

**SECOND ANNUAL REPORT OF THE  
INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE  
FOR MEASURE B**

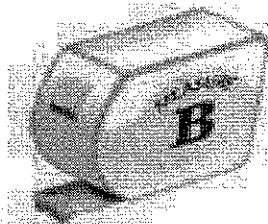
**TO THE**

**BOARD OF EDUCATION**

**SADDLEBACK VALLEY UNIFIED  
SCHOOL DISTRICT**

**On February 13, 2007**

**For Fiscal Year 2005 - 2006  
Ending June 30, 2006**



## **INTRODUCTION**

The Independent Citizens' Oversight Committee (Committee) was formed by appointment made by the Board of Education (Board) of the Saddleback Valley Unified School District (District) to oversee the expenditure of funds from a \$180 million "School Improvement and Repair Bond". The Bond was approved as Measure B by the voters in the general election held on March 4, 2004.

Additionally, the Committee is to assure that the improvement projects specified in Measure B are completed within the funding available from the Bond proceeds. The duties and charge of the Committee and its governance is specified in the Committee Bylaws prepared by the District and included herein as Attachment 1.

The Bylaws state that the Committee is to prepare an Annual Report to the Board at the end of each fiscal year and present the Annual Report to the Board at a regular meeting of the Board. The Annual Report, as taken from the Bylaws, is to include:

- A statement indicating whether the District is in compliance with the requirements of Article XIVA, Section 1(b)(3) of the California Constitution;
- A summary of the Committee's proceedings and activities for the preceding year; and
- A presentation to the Board of the annual financial and performance audits.

## **PURPOSE OF THIS REPORT**

The purpose of this Annual Report is to cover the activities of the Committee for Fiscal Year 2005-06. This will be the second Annual Report to the Board. As reported to you in last year's report, the first year was dedicated to many of the organizational activities of the Committee. This included development of reports for committee use; production of specific data and information requested by individual members; and organization of regular site visits to inspect construction work.

For the first report, a partial report was given to the Board of Education in July, 2005 with a supplemental report covering the financial audit of expenditures presented on July 19, 2005 after the final audit became available. For Fiscal Year ending June 30, 2006, it was deemed more efficient for the Annual Report to be presented in conjunction with the Program Performance and Financial Audits

which were not available for committee review until January, 2007 following year-end closing. Therefore, complete Annual Reports shall be presented to the Board of Education annually henceforth at the February meeting. This accounts for the delay in presenting the report for Fiscal Year 2005-06.

The organization of this Annual Report will follow what was used in the first Annual Report for consistency. Additionally some of the general information in this Second Annual Report is the same as that included in the First Annual Report so that this report will be a stand alone document.

## **COMMITTEE MEMBERSHIP**

The Committee consists of members residing in the District representing various community groups, interests, and background as identified by the District and presented in Section 5 of the Bylaws. A listing of Committee members for the ten (10) categories of membership is included in Attachment 2.

Brief biographical information on each member of the Committee is provided in Attachment 3. It shows the great diversity in the background of the Committee members which clearly help in the work of the Committee. The Committee members have background in such areas as community involvement, school involvement, engineering, construction, finance, and business.

## **COMMITTEE MEETINGS**

The Committee operates under the requirements of the Brown Act. The agendas are posted and efforts are underway to proactively communicate the agenda beyond the normal legal minimum requirements. The Committee meetings are normally held quarterly at 8:00 a.m. at the District office. Attendance by the public has been sparse. One meeting was held at 7:00 p.m. in an attempt to increase public interest. This was not successful. Therefore, future meetings will be held according to the original quarterly schedule with the time changed to 8:30 a.m. as agreed to by the committee at its October 2006 meeting.

The District staff provides clerical and professional support to the Committee, and information as requested by the Committee members. Most of the communication between District staff and the Committee members is by e-mail, which has proven to be very efficient.

With respect to the agenda, the practice is for the District's staff to prepare the draft agenda, including the normal agenda items plus items requested by the Committee members at the prior meeting. The Committee officers meet with the District staff prior to a COC meeting to review, discuss and finalize the agenda, then staff distributes the agenda to Committee members and post as required under the Brown Act. An agenda for the recent meeting is included in Attachment 4 to provide information on the structure and items generally discussed at a meeting. The committee met quarterly during this reporting period.

