

**SAN LORENZO VALLEY UNIFIED
SCHOOL DISTRICT
COUNTY OF SANTA CRUZ
BEN LOMOND, CALIFORNIA**

2008 MEASURE O

**GENERAL OBLIGATION BOND FUND REPORT
AGREED-UPON PROCEDURES REPORT
JUNE 30, 2010**

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
2008 MEASURE O
GENERAL OBLIGATION BOND FUND REPORT

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INDEPENDENT AUDITORS' REPORT

Board of Education
San Lorenzo Valley Unified School District
325 Marion Avenue
Ben Lomond, CA 95005

We have audited the accompanying balance sheet of the 2008 Measure O General Bond Fund (the Fund) of the San Lorenzo Valley Unified School District (the District) as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present the financial activity of the fund only and does not present the financial position and results of operations of the San Lorenzo Valley Unified School District as a whole in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Fund, as of June 30, 2010, and the results of its operations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Goodell, Porter, Sanchez & Bright, LLP
GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

November 12, 2010

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
2008 MEASURE O GENERAL OBLIGATION BOND FUND
BALANCE SHEET
JUNE 30, 2010

ASSETS

Cash in County Treasury	\$ 11,161,116
Accounts Receivable	1,240
	<hr/>
Total Assets	\$ 11,162,356
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts Payable	\$ 59,966
Due to Other Funds	5,853
	<hr/>
Total Liabilities	65,819
	<hr/>

Fund Balance:

Unreserved:

Designated Fund Balance	11,096,537
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Total Fund Balance	11,096,537
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Total Liabilities and Fund Balance	\$ 11,162,356
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
 2008 MEASURE O GENERAL OBLIGATION BOND FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2010

Revenues:		
Interest	\$	96,639
Total Revenues		96,639
Expenditures:		
Classified Salaries		50,884
Employee Benefits		19,149
Books and Supplies		13,025
Services and Other Operating Expenditures		20,475
Capital Outlay		1,414,806
Total Expenditures		1,518,339
Excess of Revenues Over (Under) Expenditures		(1,421,700)
Fund Balance - July 1, 2009		12,518,237
Fund Balance - June 30, 2010	\$	11,096,537

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
2008 MEASURE O GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2008 Measure O General Obligation Bond fund (the Fund) of the San Lorenzo Valley Unified School District (District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The financial statements include the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure O General Obligation Bonds Election of 2008. These financial statements are not intended to present the financial position and results of operations of the District as a whole, in accordance with accounting principles generally accepted in the United States of America. The District received authorization to issue \$18.9 million of bonds at an election held on February 5, 2008, by an affirmation vote exceeding the 55% vote in favor that was required.

B. Fund Accounting

The operations of the Fund are accounted for in a separate self-balancing account that comprises its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the Fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
2008 MEASURE O GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

D. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. The County of Santa Cruz collects supplemental taxes for repayment of bond proceeds from all taxable property within the District. Taxes are payable in two installments on August 1 and February 1, commencing February, 2009. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes for the District. The District recognizes tax revenues when received. The tax revenues collected for repayment of the bonds is accumulated in the Bond Interest and Redemption Fund of the District, which has not included in these financial statements.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled \$11,161,116 as of June 30, 2009. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$11,188,814. The District is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds. 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.

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
 2008 MEASURE O GENERAL OBLIGATION BOND FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

A. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy required that at least 30% of the District's investment portfolio mature in less than one year. Additional limitations are that the average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase. At June 30, 2010, the District had the following investment maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less than 1</u>	<u>1 to 2</u>
County Treasury	<u>\$11,188,814</u>	<u>\$8,079,442</u>	<u>\$3,109,372</u>

Credit Risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organization (NRSRO's). It is in the District's policy to limit its investments in these investment types to the top rating issued by NRSRO's, including raters Standard & Poor's, and Moody's Investors Services. At June 30, 2010, the District credit risks are as follows:

