

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

**TO THE**

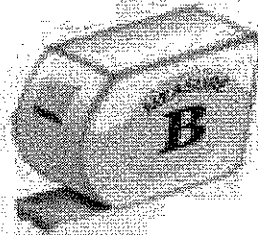
**BOARD OF EDUCATION**

**SADDLEBACK VALLEY UNIFIED  
SCHOOL DISTRICT**

**On February 26, 2008**

**For Fiscal Year 2006 - 2007  
Ending June 30, 2007**

Updated 1/28/08



## **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 2006-07. This will be the third Annual Report to the Board. This report reflects new activities of the Committee including Site Inspection Tours as well as comprehensive review of Measure B expenditures.

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.

The organization of this Annual Report will follow what has been used in the previous Annual Reports for consistency.

## **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.

In this period, three of the original Committee Members submitted resignations primarily because of moving out of the area with one appointed to the Mission Viejo Planning Commission. Those individuals were; Pete Steffen, Eric Martin and Michael C. Parris, P.E. Each resigning member cited their comfort working with the Committee and voiced their opinion on how well run the Bond Program had progressed and the professionalism of Committee Members and District staff.

The District advertised in the local paper and on the District's website to invite members of the SVUSD Community to apply for membership to the Committee. Two new members were appointed by the Board of Education. The new members are, David McClure representing the Parent category and George Perez, representing the Engineering category.

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 and construction, finance, and business.

## **COMMITTEE MEETINGS**

The Committee operates under the requirements of the Brown Act. The agendas are posted on the District's Measure B website along with meeting minutes. Notices of all meetings are published in the local newspaper. The Committee held each of its quarterly meetings in the District Board Room during this reporting period. The Committee meets at 8:30 a.m.

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 posts as required under the Brown Act. An agenda for the last held meeting is included in Attachment 4 to provide information on the structure and items generally discussed at a meeting.

Additionally, District staff prepares Meeting Minutes shortly after the meeting for review by the Committee members to memorialize the meeting activities. A copy of the Minutes from the meeting last held 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.

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 A, 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 January 24, 2008. This was prepared by TELACU Construction Management 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 subsequent committee meetings in 2007. At the request of the Committee, the District reviewed and audited specific expenditures. As a result, the auditors recommended that one particular company should "not" have been paid with Measure B funds. This reconciliation will be addressed in the next audit report. The quarterly report is included herein as Attachment 6.

**Status of Construction Activities:** Significant construction activities were underway in the 2006-07 fiscal year. Progress to date suggests that the overall program is on schedule.

**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, 2007, dated November 29, 2007; and
- SVUSD-Proposition 39 General Obligation Bond Measure B Bond Financial Audit—For Fiscal Year Ended June 30, 2007, dated November 29, 2007.

A presentation was made by Tina Henton, the auditor with Vincenti-Lloyd-Stutzman, on the two above reports at the January 24, 2008 meeting of the Committee. The committee members asked a variety of questions and for further information on some of the dollar figures presented in the reports. 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 26, 2008.

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

The primary activities of the Committee for 2006-07 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
- better understand the Bond Administration expenditures

A key activity of the Committee has been school site inspections throughout the year. During these inspections, Committee members spent time with principals to discuss construction activities as well District staff and consultants. The committee visited a total of 16 campuses, they were:

- El Toro High School
- Mission Viejo High School
- Laguna Hills High School
- Esperanza Special Education School
- La Paz Intermediate School
- Los Alisos Intermediate School
- Serrano Intermediate School
- Rancho Canada Elementary School
- San Joaquin Elementary School
- Cordillera Elementary School
- Valencia Elementary School
- La Madera Elementary School
- Lomarena Elementary School
- Silverado High School
- De Portola Elementary School
- Melinda Heights Elementary School
- Olivewood Elementary School

The Committee also participated in Open Houses at three school sites in the city of Lake Forest, The schools were, El Toro High School, Rancho Canada Elementary School and Glen Yermo Elementary School. Parents, residents, school Board Members and local elected officials were invited and attended. For many, this was the first opportunity to actually see the results of the bond measure. The responses were very positive.

