – INTERFUND ACTIVITY

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.

The following interfund receivables/payables were recorded as of June 30, 2011:

Due from other funds:

Building Fund Measure "M" due from County School Facilities Fund for expenses incurred	<u>\$ 1,723,402</u>
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Due to other funds:

Building Fund Measure "M" due to County School Facilities Fund for expenses incurred	<u>\$ (2,293)</u>
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Other Independent Auditors' Reports



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

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

We have audited the financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund Sub-Funds of San Mateo Union High School District (the "District") as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated December 4, 2011. 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.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

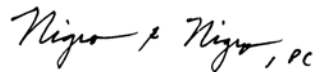
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 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 Board, management, and the Citizens' Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

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

December 4, 2011



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We have examined San Mateo Union High School District's compliance with the performance requirements for the Proposition 39 Measures "M" and "O" General Obligation Bonds for the fiscal year ended June 30, 2011, 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 Measures "M" and "O" Bonds are documented.
- Expenditures charged to Measures "M" and "O" have been made in accordance with each bond's project list approved by the voters through the approval of the Measures.
- 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, 2010 to June 30, 2011. 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, 2011 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, 2011 for the Building Fund Sub-Funds. 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 Measures "M" and "O" 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 Measures "M" and "O" election documents.
- We verified that funds from the Building fund sub-funds 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 Measures "M" and "O" Building Fund Sub-Funds were not used for salaries of school administrators or other operating expenses of the District.
- We tested approximately \$118.4 million in expenditures, which is a combination of 2010-11 expenditures and payments on liabilities accrued as of June 30, 2011 and paid in 2011-12. 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 Measures "M" and "O" General Obligation Bonds 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.

Nigro & Nigro, PC

December 4, 2011