

**PROPOSITION U
BOND BUILDING FUND OF
POWAY UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO**

**AUDIT REPORT
June 30, 2007**

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2007**

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**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2007**

Poway Unified School District (the "District") consists of four high schools, one continuation high school, six middle schools, 23 elementary schools, and one adult school. The District serves approximately 32,873 students.

In November 2002, the voters of Poway Unified School District approved by more than 55% Proposition U, authorizing the issuance and sale of \$198,000,000 of general obligation bonds. On May 20, 2003, Series A of the bonds were sold and consisted of current interest bonds of \$75,000,000 with a stated interest rate of 2.0% to 5.0% fully maturing on August 1, 2027. On October 18, 2006, Series B of the bonds were sold at a premium and consisted of \$119,300,766 with a stated interest rate 4.5% to 5.0% fully maturing on August 1, 2031. At June 30, 2007 the principal balance outstanding on these bonds was \$178,680,766.

On August 24, 2004, the District issued bridge funding certificates of participation for \$100,000,000. On December 1, 2006, a total of \$80,700,000 of the certificates was paid with the proceeds from the issuance of the Proposition U Series B bond.

Proposition U was a Proposition 39 bond, issued by the School Facilities Improvement District No. 2002-1 of Poway Unified School District. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

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

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2007:

- Chrissa Corday, Chair
- Roger Moyers, Vice Chair
- William Bonner, Member
- Lee Dulgeroff, Member
- George W. Hawkins, Member
- Jerry Ricks, Member
- John E. Sturla II, Member

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007 on our consideration of the Proposition U Bond Building Fund of Poway 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 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.

Nijm Nijm & White, PC

San Diego, California
October 15, 2007

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2007**

ASSETS

Cash in county treasury	\$	24,748,306
Cash with fiscal agent (Zions First National Bank)		16,226,657
Accounts receivable		<u>558,253</u>

Total Assets \$ 41,533,216

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable		13,993,556
Due to other funds		<u>249,769</u>

Total Liabilities 14,243,325

Fund Balance

Unreserved		<u>27,289,891</u>
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Total Liabilities and Fund Balance \$ 41,533,216

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2007**

REVENUES	
Interest earnings	\$ 2,615,127
Other local revenue	28,021
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Total Revenues	2,643,148
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EXPENDITURES	
Plant services	7,397,641
Facility acquisition and construction	84,614,556
Debt service - principal	80,708,776
Debt service - interest	1,825,706
Debt service - issuance costs	1,685,948
	<hr/>
Total Expenditures	176,232,627
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(173,589,479)
	<hr/>
OTHER FINANCING SOURCES AND USES	
Proceeds from long-term debt	119,300,766
Premiums on bond issuance	9,757,617
Interfund transfers in	14,882,472
Interfund transfers out	(1,250,000)
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Total Other Financing Sources and Uses	142,690,855
	<hr/>
Net Change in Fund Balance	(30,898,624)
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Fund Balance, July 1, 2006	58,188,515
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Fund Balance, June 30, 2007	\$ 27,289,891
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**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Poway Unified School District covers 99.1 square miles and is located in San Diego County. The District is currently operating four high schools, one continuation high school, six middle schools and 23 elementary schools. The District also operates an adult school.

In November 2002, the voters of Poway Unified School District approved by more than 55% Proposition U, authorizing the issuance and sale of \$198,000,000 of general obligation bonds for the purpose of: land acquisition; business and residence relocations; clearing and grading of land; installation of utilities; construction of interim classrooms, ancillary school facilities and permanent facilities; and, the installation of furniture, equipment and fixtures.

An advisory committee to the District's Governing Board and Superintendent, called the Proposition U Citizens' Oversight Committee, was established. The Committee's oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, reviewing project plans and budgets, and ensuring compliance with the conditions of Proposition U.

The statements presented are for the individual Proposition U Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

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

PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

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. All encumbrances are liquidated as of June 30.

E. Deposits and Investments

In accordance with Education Code Section 41001, the District maintains a portion of its cash in the San Diego 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.

