

**MEASURE C 2010 BOND BUILDING FUND OF
MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2011**



**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Table of Contents
For the Fiscal Year Ended June 30, 2011**

| | <u>Page</u> |
|---|-------------|
| Introduction and Citizens' Oversight Committee Member Listing..... | 1 |
| Independent Auditors' Report..... | 2 |
| FINANCIAL SECTION | |
| Balance Sheet..... | 4 |
| Statement of Revenues, Expenditures and Changes in Fund Balance..... | 5 |
| Notes to Financial Statements..... | 6 |
| 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 <i>Government Auditing Standards</i> | 16 |
| Independent Auditors' Report on Performance..... | 18 |
| FINDINGS AND RESPONSES SECTION | |
| Schedule of Findings and Responses..... | 23 |

**MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2011**

The Mount Diablo Unified School District (the "District") was established on July 1, 1949 under the laws of the State of California. This District operates under a locally elected five-member Board form of government and provides educational services to grades K – 12 as mandated by the state and federal agencies. The District operates twenty-nine elementary schools, ten middle schools, and six high schools. The District also maintains two special education schools, one continuation education high school, five necessary small high schools, one independent study school and two adult education centers.

In June 2010, the voters of Contra Costa County approved by more than the required 55% favorable vote the Measure C 2010 Bond ("Measure C"), authorizing the issuance and sale of general obligation bonds, not to exceed \$348,000,000. The Measure C 2010 Bond is a Proposition 39 bond. 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 in the full text of the Measure C 2010 Bond ballot measure 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 bond-designated facilities projects.

The Election 2010 Measure C bonds were issued by the District, through the County of Contra Costa. On September 22, 2010, Series A and B of the Measure C 2010 bond authorization was issued for initial par amount of \$50,456,475 and \$59,540,000, respectively. On March 29, 2011, Series C and D of the Measure C 2010 bond authorization was issued with initial par amount of \$3,865,000 and \$7,133,582, respectively.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (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 measure pursuant to the 55% majority authorized in Measure C 2010 including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2011:

| <u>Name</u> | <u>Title</u> | <u>Representation</u> |
|-----------------|--------------|---------------------------|
| John Ferrante | Chair | At-Large Member |
| Rick Callaway | Vice Chair | Business Organization |
| Jay Bedecarre | Member | Business Organization |
| John Burke | Member | Parent & PTA Organization |
| Brent Hayes | Member | Business Organization |
| Bonnie McDonald | Member | At-Large Member |
| Faye Mettler | Member | Parent |
| Alicia Minyen | Member | Taxpayers' Organization |
| Susan Noack | Member | Parent & PTA Organization |
| John Parker | Member | Parent & PTA Organization |
| Jenny Reik | Member | At-Large Member |
| Tina Segrove | Member | Parent |
| Mark Weinmann | Member | At-Large Member |
| Marc Willis | Member | At-Large Member |
| Larry Wirick | Member | At-Large Member |



INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure C 2010 Citizens' Oversight Committee
Mount Diablo Unified School District
Concord, California

We have audited the accompanying balance sheet of the Measure C 2010 Bond Building Fund of Mount Diablo Unified School District (the "District") as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance 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 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 C 2010 Bond Building Fund ("Measure C"), consisting of the net construction proceeds of the Election of 2010 Measure C 2010 Series A, B, C, and D general obligation bonds as issued by the District, through the County of Contra Costa, 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 C 2010 Bond Building Fund of Mount Diablo Unified School District as of June 30, 2011, and the results of its operations for the fiscal year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

SAN DIEGO

RANCHO CUCAMONGA

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730
tel. 619.270.8222 • www.cwacpa.com • fax. 619.260.9085

Licensed by the California Board of Accountancy

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, on our consideration of Mount Diablo Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