Additionally, District staff prepares Meeting Minutes shortly after the meeting for review by the Committee members and to memorialize the meeting activities. A copy of the Minutes from a recent meeting is included as Attachment 5. The Committee members generally request information from staff which is then prepared for discussion and presentation at a future meeting. District staff prepares a list of requested items with the status of the request.

With the purpose of this report identified, organizational structure and procedures specified, the remainder of the report will cover the items required in the annual report for presentation to the Board and other information that describes the Committee's activities.

### **COMPLIANCE WITH ARTICLE XIII, Section 1 (b) (3) OF THE CALIFORNIA CONSTITUTION**

Section 1 (b) (3) requires, in general, that the bond proceeds can only be used for construction related purposes and specified school projects as determined by the District in the Facilities Master Plan. This section further requires that a financial audit be performed to ensure that funds have been expended for only specified projects. In furtherance of this requirement, the Committee received the following reports from staff for the Committee to review project and financial compliance.

**Use of Bond Proceeds**— The Committee reviewed the quarterly report of expenditures for school improvements with the most recent dated October 18, 2006. This was prepared by TELACU and District Facilities staff. This report showed that all expenditures identified were project related expenditures plus other miscellaneous costs allowed in the Constitution like project management and project communication. The Committee reviewed this report and found it acceptable, but requested additional information on the bond category of costs

called Bond Administration. This was discussed further at the committee meeting in January 2007 with additional information requests pending. The quarterly report is included herein as Attachment 6.

**Status of Construction Activities--** The actual construction activities are now getting started following significant project expenditures related primarily to project planning, design, and some construction. Significant construction activities began 2005-06 fiscal year. Progress to date suggests that the overall program is on schedule, but next year's activities will provide more information on the status of its program.

**Annual Financial and Performance Audit--**The members of the Committee received the following reports prepared by the District's Auditor Vicenti-Lloyd-Stutzman:

- SVUSD- Proposition 39 General Obligation Bond Measure B Bond Program Performance Audit—For Fiscal Year Ended June 30, 2006, dated November 1, 2006; and
- SVUSD-Proposition 39 General Obligation Bond Measure B Bond Financial Audit—For Fiscal Year Ended June 30, 2006, dated November 1, 2006.

A presentation was made by Tina Henton, the auditor with Vincenti-Lloyd-Stutzman, on the two above reports at the January 25, 2007 meeting of the Committee. The committee members asked for further information on some of the dollar figures presented in the reports. The Committee was pleased with the significant increase in interest income on the funds in hand. They were also pleased that no findings or adjustments in District expenditures were necessary in the reports. The Committee accepted the auditor's reports.

**Presentation to the Board--**The Committee authorized the transmittal of this report to the Board and its presentation to the Board of Education meeting on February 13, 2007.

## **SUMMARY OF THE COMMITTEE'S PROCEEDINGS AND ACTIVITIES**

The primary activities of the Committee for 2005-6 were:

- monitor status of the school improvement projects

- review the expenditure of funds for improvements at each school site by project
- report on the challenges being faced by staff as they proceed with the improvement projects such as finances, and modification to proposed improvements
- visit school improvement sites to see the actual construction work with inspections scheduled on the third Thursday of each month at 8:00 a.m.
- closely review the ratios of soft and hard construction costs
- participate in the Open House at the various High Schools explaining the Measure B improvement projects for each school site
- better understand the Bond Administration expenditures

A key activity and concern of the Committee has been trying to identify, working with staff on ways to inform the community that the Committee that has been created, is meeting regularly, and encouraging the public to attend. The key activities in this area include:

- Discussion of the Committee in the District's newsletter to the Community
- Expanding the notification of the Committee meetings beyond the normal Brown Act requirements
- Working with staff to get information on the Committee members and meeting times on the District websites
- Reviewing ways to better inform the community on the status of projects identified in Measure B recognizing funding availability

For the future, the Committee will certainly continue its efforts on monitoring the expenditure of funds and improvements to the many school sites in conformity to the Measure B improvement program. Additionally, the Committee will closely review all construction and financial information as a possible warning sign that all the projects in Measure B may not be completed because of fund availability concerns.