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2007, consist of the following:

Cash in county treasury	\$	24,748,306
Cash with fiscal agent		16,226,657
Total deposits and investments	\$	<u>40,974,963</u>

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.

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.

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Limitations as they relate to interest rate risk, credit risk, concentration of credit risk, and withdrawal restrictions 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 and by investing cash with fiscal agent in Rabobank International guaranteed investment contracts.

- The District maintains an investment with the San Diego County Investment Pool with a fair value at June 30, 2007 of approximately \$24,669,110, and an amortized book value of \$24,748,306. The weighted average maturity for the San Diego County Investment Pool is 177 days.
- Fair value approximates cost of \$16,226,657 for Rabobank International guaranteed investment contracts, whose durations range from June 1, 2007 to June 1, 2008. Interest earned on Rabobank International accounts under the guaranteed investment contracts is reinvested on the first business day of each month. Interest rates for the Rabobank International accounts are determined based on the daily weighted average of the Bond Market Association (BMA) Municipal Swap Index for each day of the calculation period plus a percentage ranging from 0.30% to 0.45%.

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 credit rating organization. The investment with the San Diego County Investment Pool is rated AAAf/S1 by Standard & Poor's. At June 30, 2007, cash with fiscal agent is invested by Zions First National Bank, Trustee, in Rabobank International guaranteed investment contracts. Rabobank Nederland, central authority for the Rabobank Group, is rated Aaa/P-1/A by Moody's Investors Service and is rated AAA/Stable/A-1+ by Standard & Poor's. Rabobank International is a member of Rabobank Group.

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Credit Risk, cont'd

Per the terms of the investment agreement between Zions First National Bank, Trustee, and Rabobank International, should ratings on Rabobank International's long-term unsecured, unsubordinated debt obligations be withdrawn or fall below Aa3 from Moody's Investors Service or AA- from Standard & Poor's, then Zions First National Bank, Trustee, may require Rabobank International to collateralize the investment agreement with obligations guaranteed by the United States Government or it may assign Rabobank International's rights and obligations under the investment agreement to an entity that has the required credit ratings and is acceptable to Poway Unified School District and Financial Security Assurance Inc.

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.

Withdrawal Restrictions

Funds deposited in County Treasury and Rabobank International accounts may be applied to Proposition U expenditures. Withdrawal requisitions made for Proposition U expenditures from Rabobank International accounts must exceed \$50,000, however, and remain in accordance with the terms of the agreement between Zions First National Bank, Trustee, and Rabobank International. In addition, withdrawals from Rabobank International accounts must be allowable as set forth in the August 1, 2004 trust agreement between Poway Unified School District, the Poway Unified School District Capital Facilities Financing Corporation, and Zions First National Bank, Trustee.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2007 consist of the following:

Interest earned on cash in county treasury	\$	435,276
Interest earned on cash with fiscal agent		117,781
Other local sources		5,196
Total	\$	<u>558,253</u>

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

NOTE 4 – PROPOSITION U GENERAL OBLIGATION BONDS

At June 30, 2007 the principal balance outstanding on the General Obligation Bonds was \$178,680,766:

- On May 20, 2003, the School Facilities Improvement District No. 2002-1 of the Poway Unified School District issued Series A of the Election of 2002 General Obligation Bonds in the amount of \$75,000,000. The issue consisted of Series A Serial Bonds of \$52,730,000 with a stated interest rate of 2.0% to 5.0% fully maturing on August 1, 2023 and Term Bonds of \$22,270,000 with a stated interest rate of 5.0% fully maturing on August 1, 2027. As of June 30, 2007 the principal balance outstanding on Series A bonds was \$59,380,000.
- On October 18, 2006, the School Facilities Improvement District No. 2002-1 of the Poway Unified School District issued Series B of the Election of 2002 General Obligation Bonds in the amount of \$119,300,766. The issue consisted of Series B Serial Bonds of \$46,570,000 with a stated interest rate of 4.5% to 5.0% fully maturing on August 1, 2025, two Term Bonds for \$20,750,000 and \$48,900,000 with a stated interest rate of 5.0% fully maturing on August 1, 2027 and 2031 and a CAB Bond for \$3,080,766 with a stated interest rate of 7.5% fully maturing on August 1, 2031. The Premium in the Bond Issuance is \$9,757,617. As of June 30, 2007 the principal balance outstanding on Series B bonds was \$119,300,766.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007-08	\$ 1,995,000	\$ 7,136,079	\$ 9,131,079
2008-09	1,065,000	8,512,238	9,577,238
2009-10	1,485,000	8,477,613	9,962,613
2010-11	1,835,000	8,425,613	10,260,613
2011-12	2,225,000	8,344,113	10,569,113
2012-17	17,950,000	39,834,938	57,784,938
2017-22	32,835,000	34,162,938	66,997,938
2022-27	53,490,000	24,174,588	77,664,588
2027-32	65,800,766	24,124,987	89,925,753
Total	<u>\$ 178,680,766</u>	<u>\$ 163,193,104</u>	<u>\$ 341,873,870</u>