Chint White Accountancy Corporation

San Diego, California

January 31, 2012

FINANCIAL SECTION

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2011**

| | |
|---|-----------------------|
| ASSETS | |
| Cash (Note 2) | \$ 100,555,363 |
| Due from other funds (Note 3) | 1,695 |
| Total Assets | <u>\$ 100,557,058</u> |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accounts payable - vendors | \$ 3,790,260 |
| Due to other funds (Note 3) | 2,192 |
| Total Liabilities | <u>3,792,452</u> |
| Fund Balance | |
| Restricted for capital projects | 96,764,606 |
| Total Liabilities and Fund Balance | <u>\$ 100,557,058</u> |

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

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011**

| | |
|--|----------------------|
| REVENUES | |
| Interest income | \$ 293,162 |
| Total Revenues | <u>293,162</u> |
| EXPENDITURES | |
| Plant services | 144 |
| Facilities acquisition and construction | 10,010,673 |
| Debt service - lease principal payments | 8,628,693 |
| Debt service - lease interest payments | 617,197 |
| Bond issuance costs | 2,005,727 |
| Total Expenditures | <u>21,262,434</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(20,969,272)</u> |
| OTHER FINANCING SOURCES/(USES) | |
| Interfund transfer-in (Note 3) | 1,781,511 |
| Interfund transfer-out (Note 3) | (5,042,690) |
| Proceeds from long-term debt | 120,995,057 |
| Total Other Financing Sources/(Uses) | <u>117,733,878</u> |
| Net Change in Fund Balance | 96,764,606 |
| Fund Balance, July 1, 2010 | - |
| Fund Balance, June 30, 2011 | <u>\$ 96,764,606</u> |

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

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Mount Diablo Unified School District was founded on July 1, 1949 under the laws of the State of California. This District operates under a locally elected five-member Board form of government and provides educational services to grades K – 12 as mandated by the state and federal agencies. The District operates twenty-nine elementary schools, ten middle schools, and six high schools. The District also maintains two special education schools, one continuation education high school, five necessary small high schools, one independent study school and two adult education centers.

On June 8, 2010 the District voters authorized \$348 million in General Obligation Bonds (Measure C 2010 Bond) to support quality education and safety for local students and reduce impacts of State budget cuts by improving science, career and technical education facilities; upgrading classroom instructional technology; repairing leaky roofs; improving safety; maximizing energy efficiency including adding solar panel and modern air conditioning; and repairing, replacing, equipping or modernizing other school facilities.

An advisory committee to the District's Governing Board and Superintendent, called the Measure C 2010 Bond Citizens' Oversight Committee ("COC") was established pursuant to the requirements of state law and the provisions of Measure C. The purpose of the COC is to inform the public concerning the expenditure of bond revenues. The COC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The COC provides oversight and advises the public whether the District is spending the Measure C 2010 Bond funds for school capital improvements within the scope of projects outlined in the Measure C 2010 Bond Project List. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measure C activity.

The statements presented are for the individual Measure C 2010 Bond Building Fund of the District, consisting of the net construction proceeds of Election 2010 Measure C 2010 Series A, B, C, and D general obligation bonds as issued by the District, through the County of Contra Costa, and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Contra Costa County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. 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.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Under GASB 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance in Measure C 2010 Bond Building Fund is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as cash in county treasury for \$100,554,030 and cash with fiscal agent for \$1,333.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (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. The table below identifies examples of the investment types permitted in the investment policy:

| <u>Authorized Investment Type</u> | <u>Maximum Remaining Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---|---|--|---|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base | None |
| Medium-Term Corporate Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Joint Powers Authority Pools | N/A | None | None |

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Contra Costa County Investment Pool with a fair value of approximately \$100,654,584 and an amortized book value of \$100,554,030. The weighted average maturity for this pool as of June 30, 2011 is 151 days.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Per County investment policy, the investments within the Contra Costa County Investment Pool are rated AAAf/S1+ by Standard & Poor's.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – INTERFUND TRANSACTIONS