## KEY CONCERNS

Some of the key concerns of the Committee include:

- **The acceleration of costs in the construction industry.** The concern is if construction costs continue to increase at these accelerated levels, will the

District have the financial resources to complete the identified projects? The District staff has provided information on recent significant increases and continues to keep the Committee apprised. Further District staff reported that the overall program in Measure B does contain a contingency amount thereby minimizing the concern with these unexpected increases in costs. However, District staff continues to report insufficient funds for the overall program.

- **The Committee, like the District staff, is committed to ensure that the identified projects are completed.** The District staff worked with each site this past year in a de-scoping process. Each site was asked to participate in a process to reduce the number of projects to more closely align with available funds. Our biggest concern is when the money is spent and maybe certain projects are not completed for a variety of logical reasons, the Committee and District could be criticized for not performing its duties and fulfilling promises to the community.
- **Future actions that may be necessary to complete all identified projects.** We know that all the identified projects presented to the voters will not be completed because of lack of money. Therefore, the question arises as to what can be done to fund these projects at a later date. Rather than waiting until the funds are expended and potentially creating community disappointments, should the District start outlining how they might be completed at a later date?

## SUMMARY

The Committee is a well organized and cooperative group wanting to follow through on their responsibilities. They represent a wide diversity of citizens in the community and they all have different backgrounds making the group very effective. District staff assistance from Randy Huttenberger, Director of Facilities and Gary Matsumoto, former Assistant Superintendent of Business, between January and August 2006 , and Steve McMahon, Assistant Superintendent of Business Services from December 2006, have been supportive and accommodating to the Committee's needs and desires. This has been a great year for the Committee and we are prepared to move forward in fulfillment of our responsibilities as the construction activities accelerate. We certainly look forward

to any comments the Board of Education may have on our efforts in meeting our responsibilities to the Board, the District, and the community.

### **LIST OF ATTACHMENTS**

1. Bylaws
2. Listing of Committee members by group they represent
3. Biographical information on the Committee members
4. Agenda for recent meeting
5. Meeting Minutes for recent meeting
6. Quarterly Report



**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM  
FINANCIAL AUDIT**

**For the Fiscal Year Ended June 30, 2006**

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM  
FINANCIAL AUDIT**

**June 30, 2006**

**CONTENTS**

	<u>Page</u>
<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Balance Sheet.....</b>	<b>2</b>
<b>Statement of Revenues, Expenditures and Change in Fund Balance .....</b>	<b>3</b>
<b>Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual.....</b>	<b>4</b>
<b>Notes to Financial Statements.....</b>	<b>5-7</b>
<b>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.....</b>	<b>8-9</b>
<b>Schedule of Findings and Questioned Costs.....</b>	<b>10</b>



**VICENTI ♦ LLOYD ♦ STUTZMAN** LLP  
BUSINESS CONSULTANTS AND CPAs

**Chairman**

ROYCE A. STUTZMAN

**Partners**

PETER F. GAUTREAU

RENÉE S. GRAVES

WADE N. McMULLEN

KARIN HECKMAN NELSON

CARL PON

GEMA M. PTASINSKI

MARY ANN QUAY

LINDA M. SADDLEMIRE

**Principal**

JERI A. WENGER

**Senior Managers**

JANETTE CAMPS

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

PHEBE M. McCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

**INDEPENDENT AUDITOR'S REPORT**

The Board of Education  
The Citizens' Oversight Committee  
Saddleback Valley Unified School District  
25631 Peter A. Hartman Way  
Mission Viejo, CA 92691

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Saddleback Valley Unified School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 1, 2006. We have also audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Building Fund (Measure B Bond Program) of the Saddleback Valley Unified School District for the fiscal year ended June 30, 2006. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Building Fund in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental 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 for the Building Fund are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Building Fund 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the Building Fund (Measure B Bond Program) of the Saddleback Valley Unified School District as of June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

November 1, 2006

2210 E. ROUTE 66, STE. 100, GLENDORA, CA 91740

Tel 626.857.7300 Fax 626.857.7302

Web WWW.VLSLLP.COM E-Mail INFO@VLSLLP.COM

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**BALANCE SHEET**

**BUILDING FUND - MEASURE B BOND PROGRAM**

**June 30, 2006**

**ASSETS**

Cash in County Treasury	\$ 66,728,009
Accounts Receivable:	
Interest Receivable	<u>279,798</u>