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2007, the District had commitments with respect to unfinished capital projects of \$48,191,888.

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2007

NOTE 6 – CERTIFICATES OF PARTICIPATION

On August 24, 2004, Poway Unified School District issued bridge funding certificates of participation in the amount of \$100,000,000. The certificates of participation carry an initial interest rate mode that is a weekly rate. On December 1, 2006, a total of \$80,700,000 of the certificates was paid with the proceeds from the issuance of the Proposition U Series B bond. As of June 30, 2007 the principal balance outstanding on the certificates was \$19,300,000.

The certificates mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2007-08	\$ -
2008-09	-
2009-10	-
2010-11	-
2011-12	-
2012-17	-
2017-22	-
2022-27	-
2027-32	5,070,000
2032-37	10,690,000
2037-38	3,540,000
Total	<u>\$ 19,300,000</u>

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2007

NOTE 7 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Interfund activity as of June 30, 2007 consisted of the following:

Interfund Receivables and Payables

Due To Other Funds	General Fund	Total
Building Fund	\$ 249,769	\$ 249,769
	\$ 249,769	\$ 249,769

Building Fund due to General Fund for expenditures incurred for Custodian Subs, TOSA and utilities.	\$ 249,769
Net Interfund Receivables and Payables	\$ 249,769

Interfund Transfers

Building Fund transfer in from the Special Reserve Fund for Capital Outlay for construction expenditures incurred	\$ 8,100,000
Building Fund transfer in from County School Facilities Fund for construction expenditures incurred	4,173,627
Building Fund transfer in from Capital Projects Fund for Blended Component Units for construction expenditures incurred	2,608,845
Total Interfund Transfers In	\$ 14,882,472
Building Fund transfer out to General Fund for deferred maintenance contribution	\$ 1,250,000

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 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 Proposition U Bond Building Fund of Poway 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 Proposition U Bond Oversight Committee, the District Governing Board, management, and the taxpayers of Poway Unified School District and is not intended to be and should not be used by anyone other than the specified parties.

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

San Diego, California
October 15, 2007

3. We tested payments made to the construction management company and reviewed the terms of the contract.
4. We tested approximately \$23 million of the 2006-07 expenditures (58 separate payments) for validity, allowability and accuracy. Expenditures sampled in our test included payments made to the construction management company, subcontractors and other vendors.
5. We inspected five school sites where 2006-07 construction work was performed (Mt. Carmel High, Poway High, Painted Rock Elementary, Garden Road Elementary and Twin Peaks Middle School) and verified that the construction work performed was in accordance with Proposition U purposes.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Proposition U Bond proceeds listed and tested above.

This report is intended for the information of the Governing Board, management and the Citizens' Oversight Committee; however, this report is a matter of public record.



San Diego, California
October 15, 2007

**PROPOSITION U BOND BUILDING FUND
OF POWAY UNIFIED SCHOOL DISTRICT
Schedule of Findings and Recommendations
June 30, 2007**

We found Poway Unified School District's accounting systems to be functioning efficiently and effectively to account for the Proposition U Bond Building Fund. In addition, our tests resulted in no findings and recommendations related to the financial and performance audit of the Proposition U Bond Building Fund for the year ended June 30, 2007.