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

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2011 are as follows:

| | |
|--|-------------------|
| Due from the Cafeteria Fund to the Measure C Bond Building Fund for 2009-10 balance forward adjustment on interest revenue | \$ 1,695 |
| | <u> </u> |
| Due from the Measure C Bond Building Fund to the General Fund for expenditure made on behalf of the fund | \$ 2,192 |
| | <u> </u> |

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 3 – INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

Interfund transfers for the fiscal year ending June 30, 2011 are as follows:

| | |
|--|-----------------------|
| Transfer from Measure C Bond Building Fund to Bond Interest and Redemption Fund for prepayment of 1998 debt | <u>\$ (5,042,690)</u> |
| Transfer from Bond Interest and Redemption Fund to Measure C Bond Building Fund for cost of issuance on 2010 bonds | <u>\$ 1,781,511</u> |

NOTE 4 – CONSTRUCTION COMMITMENTS

The Measure C 2010 Bond Building Fund had construction commitments of approximately \$65,087,442 as of June 30, 2011.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – ELECTION 2010 MEASURE C GENERAL OBLIGATION BONDS

A schedule of changes in long-term debt for the year ended June 30, 2011 is shown below:

| Election 2010 Measure C | Date of Issue | Rate of Accretion/ | | Maturity Date | Amount of | | Balance | | | Balance Due Within One Year |
|-------------------------|---------------|--------------------|--|---------------|-----------------------|--------------|-------------------------|-------------------|-----------------------|--------------------------------|
| | | Interest Rate | | | Original Issue | July 1, 2010 | Accretion/ Additions | Deductions | June 30, 2011 | |
| Series A | 9/22/2010 | 5.1% - 12.0% | | 8/1/2035 | \$ 50,456,475 | \$ - | \$ 52,986,837 | \$ - | \$ 52,986,837 | \$ - |
| Series B | 9/22/2010 | 1.244% - 5.548% | | 8/1/2027 | 59,540,000 | - | 59,540,000 | - | 59,540,000 | 1,685,000 |
| Series C | 3/29/2011 | 2.0% - 5.4% | | 8/1/2025 | 3,865,000 | - | 3,865,000 | - | 3,865,000 | - |
| Series D | 3/29/2011 | 3.22% - 5.50% | | 8/1/2031 | 7,133,582 | - | 7,165,866 | - | 7,165,866 | - |
| Net issuance premium | | | | | | - | 3,081,945 | 105,167 | 2,976,778 | 122,547 |
| | | | | Total | <u>\$ 120,995,057</u> | <u>\$ -</u> | <u>\$ 126,639,648</u> | <u>\$ 105,167</u> | <u>\$ 126,534,481</u> | <u>\$ 1,807,547</u> |

As of June 30, 2011, the principal balance outstanding on the District's Election 2010 Measure C 2010 Bond general obligation bonds, including accreted interest to date, was \$123,557,703.

- On September 22, 2010, Series A bonds of the Measure C 2010 bond authorization were issued, which consisted of capital appreciation bonds and convertible capital appreciation term bonds with an initial par amount of \$50,456,475 with rates of accretion of 5.1% to 12.0% and maturing through August 1, 2035. In addition, Series B bonds were issued with initial par amount of \$59,540,000, which consist of current interest bonds and have interest rates ranging from 1.244% to 5.548% and mature on August 1, 2027.
- On March 29, 2011, Series C bonds of the Measure C 2010 bond authorization was issued and was designated as qualified school construction bonds under Section 54F of the Internal Revenue Code of 1986. The bonds were issued with initial par amount of \$3,865,000, which stated interest rates of 2.0% to 5.4% and maturing through August 1, 2025. Also, Series D bonds were issued with initial par amount of \$7,133,582, which consist of current interest bonds and capital appreciation bonds and have interest rates ranging from 3.22% to 5.50% and mature on August 1, 2031.