**TOTAL ASSETS** \$ 67,007,807

**LIABILITIES AND FUND EQUITY**

**Liabilities**

Accounts Payable	\$ <u>5,124,717</u>
------------------	---------------------

**TOTAL LIABILITIES** 5,124,717

**FUND BALANCE**

Designated for Special Purposes	<u>61,883,090</u>
---------------------------------	-------------------

**TOTAL FUND BALANCE** 61,883,090

**TOTAL LIABILITIES AND FUND BALANCE** \$ 67,007,807

See the accompanying notes to the financial statements.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BUILDING FUND - MEASURE B BOND PROGRAM**

**For the Fiscal Year Ended June 30, 2006**

<b>REVENUES</b>	
Interest Income	<u>\$ 3,109,045</u>
<b>TOTAL REVENUES</b>	<u>3,109,045</u>
<b>EXPENDITURES</b>	
Supplies and materials	338,386
Contracted Services and Other Expenses	3,588,907
Capital Outlay	<u>23,808,451</u>
<b>TOTAL EXPENDITURES</b>	<u>27,735,744</u>
Deficiency of Revenues over Expenditures	(24,626,699)
Fund Balance at Beginning of Year	<u>86,509,789</u>
Fund Balance at End of Year	<u>\$ 61,883,090</u>

See the accompanying notes to the financial statements.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL - BUILDING FUND - MEASURE B BOND PROGRAM**

**For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Interest Income	\$ 2,800,000	\$ 3,109,045	\$ 309,045
<b>TOTAL REVENUES</b>	<u>2,800,000</u>	<u>3,109,045</u>	<u>309,045</u>
<b>EXPENDITURES</b>			
Supplies and Materials	338,387	338,386	1
Contracted Services and Other Expenses	7,354,571	3,588,907	3,765,664
Capital Outlay	<u>79,816,831</u>	<u>23,808,451</u>	<u>56,008,380</u>
<b>TOTAL EXPENDITURES</b>	<u>87,509,789</u>	<u>27,735,744</u>	<u>59,774,045</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (84,709,789)</u>	(24,626,699)	<u>\$ 60,083,090</u>
Fund Balance at Beginning of Year		<u>86,509,789</u>	
Fund Balance at End of Year		<u>\$ 61,883,090</u>	

See the accompanying notes to the financial statements.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants.

**FUND STRUCTURE**

The Statement of Revenues, Expenditures and Change in Fund Balance is a statement of financial activities of the Measure B Bond Program related to the current reporting period. Expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

**BASIS OF ACCOUNTING**

The Measure B Bond Program is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

**BUDGET**

The Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual includes a column titled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**CAPITAL ASSETS AND LONG-TERM DEBT**

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Measure B Bond Program are determined by its measurement focus. The Measure B Bond Program is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Measure B Bond Program are accounted for in the basic financial statements of the Saddleback Valley Unified School District.

**NOTE 2 – BONDED DEBT:**

**General Obligation Bonds**

In March 2004 the voters approved the issuance of bonds, not to exceed \$180 million, for the purpose of paying for the cost of new construction, reconstruction or modernization of some or all of the schools within the District.

The outstanding general obligation bonded debt of Saddleback Valley Unified School District at June 30, 2006 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2006</u>
8/12/2004	2.0-6.0	8/1/2029	\$100,000,000	\$100,000,000	\$ -	\$5,880,000	\$94,120,000



**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 2 - BONDED DEBT: (continued)**

**General Obligation Bonds (continued)**

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2006, are as follows:

<b><u>Year Ended June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2007	\$ 4,360,000	\$ 4,401,638	\$ 8,761,638
2008	690,000	4,340,788	5,030,788
2009	870,000	4,310,488	5,180,488
2010	1,045,000	4,281,763	5,326,763
2011	1,230,000	4,246,100	5,476,100
2012-16	9,465,000	20,272,294	29,737,294
2017-21	16,920,000	17,178,250	34,098,250
2022-26	27,450,000	11,698,750	39,148,750
2027-30	<u>32,090,000</u>	<u>3,370,250</u>	<u>35,460,250</u>
Total debt service	<u>\$ 94,120,000</u>	<u>\$ 74,100,321</u>	<u>\$168,220,321</u>

The repayment of the debt related to the Measure B General Obligation Bonds is accounted for in the District's Bond Interest and Redemption Fund which is part of the Saddleback Valley Unified School District's basic financial statements.