Credit Quality Distributions for Securities with Credit Exposure

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>S & P's Rating</u>
Cash in County Treasury	Not Rated	Not Rated

NOTE 3 - CAPITAL PROJECTS

All expenditures for capital projects are capitalized in the Statement of Net Assets in the Entity-Wide financial statements of the District. Expenditures are not capitalized in the individual funds of the District. Expenditures shown as capital projects in these financial statements consist of:

Land Improvements	\$ 428,646
Architect/Engineering Fees	187,190
DSA Plan Check Fees	(254)
Other Costs-Planning	16,310
Preliminary Tests	848
Construction	759,721
Inspection	<u>22,345</u>
Total Capital Projects	<u>\$1,414,806</u>

SAN LORENZO VALLEY UNIFIED SCHOOL DISTRICT
 2008 MEASURE O GENERAL OBLIGATION BOND FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 4 - GENERAL OBLIGATION BONDS

The obligation for repayment of the Measure O General Obligation Bond is reported as liabilities on the Statement of Net Assets in the Entity-Wide financial statements of the District. Under the modified accrual basis of accounting liabilities for long-term debt are not reported in the individual funds and are not reported as liabilities in these financial statements. Measure O General Obligation bonds have been issued and are outstanding as follows:

<u>Year of Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Outstanding July 01, 2009</u>	<u>Accreted Interest in Current Year</u>	<u>Outstanding June 30, 2010</u>
2008	2024	3.00% - 4.50%	\$ 9,510,000	\$ 9,510,000		\$ 9,510,000
2008	2033	3.00% - 4.50%	3,518,207	3,806,960	\$ 246,365	4,053,325
Totals			<u>\$ 13,028,207</u>	<u>\$ 13,316,960</u>	<u>\$ 246,365</u>	<u>\$ 13,563,325</u>

Repayment of the bonds will be funded by a separate property tax override levied on properly residing within the District boundaries. Property tax revenues will be recorded in a separate Bond Interest and Redemption Fund. The required debt service payments on the bonds will be disbursed from the Bond Interest and Redemption Fund as well. This Bond Interest and Redemption Fund maintained by the Santa Cruz County Controller's Office and recorded in the District's Debt Service funds is not included in these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

NOTE 5 - CONSTRUCTION COMMITMENTS

As of June 30, 2010, the Series 2008 A, General Obligation Building Fund had \$5 million in contracts for construction of the new library electrical substation and new high school middle school library construction.

GOODELL,
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C E R T I F I E D
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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Board of Education
San Lorenzo Valley Unified School District
325 Marion Avenue
Ben Lomond, CA 95005

We have performed the procedures enumerated below, which were agreed to by the management of San Lorenzo Valley Unified School District, solely to assist you in evaluating the San Lorenzo Valley Unified School District's Proposition 39, 2008 Measure O General Obligation Bond Fund. The San Lorenzo Valley Unified School District is responsible for the financial data provided to us. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

During fiscal year 2009-10 the District expended \$1.5 million bond proceeds on four separate projects described as:

1. San Lorenzo Valley High School Music Room Improvements
2. San Lorenzo Valley High School/Middle School Library
3. San Lorenzo Elementary Science and Std Classrooms
4. San Lorenzo Elementary Fire Alarms

Procedure #1: We performed tests on the financial data to ensure the bond proceeds were being spent in accordance with the Proposition 39, Series 2008 A, General Obligation Bond documents. We selected \$484 thousand of expenses, representing eight different projects, charged to the Proposition 39 Bonds to examine items that relate to the construction, reconstruction, rehabilitation or replacement of school facilities and the acquisition or lease of real property for school facilities.

The items selected were tested for internal controls over the revenue and expenditures. We selected three different vendors and billings they submitted to the District. We examined each invoice to ensure the billings were for items applicable to the District's planned projects. Our examination of the individual invoices also included ensuring the documentation in support of each invoice is adequate. We examined individual purchase orders to ensure each is supported by all required approvals.