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – ELECTION 2010 MEASURE C GENERAL OBLIGATION BONDS (continued)

2010 Series A General Obligation Bond

As of June 30, 2011, the principal balance outstanding on the Measure C, 2010 Series A general obligation bonds, including accreted interest to date, was \$52,986,837. The annual requirements to amortize Measure C, 2010 Series A general obligation bonds payable outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ended June 30, | Principal* | Interest | Total |
|-------------------------------|----------------------|----------------------|-----------------------|
| 2012 | \$ - | \$ - | \$ - |
| 2013 | - | - | - |
| 2014 | - | - | - |
| 2015 | - | - | - |
| 2016 | - | - | - |
| 2017-2021 | 129,860 | 200,140 | 330,000 |
| 2022-2026 | 4,737,900 | 23,304,013 | 28,041,913 |
| 2027-2031 | 24,970,753 | 44,374,160 | 69,344,913 |
| 2032-2036 | 20,617,962 | 25,310,649 | 45,928,611 |
| Total | <u>\$ 50,456,475</u> | <u>\$ 93,188,962</u> | <u>\$ 143,645,437</u> |

* Principal amount excludes accreted interest of \$2,530,362

2010 Series B General Obligation Bond

As of June 30, 2011, the principal balance outstanding on the Measure C, 2010 Series B general obligation bonds was \$59,540,000. The annual requirements to amortize Measure C, 2010 Series B general obligation bonds payable outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 1,685,000 | \$ 2,370,278 | \$ 4,055,278 |
| 2013 | - | 2,813,922 | 2,813,922 |
| 2014 | - | 2,813,922 | 2,813,922 |
| 2015 | - | 2,813,922 | 2,813,922 |
| 2016 | 3,680,000 | 2,813,922 | 6,493,922 |
| 2017-2021 | 21,970,000 | 12,115,638 | 34,085,638 |
| 2022-2026 | 19,880,000 | 6,981,730 | 26,861,730 |
| 2027-2028 | 12,325,000 | 1,045,521 | 13,370,521 |
| Total | <u>\$ 59,540,000</u> | <u>\$ 33,768,855</u> | <u>\$ 93,308,855</u> |

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – ELECTION 2010 MEASURE C GENERAL OBLIGATION BONDS (continued)

2011 Series C Qualified School Construction Bond

As of June 30, 2011, the principal balance outstanding on the Measure C, 2011 Series C qualified school construction bonds was \$3,865,000. The annual requirements to amortize Measure C, 2011 Series C qualified school construction bonds payable outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|-------------------------------|---------------------|---------------------|---------------------|
| 2012 | \$ - | \$ - | \$ - |
| 2013 | 5,000 | 271,681 | 276,681 |
| 2014 | - | 208,440 | 208,440 |
| 2015 | - | 208,440 | 208,440 |
| 2016 | - | 208,440 | 208,440 |
| 2017-2021 | - | 1,042,200 | 1,042,200 |
| 2022-2026 | 3,860,000 | 741,960 | 4,601,960 |
| Total | <u>\$ 3,865,000</u> | <u>\$ 2,681,161</u> | <u>\$ 6,546,161</u> |

2011 Series D General Obligation Bonds

As of June 30, 2011, the principal balance outstanding on the Measure C, 2011 Series D general obligation bonds, including accreted interest to date, was \$7,165,866. The annual requirements to amortize Measure C, 2011 Series D general obligation bonds payable outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ended June 30, | Principal* | Interest | Total |
|-------------------------------|---------------------|---------------------|----------------------|
| 2012 | \$ - | \$ - | \$ - |
| 2013 | - | 423,989 | 423,989 |
| 2014 | - | 325,450 | 325,450 |
| 2015 | - | 325,450 | 325,450 |
| 2016 | 242,272 | 483,178 | 725,450 |
| 2017-2021 | 1,801,310 | 2,289,690 | 4,091,000 |
| 2022-2026 | 650,000 | 1,222,250 | 1,872,250 |
| 2027-2031 | 3,515,000 | 858,225 | 4,373,225 |
| 2032 | 925,000 | 50,875 | 975,875 |
| Total | <u>\$ 7,133,582</u> | <u>\$ 5,979,107</u> | <u>\$ 13,112,689</u> |