**NOTE 3 -PURCHASE COMMITMENTS:**

As of June 30, 2006, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$42,540,000. Projects will be funded through bond proceeds, State Facilities program grants, State deferred maintenance allocations, capital facilities funds and general funds.



**VICENTI ♦ LLOYD ♦ STUTZMAN** LLP  
BUSINESS CONSULTANTS AND CPAs

**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**

Board of Education  
The Citizens' Oversight Committee  
Saddleback Valley Unified School District  
25631 Peter A. Hartman Way  
Mission Viejo, California 92691

**Chairman**  
ROYCE A. STUTZMAN

**Partners**  
PETER F. GAUTREAU  
RENÉE S. GRAVES  
WADE N. McMULLEN  
KARIN HECKMULLER  
CARL PON  
GEMA M. PTASINSKI  
MARY ANN QUAY  
LINDA M. SADDLEMIRE

**Principal**  
JERI A. WENGER

**Senior Managers**  
JANETTE CAMPS  
TIMOTHY D. EVANS  
PRISCILLA OSBORNE FLORES  
TINA HENTON  
PHEBE M. McCUTCHEON  
SHARI PROSSER  
COLLEEN K. TAYLOR

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Saddleback Valley Unified School District (the District) as of and for the year ended June 30, 2006 which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2006. We have also audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Building Fund (Measure B Bond Program) of the Saddleback Valley Unified School District for the fiscal year ended June 30, 2006. 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 Saddleback Valley Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saddleback Valley 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 non-compliance 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, the California Department of Education, the State Controller's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vicenti, Lloyd & Stutzman LLP*  
VICENTI, LLOYD & STUTZMAN LLP

November 1, 2006

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006**

There are no findings and questioned costs related to Proposition 39 compliance for fiscal year 2005-2006.

Reference Item No. XIII.A.6

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**  
**PROPOSITION 39 GENERAL OBLIGATION BONDS**  
**MEASURE B BOND PROGRAM**  
**PERFORMANCE AUDIT**

**For the Fiscal Year Ended June 30, 2006**

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**  
**PROPOSITION 39 GENERAL OBLIGATION BONDS**  
**MEASURE B BOND PROGRAM**  
**PERFORMANCE AUDIT**  
**June 30, 2006**

**CONTENTS**

	<u>Page</u>
<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Objectives.....</b>	<b>2</b>
<b>Scope of the Audit.....</b>	<b>2</b>
<b>Background Information .....</b>	<b>3</b>
<b>Procedures Performed.....</b>	<b>4</b>
<b>Conclusion .....</b>	<b>5</b>
<b>Schedule of Findings and Recommendations.....</b>	<b>6</b>
<b>Status of Prior Year Findings and Questioned Costs.....</b>	<b>7</b>



VICENTI ♦ LLOYD ♦ STUTZMAN Reference: Item No. VIII, 6 LLP  
BUSINESS CONSULTANTS AND CPAs

**INDEPENDENT AUDITOR'S REPORT**

The Board of Education  
The Citizens' Oversight Committee  
Saddleback Valley Unified School District  
25631 Peter A. Hartman Way  
Mission Viejo, CA 92691

**Chairman**  
ROYCE A. STUTZMAN

**Partners**  
PETER F. GAUTREAU  
RENÉE S. GRAVES  
WADE N. McMULLEN  
KARIN HECKMAN NELSON  
CARL PON  
GEMA M. PTASINSKI  
MARY ANN QUAY  
LINDA M. SADDLEMIRE

**Principal**  
JERI A. WENGER

**Senior Managers**  
JANETTE CAMPS  
TIMOTHY D. EVANS  
PRISCILLA OSBORNE FLORES  
TINA HENTON  
PHEBE M. McCUTCHEON  
SHARI PROSSER  
COLLEEN K. TAYLOR

We have examined the Saddleback Valley Unified School District's compliance with the performance requirements for the Proposition 39/Measure B General Obligation Bonds for the fiscal year ended June 30, 2006, 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 Saddleback Valley Unified School District's compliance with those requirements. Our responsibility is to express an opinion on the Saddleback Valley Unified School District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Saddleback Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Saddleback Valley Unified School District's compliance with specified requirements.