The second series of 2007A Bonds were sold during this period. At the October 10, 2006 meeting, the SVUSD Board of Education authorized the Orange County Board of Supervisors to issue the second series of 2007A Bonds in the amount of \$60 million at no additional cost to taxpayers. This is the second series of three, leaving \$20 million in bonds remaining to be sold.

Additional links were developed on the Committee's website. One page allows viewers the opportunity to see construction progress through a series of photo power point presentations. The second link describes the sale of the 2007A Series Bond sale. A counter was installed to track visitors on the website, over 10,000 hits have occurred during this reporting period.

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 Committee continues its concern of the continuing increase of construction costs continue to increase at 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.
- **The Committee, like the District staff, is committed to ensure that the identified projects are completed.** The Committee utilizes the inspection tours to gain valuable information from staff and school Principals.
- **Replacing outgoing Committee members has been a challenge for the Committee and District.** The committee advertised in the local paper and on the District website. A select few of community volunteers showed interest with two candidates being selected. As a result, the District, working with the Committee filed a request with the State Department of Education for a waiver on the term limits for the COC. If approved, this waiver will allow original Committee members, who were appointed in 2004 one additional two-year, less one day term.

## 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 Laura Ott, Assistant to the Superintendent, Steve McMahan, Assistant Superintendent of Business, Noemi Avila-Zamudio, Senior Facilities Planner, and Manny Hernandez, TELACU Construction Management have been supportive and accommodating to the Committee's needs and desires. This has been another great year for the Committee and we are

prepared to move forward in fulfillment of our responsibilities as the construction activities continue. 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, 2007**

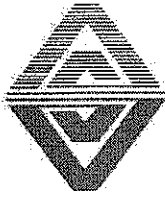
**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**June 30, 2007**

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## 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Saddleback Valley Unified School District, as of and for the fiscal year ended June 30, 2007, and have issued our report thereon dated November 29, 2007. 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, 2007. 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, 2007, in conformity with accounting principles generally accepted in the United States of America.

The Board of Education  
The Citizens' Oversight Committee  
Saddleback Valley Unified School District

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2007 on our consideration of the Saddleback Valley Unified School District's internal control over financial reporting and on 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.

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

November 29, 2007

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

**BALANCE SHEET**

**BUILDING FUND - MEASURE B BOND PROGRAM**

**June 30, 2007**

**ASSETS**

Cash in County Treasury	\$ 90,505,051
Accounts Receivable:	
Interest Receivable	<u>403,871</u>

**TOTAL ASSETS** \$ 90,908,922

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

Accounts Payable	\$ 6,714,871
Due to Other Funds	<u>6</u>

**TOTAL LIABILITIES** 6,714,877

**FUND BALANCE**

Undesignated	<u>84,194,045</u>
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**TOTAL FUND BALANCE** 84,194,045

**TOTAL LIABILITIES AND FUND BALANCE** \$ 90,908,922

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, 2007**

**REVENUES**

Interest Income \$ 3,597,128

**TOTAL REVENUES** 3,597,128

**EXPENDITURES**

Classified Salaries 278

Employee Benefits 52

Supplies and Materials 285,520

Contracted Services and Other Expenses 3,476,506

Capital Outlay 37,523,817

**TOTAL EXPENDITURES** 41,286,173

Deficiency of Revenues over Expenditures (37,689,045)

**OTHER FINANCING SOURCES**

Proceeds from Sale of Bonds 60,000,000

**TOTAL OTHER FINANCING SOURCES** 60,000,000

Net Change in Fund Balance 22,310,955

Fund Balance at Beginning of Year 61,883,090

Fund Balance at End of Year \$ 84,194,045

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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Interest Income	\$ 3,000,000	\$ 3,597,128	\$ 597,128
<b>TOTAL REVENUES</b>	<u>3,000,000</u>	<u>3,597,128</u>	<u>597,128</u>
<b>EXPENDITURES</b>			
Classified Salaries	300	278	22
Employee Benefits	58	52	6
Supplies and Materials	449,392	285,520	163,872
Contracted Services and Other Expenses	9,093,692	3,476,506	5,617,186
Capital Outlay	109,339,648	37,523,817	71,815,831
<b>TOTAL EXPENDITURES</b>	<u>118,883,090</u>	<u>41,286,173</u>	<u>77,596,917</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(115,883,090)</u>	<u>(37,689,045)</u>	<u>78,194,045</u>
<b>OTHER FINANCING SOURCES</b>			
Proceeds from Sale of Bonds	<u>60,000,000</u>	<u>60,000,000</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>60,000,000</u>	<u>60,000,000</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (55,883,090)</u>	<u>22,310,955</u>	<u>\$ 78,194,045</u>
Fund Balance at Beginning of Year		<u>61,883,090</u>	
Fund Balance at End of Year		<u>\$ 84,194,045</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, 2007**

