

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND OF
MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Years Ended
June 30, 2011 and 2010**



**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
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For the Fiscal Years Ended June 30, 2011 and 2010**

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**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2011 and 2010**

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

In March 2002, the voters of Contra Costa County approved by more than the required 55% favorable vote the Measure C Bond ("Measure C"), authorizing the issuance and sale of general obligation bonds, not to exceed \$250,000,000. The Measure C Bond is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed in the full text of the Measure C Bond ballot measure as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for bond-designated facilities projects.

The Election of 2002 Measure C bonds were issued by the District, through the County of Contra Costa. On June 20, 2002, Series 2002 of the Measure C bond authorization was issued for initial par amount of \$69,400,000. On June 10, 2004, Series 2004 of the Measure C bond authorization was issued with initial par amount of \$121,000,000. On May 11, 2006, Series 2006 of the Measure C bond authorization was issued with initial par amount of \$59,600,000. On June 7, 2011, the District issued a refunding bond with initial par amount of \$37,790,000. The proceeds were used to refund and defease portion on the Series 2002 bonds.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure C including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Election of 2002 Measure C Bond Building Fund of Mount Diablo Unified School District (the "District") as of June 30, 2011 and 2010, and the related statements of revenues, expenditures and changes in fund balance for the fiscal 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 audits.

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

As discussed in Note 1A, the financial statements present only the individual Election of 2002 Measure C Bond Building Fund ("Measure C"), consisting of the net construction proceeds of Election of 2002 Measure C Series 2002, 2004, and 2006, through the County of Contra Costa, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Election of 2002 Measure C Bond Building Fund of Mount Diablo Unified School District as of June 30, 2011 and 2010, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

SAN DIEGO

RANCHO CUCAMONGA

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, on our consideration of Mount Diablo Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Christie White Accountancy Corporation

San Diego, California

January 31, 2012

FINANCIAL SECTION

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 4,787,418	\$ 5,283,032
Due from other funds	22,528	22,528
Total Assets	<u>\$ 4,809,946</u>	<u>\$ 5,305,560</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 450,097	\$ 6,807
Total Liabilities	<u>450,097</u>	<u>6,807</u>
Fund Balance		
Restricted for capital projects	4,359,849	5,298,753
Total Liabilities and Fund Balance	<u>\$ 4,809,946</u>	<u>\$ 5,305,560</u>

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

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Statements of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
REVENUES		
Interest income	\$ 19,439	\$ 17,650
Other local income	-	1,284
Total Revenues	<u>19,439</u>	<u>18,934</u>
 EXPENDITURES		
Facilities acquisition and construction	958,343	207,841
Total Expenditures	<u>958,343</u>	<u>207,841</u>
 Net Change in Fund Balance	(938,904)	(188,907)
Fund Balance, July 1, 2010	5,298,753	5,487,660
Fund Balance, June 30, 2011	<u>\$ 4,359,849</u>	<u>\$ 5,298,753</u>

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

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

On March 5, 2002 the District voters authorized \$250 million in General Obligation Bonds (Measure C Bond) to upgrade electrical systems, repair inadequate heating, ventilation and plumbing systems, replace aging roofs, renovate restrooms, improve building exteriors and grounds for safety, replace aging portables, and construct or acquire new classrooms, education facilities and technology infrastructure.

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

The statements presented are for the individual Measure C Bond Building Fund of the District, consisting of the net construction proceeds of Election 2002 Measure C Series 2002, 2004, and 2006 general obligation bonds as issued by the District, through the County of Contra Costa, and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

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

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

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

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

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

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

H. Fund Balance

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

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

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2011 and 2010 are classified in the accompanying financial statements as the following:

	<u>2011</u>	<u>2010</u>
Cash in county treasury	\$ 4,768,069	\$ 5,263,722
Cash with fiscal agent	19,349	19,310
Total	<u>\$ 4,787,418</u>	<u>\$ 5,283,032</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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Contra Costa County Investment Pool with a fair value of approximately \$4,772,837 and an amortized book value of \$4,768,069 as of June 30, 2011, while the investment with the Contra Costa County Investment Pool with a fair value of approximately \$5,274,249 and an amortized book value of \$5,263,722 as of June 30, 2010. The weighted average maturity for this pool as of June 30, 2011 and 2010 is 151 and 122 days, respectively.

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

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

Concentration of Credit Risk

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

NOTE 3 – INTERFUND TRANSACTIONS

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

Due From/Due To Other Funds

At June 30, 2011, the District's Election of 2002 Measure C Bond Building Fund had \$22,528 due from the Adult Education Fund, a correction of the same interfund receivables/payable June 30, 2010 that was originally set-up against the General Fund erroneously. The amount due is for expenditures incurred on the Adult Education Fund's behalf.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Election of 2002 Measure C Bond Building Fund had no material construction commitments of as of June 30, 2011 and approximately \$3,778,903.