In our opinion, the Saddleback Valley Unified School District complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2006.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

November 1, 2006

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**  
**PROPOSITION 39 GENERAL OBLIGATION BONDS**  
**MEASURE B BOND PROGRAM**  
**PERFORMANCE AUDIT**  
**June 30, 2006**

**OBJECTIVES**

The objectives of our performance audit were to:

- determine the expenditures charged to the Saddleback Valley Unified School District Building Fund.
- determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure B in March 2004.
- note any incongruities or system weaknesses and provide recommendations for improvement.
- provide the District Board and the Citizens' Oversight Committee with a performance audit as specified under the requirements of the California Constitution and Proposition 39.

**SCOPE OF THE AUDIT**

The scope of our performance audit covered the period of July 1, 2005 to June 30, 2006. 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 not included within the scope of our audit. Expenditures incurred subsequent to June 30, 2006 were not reviewed or included within the scope of our audit.



**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**  
**PROPOSITION 39 GENERAL OBLIGATION BONDS**  
**MEASURE B BOND PROGRAM**  
**PERFORMANCE AUDIT**  
**June 30, 2006**

**BACKGROUND INFORMATION**

In November 2000, the voters of the State of California approved Proposition 39 authorizing the issuance of general obligation bonds by California public school districts and community colleges under certain circumstances and subject to certain conditions. In March 2004, a general obligation bond proposition (Measure B) of the Saddleback Valley Unified School District was approved by the voters of that District. Measure B authorized the District to issue up to \$180,000,000 of general obligation bonds to finance various capital projects and related costs, as specified in the bond measure provisions.

Pursuant to the requirements of Proposition 39 and related State legislation, the Board of Education of the District has established a Citizens' Oversight Committee and appointed its initial members. The principal purpose of the Citizens' Oversight Committee, as set out in State law, is to inform the public as to the expenditures made using the proceeds of the bonds issued pursuant to the Measure B bond authorization. The Citizens' Oversight Committee is required to issue at least one report annually as to its activities and findings.

Section 1(b)(3)(C) of Article XIII A of the California Constitution requires the District to conduct an annual independent performance audit to ensure that the proceeds of the bonds deposited into the Building Fund have been expended only for the authorized bond projects.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM**

**PERFORMANCE AUDIT**

**June 30, 2006**

**PROCEDURES PERFORMED**

We obtained the general ledger and the project expenditure reports prepared by the District for the period of July 1, 2005 to June 30, 2006 for the Building Fund. Within the period audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measure B with regards to the approved bond projects list. We performed the following procedures:

- reviewed the projects listed to be funded with general obligation bond proceeds as set out in the Measure B election documents.
- selected a sample of expenditures for the period of July 1, 2005 to June 30, 2006 and reviewed supporting documentation to ensure that such funds were properly expended on the authorized bond projects.
- 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. Furthermore, we verified that funds expended from the Building Fund were not used for salaries of school administrators or other operating expenses of the District.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS**

**MEASURE B BOND PROGRAM**

**PERFORMANCE AUDIT**

**June 30, 2006**

**CONCLUSION**

Based upon our procedures performed, we found that for the items tested, the Saddleback Valley Unified School District has properly accounted for the expenditures of the funds held in the Building Fund – Measure B Bond Program and that such expenditures were made for authorized bond projects. Furthermore, it was noted that the funds held in the Building Fund – Measure B Bond Program, and expended by the District, were not expended for salaries of school administrators or other operating expenditures.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS  
MEASURE B BOND PROGRAM  
PERFORMANCE AUDIT**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
June 30, 2006**

There are no findings and questioned costs related to Proposition 39 compliance for fiscal year 2005-2006.

SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2006

<u>Finding No.</u>	<u>Finding</u>	<u>Recommendation</u>	<u>Current Status</u>
05-1	<p><u>CHARGES TO THE MEASURE B BOND PROGRAM</u> Original Finding Number 05-1</p> <p>During our review of expenditures, we noted the following expenditure that was improperly charged to the Building Fund -- Measure B Bond Program for the fiscal year ending June 30, 2005:</p> <ul style="list-style-type: none"> <li>Expenditure for chemistry and biology lab supplies for Trabuco Hills High School in the amount of \$42,905.</li> </ul>	<p>Only expenditures that meet the requirements of Proposition 39, and are in accordance with the voter approved project list, should be recorded in the Building Fund -- Measure B Bond Program. The item referenced above should be transferred out of the Building Fund -- Measure B Bond Program.</p>	Implemented