**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).

**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, 2007**

**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 - DEPOSITS AND INVESTMENTS:**

**Deposits**

**Cash in County**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District’s deposits for the Measure B Bond program in this pool as of June 30, 2007, as provided by the pool sponsor, was \$90,568,405.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**

**NOTE 3 – 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, 2007 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2007</u>
8/12/2004	2.0-6.0	8/1/2029	\$100,000,000	\$ 94,120,000	\$ -	\$4,360,000	\$ 89,760,000
1/24/2007	3.5-5.0	8/1/2030	60,000,000	-	60,000,000	-	60,000,000
			<u>\$160,000,000</u>	<u>\$ 94,120,000</u>	<u>\$60,000,000</u>	<u>\$4,360,000</u>	<u>\$149,760,000</u>

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

**2004 Series A**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,425,000	4,197,613	5,622,613
2013-2017	10,735,000	19,830,307	30,565,307
2018-2022	18,765,000	16,286,125	35,051,125
2023-2027	29,985,000	10,262,875	40,247,875
2028-2030	25,015,000	1,942,625	26,957,625
<b>Total debt service</b>	<b>\$ 89,760,000</b>	<b>\$ 69,698,684</b>	<b>\$159,458,684</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**NOTE 3 - BONDED DEBT: (continued)**

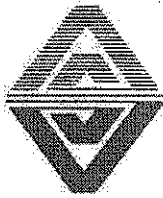
**General Obligation Bonds (continued)**

**2007 Series A**

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 6,590,000	\$ 2,522,197	\$ 9,112,197
2009	1,410,000	2,391,456	3,801,456
2010	1,465,000	2,333,956	3,798,956
2011	1,525,000	2,274,156	3,799,156
2012	1,585,000	2,211,956	3,796,956
2013-2017	8,905,000	10,075,105	18,980,105
2018-2022	10,955,000	7,943,677	18,898,677
2023-2027	13,840,000	4,965,500	18,805,500
2028-2031	<u>13,725,000</u>	<u>1,278,450</u>	<u>15,003,450</u>
Total debt service	<u>\$ 60,000,000</u>	<u>\$ 35,996,453</u>	<u>\$ 95,996,453</u>

**NOTE 4 - PURCHASE COMMITMENTS:**

As of June 30, 2007, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$24,129,000. Projects will be funded through bond proceeds.



**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

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, 2007 which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 29, 2007. 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, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statement that is more than inconsequential will not be prevented or detected by the District's internal control.

**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**

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and could not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting for the Measure B Bond Program that we consider to be material weaknesses, as defined above.

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 29, 2007

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2007**

There are no findings and questioned costs related to Proposition 39 compliance for fiscal year 2006-07. In addition, no findings were noted for fiscal year 2005-06.

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**For the Fiscal Year Ended June 30, 2007**

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**PERFORMANCE AUDIT**

**June 30, 2007**

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## 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 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, 2007, 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, 2007.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

November 29, 2007

**SADDLEBACK VALLEY UNIFIED SCHOOL DISTRICT**

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

**PERFORMANCE AUDIT**

**June 30, 2007**

**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, 2006 to June 30, 2007. 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, 2007 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, 2007**

**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, 2007**

**PROCEDURES PERFORMED**

We obtained the general ledger and the project expenditure reports prepared by the District for the period of July 1, 2006 to June 30, 2007 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, 2006 to June 30, 2007 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, 2007**

**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, 2007**

There are no findings and questioned costs related to Proposition 39 compliance for fiscal year 2006-07. In addition, no findings were noted for fiscal year 2005-06.