* Principal amount excludes accreted interest of \$32,284

**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**

Governing Board Members and
Measure C Citizens' Oversight Committee
Mount Diablo Unified School District
Concord, California

We have audited the financial statements of the Measure C 2010 Bond Building Fund of Mount Diablo Unified School District as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. 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

Management of Mount Diablo Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mount Diablo Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mount Diablo Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mount Diablo Unified School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 would not necessarily identify all deficiencies in internal control 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 the Measure C 2010 Bond Building Fund of Mount Diablo Unified 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 District's Governing Board, the Measure C 2010 Bond Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Mount Diablo Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Accountancy Corporation

San Diego, California

January 31, 2012

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board Members and
Measure C Citizens' Oversight Committee
Mount Diablo Unified School District
Concord, California

We have audited the financial statements of the Measure C 2010 Bond Building Fund of the Mount Diablo Unified School District (the "District") as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated January 31, 2012. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Measure C 2010 Bond Building Fund ("Measure C") for the fiscal year ended June 30, 2011. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of the Measure C 2010 Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

SAN DIEGO

RANCHO CUCAMONGA

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730
tel. 619.270.8222 • www.cwacpa.com • fax. 619.260.9085

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

| |
|------------------------------------|
| Internal Control Evaluation |
|------------------------------------|

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Measure C 2010 resources
- Ensure adequate separation of duties exists in the accounting for Measure C 2010 funds
- Prevent material misstatements in the Measure C 2010 financial statements
- Ensure expenditures are allocated to the proper District fund

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2010-11 financial statement balances for the Measure C 2010 Bond Building Fund are not materially misstated.

Results of Procedures Performed:

The results of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations.

| |
|-----------------------------|
| Facilities Site Walk |
|-----------------------------|

Procedures Performed:

We performed a site walk to verify that Measure C 2010 Bond funds expended for the fiscal year ended June 30, 2011 were for valid facilities acquisition and construction purposes. We toured Clayton Valley High School, a District construction sites where 2010-11 construction work occurred.

Results of Procedures Performed:

We noted during our tour of Clayton Valley High School the formation of a solar panel parking structures. The solar panel parking structures were equipped with a steel frame and a combiner box was installed. The combiner box is an electrical distribution box where the DC circuit breakers are placed. The combiner box combines the multiple DC inputs coming from the panel terminations and converts these into one DC output. The output of the combiner box is connected to the inverter. The parking structure also had lights installed on the undercarriage of the structure. In addition, we noted that solar projects were in the same phase of construction at the high schools throughout the District. While at the middle schools, the District had approximately 17 feet deep footings poured for the steel frame structure.

Tests of Expenditures

Procedures Performed:

We tested expenditures to determine whether Measure C 2010 Bond Building Fund were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure C 2010 ballot measure language). The expenditure test included a sample of 49 payments, of which 41 were vendor payments and 8 were payroll payments, totaling \$3.3 million, or approximately 31% of total expenditures for 2010-11.

In addition, the bond proceeds were used to prepay outstanding lease and general obligation bonds for a total of \$14,288,580. We were unable to verify specifically in the bond ballot language the allowability of bond proceeds for debt service. Upon further inquiry, the District's legal counsel advised us that these redemptions were permissible uses of the bonds and we relied on their expert legal opinion.

Results of Procedures Performed:

We found all expenditures tested to be in compliance with the terms of the Measure C 2010 Bond ballot measure and applicable State laws and regulations, without exception. Furthermore, no administrative or teacher salaries were charged to Measure C.

Deposit of Bond Proceeds

Procedures Performed:

We verified that bond proceeds were deposited in the District's name and invested in accordance with applicable legal requirements. In addition, we agreed bond issuance costs to the bond official statements. Lastly, we verified that interest income was allocated equitably to the Measure C 2010 bond sub-fund.