Finding #1: As a result of our tests, we determined the District appears to be spending the bond proceeds in accordance with the original bond purpose and applicable state laws and guidelines were observed. We noted no instances where the District failed to comply with appropriate procedures. The payments tested were supported by complete purchase orders. We determined all expenses tested were for projects consistent with the bond purpose.

Procedure #2: We obtained a copy of the Proposition 39, Series 2008 A, Bond document for review and examined it to determine whether the projects listed conformed with approved Proposition 39 expenditures. Proposition 39, Series 2008 A, Bonds are strict in their guidelines, which include: Construction, reconstruction, rehabilitation or replacement of school facilities and the acquisition or lease of real property for school facilities. We examined the listing of projects and compared the list to the bond document to ensure all projects were consistent with the bond purpose.

Finding #2: We reviewed the bond document and found all projects appear to be for the construction, reconstruction, rehabilitation or replacement of school facilities and the acquisition or lease of real property for school facilities. A thorough review of the listed projects that are to be completed using Proposition 39, Series 2008 A, Bond monies was conducted by both verbal and non-verbal approaches. We inquired with the staff of the District to obtain an understanding of what projects were currently in process. We also discussed the future planned projects and the anticipated expenses for those projects. We determined all planned and pending projects appear to conform to the Proposition 39 standards set by the State.

Procedure #3: We reviewed the bid procedures for the Districts Proposition 39, Series 2008 A, Bonds to ensure the District complied with state laws that regulate the bid process. We selected eight projects to examine, in detail, the selection of a contractor and to review the entire bid process. After each contractor for the selected projects was chosen, we reviewed the meeting minutes of the Citizens Bond Oversight Committee (CBOC) to ensure the committee did not disagree with the selection of the contractor.

Finding #3: We reviewed the Districts' bid procedures and noted the District appears to be conducting its bid procedures in accordance with State laws and guidelines. The projects selected for testing awarded the contractor who submitted the lowest responsive, responsible bid for the construction of the project. We noted the CBOC agreed with the School District's method of approval of the contractors selected. During our examination of the CBOC's meeting minutes we also noted contractors selected for projects relating to the Proposition 39, Series 2008 A, Bonds were properly approved by the School District's board and not by the CBOC.

Procedure #4: The selected projects were tested for adherence to inspection requirements.

Finding #4: We found the permits and required inspections appear to be occurring in a timely manner.

Procedure #5: We have reviewed the detailed general ledger, which shows all expenses and revenues posted to the Proposition 39, Series 2008 A, Bond projects, for proof no teacher or administrator's salary was being charged to the bond projects, other than an approved project manager. We also examined the District's general ledger to verify no transfers of funds designated for Proposition 39, Series 2008 A, Bond projects were made to another fund that would not be using those monies for bond projects.

Finding #5: Our review of the District's general ledger demonstrated to us no teacher or administrator's salary was being charged to the Proposition 39, Series 2008 A, Bond projects and only the project manager's salary was charged to the projects. We also determined the District had not transferred any monies relating to the Proposition 39, Series 2008 A, Bonds to funds where those monies would be used for expenses other than the projects listed on the bond document.

The conclusions we have drawn from completing these specific and other general procedures is that the San Lorenzo Valley Unified School District with the Citizens Bond Oversight Committee is performing the construction of projects in a manner consistent with those listed in the bond documents and with California Law.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the financial position of the San Lorenzo Valley Unified School District's Proposition 39 Bond. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Board of Education
San Lorenzo Valley Unified School District
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This report is intended solely for the information and use of the San Lorenzo Valley Unified School District and is not intended to be and should not be used by anyone other than those specified parties.

Goodell, Porter, Sanchez & Bright, LLP
GOODELL, PORTER, SANCHEZ & BRIGHT, LLP
Certified Public Accountants

November 12, 2010