Results of Procedures Performed:

The bond proceeds were deposited into the Contra Costa County Treasury Investment Pool in the name of the District and invested in accordance with applicable legal requirements. Bond issuance costs agreed to the official statement and were properly recorded in the accounting records. The issuance costs were paid for with bond proceeds in the case of the Series C and D bonds, which appear proper. However, \$1,781,511 in issuance costs was paid out of bond premiums for the Series A and B bonds. While this is an industry standard practice, there is a private letter to Poway Unified School District's bond counsel from the State Attorney General's office which expresses concern about the industry practice of artificially inflating the bond yield to generate a premium for cash out for construction and/or payment of issuance costs. The District did not receive any cash out for the construction purposes, which was the main concern of the Attorney General's Office in citing the Superior Court decision. But, the District did use some of the premium for issuance cost payments, again a common practice. We found that the District did properly deposit these premium in a debt service fund pursuant to Education Code 15146 (f) and then transferred the funds to the bond fund for payment of the issuance costs. Therefore, the District appears to have complied with the law.

Finally, we determined that interest income was credited to the bond sub-fund properly.

Test of Contracts and Bid Procedures

Procedures Performed:

We inquired of new projects that were subject to bidding requirements set forth by the District and California Public Contract Code. We determined in our testing whether proper change order processing and approval procedures were followed. For the fiscal year ended June 30, 2011, we reviewed contract change orders to contracts for Measure C 2010 Bond projects to determine compliance with District policy and the provisions of the California Public Contract Code.

Results of Procedures Performed:

We found that one contract was awarded for the Measure C 2010 bond. The contract followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder. The Photovoltaic Systems Installation project was awarded to Sun Power for \$65,604,398. The key analysis of awarding the bid to Sun Power included total savings to the District's General Fund, net savings accounting for the capital cost of the system, cost of construction, and cost of solar energy produced. In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and was in compliance with applicable provisions of the Public Contract Code. The contract noted above had approved change orders of approximately 8% of the original contract amount. Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Measure C 2010 Bond projects in fiscal year 2010-11.

Establishment of the Citizen's Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Education Code section 15278, the District is required to establish a bond oversight committee for Proposition 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bonafide tax payer association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The governing board of the school district shall establish and appoint members to an independent citizens' oversight committee, pursuant to Section 15282, within 60 days of the date that the governing board. We determined if the legal requirements for establishing the Citizens' Oversight Committee were met.

Results of Procedures Performed:

We found that the District had properly established a Citizen's Oversight Committee (COC) with Education Code 15278. However, the results of our auditing procedures disclose an instance of a COC member as not an active member in a senior citizens organization, described in the accompany schedule of findings and responses as item #2011-1.

Our audit of compliance made for the purposes set forth in the second and third paragraphs of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure C 2010 Bond, for the fiscal year ended June 30, 2011, as listed and tested above. However, the results of our auditing procedures disclosed a non-compliance with education code, as described in the accompanying schedule of findings and responses.

Mount Diablo Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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 District's Governing Board, the Measure C Bond Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Mount Diablo Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Chint White Accountancy Corporation

San Diego, California

January 31, 2012

FINDINGS AND RESPONSES SECTION

**MEASURE C 2010 BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2011**

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Finding #2011-1: Establishment Citizens' Oversight Committee

Criteria: Per Education Code section 15282, the District is required to establish a bond oversight committee for Proposition 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bonafide tax payer association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association.

Condition: We noted that the Measure C 2010 Bond Citizens' Oversight Committee was not appointed with a member that is an active member in a senior citizens organization, as indicated above.

Cause: The District did not have applicants to fulfill this criterion.

Effect: Non-compliance with Education Code Section 15282.

Recommendation: We recommend that the District appoints individuals that meet the criteria indicated in the Education Code Section 15282. Also, we recommend that the District solicit the vacate position(s) to the public.

District Response: The District has been engaged in a public recruitment process for applicants from a senior citizen organization since November, 2011. The District is now initiating direct contacts with potential candidates and senior organizations in an effort to fill this critical position.