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 5 – ELECTION OF 2002 MEASURE C GENERAL OBLIGATION BONDS

In an election held March 5, 2002, the voters provided the District the ability to issue \$250,000,000 in general obligation bonds. The bonds were approved to upgrade electrical systems, repair inadequate heating, ventilation and plumbing systems, replace aging roofs, renovate restrooms, improve building exteriors and grounds for safety, replace aging portables, and construct or acquire new classrooms, educational facilities and technology infrastructure.

As of June 30, 2011 and 2010, the principal balance outstanding on the District’s Measure C general obligation bonds is indicated as follows:

<u>Election 2002 Measure C</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Balance Due Within One Year</u>
Series 2002	6/20/2002	3.25% - 5.00%	8/1/2026	\$ 69,400,000	\$ 44,430,000	\$ -	\$ 1,655,000	\$ 42,775,000	\$ 1,720,000
Series 2004	6/10/2004	3.000% - 5.625%	7/1/2029	121,000,000	109,155,000	-	3,285,000	105,870,000	3,420,000
Series 2006	5/11/2006	4.25% - 5.00%	6/1/2031	59,600,000	59,380,000	-	500,000	58,880,000	790,000
Net issuance premium					3,663,357	-	182,657	3,480,700	182,657
			Total	\$ 250,000,000	\$ 216,628,357	\$ -	\$ 5,622,657	\$ 211,005,700	\$ 6,112,657

<u>Election 2002 Measure C</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Balance Due Within One Year</u>
Series 2002	6/20/2002	3.25% - 5.00%	8/1/2011*	\$ 69,400,000	\$ 42,775,000	\$ -	\$ 40,990,000	\$ 1,785,000	\$ 1,785,000
Series 2004	6/10/2004	3.000% - 5.625%	7/1/2029	121,000,000	105,870,000	-	3,420,000	102,450,000	3,565,000
Series 2006	5/11/2006	4.25% - 5.00%	6/1/2031	59,600,000	58,880,000	-	790,000	58,090,000	1,085,000
Series 2011 Refunding	6/7/2011	2.0% - 5.0%	8/1/2026	37,790,000	-	37,790,000	-	37,790,000	775,000
Net issuance premium					3,480,700	3,242,264	729,874	5,993,090	398,807
Deferred amount on refunding					-	(1,345,500)	-	(1,345,500)	(89,700)
			Total	\$ 287,790,000	\$ 211,005,700	\$ 39,686,764	\$ 45,929,874	\$ 204,762,590	\$ 7,519,107

* Revised maturity date on non-refunded portion

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 5 – ELECTION OF 2002 MEASURE C GENERAL OBLIGATION BONDS (continued)

Series 2002 General Obligation Bond

Series 2002 of the Measure C bond was issued for \$69,400,000, which consisted of current interest bonds with interest rates ranging from 3.25% -5.00%, and was schedule to mature on August 1, 2026. However, the bond will mature on August 1, 2011 with the issuance of the Series 2011 refunding. The annual requirements to amortize the District’s Measure C, Series 2002 general obligation bonds outstanding as of June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 1,785,000	\$ 37,931	\$ 1,822,931
Total	\$ 1,785,000	\$ 37,931	\$ 1,822,931

Series 2004 General Obligation Bond

Series 2004 of the Measure C bond was issued for \$121,000,000, which consisted of current interest bonds with interest rates ranging from 3% -5.625%, and matures on July 1, 2029. The annual requirements to amortize the District’s Measure C, Series 2004 general obligation bonds outstanding as of June 30, 2011 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$ 3,565,000	\$ 4,998,931	\$ 8,563,931
2013	3,720,000	4,796,269	8,516,269
2014	3,875,000	4,594,769	8,469,769
2015	4,025,000	4,414,878	8,439,878
2016	4,185,000	4,242,931	8,427,931
2017-2021	23,785,000	17,899,375	41,684,375
2022-2026	29,765,000	11,241,625	41,006,625
2027-2030	29,530,000	3,043,500	32,573,500
Total	\$ 102,450,000	\$ 55,232,278	\$ 157,682,278

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 5 – ELECTION OF 2002 MEASURE C GENERAL OBLIGATION BONDS (continued)

Series 2006 General Obligation Bond

Series 2006 of the Measure C bond was issued for \$59,600,000, which consisted of current interest bonds with interest rates ranging from 4.25% -5.00%, and matures on June 1, 2031. The annual requirements to amortize the District’s Measure C, Series 2006 general obligation bonds outstanding as of June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 1,085,000	\$ 2,821,430	\$ 3,906,430
2013	1,430,000	2,767,180	4,197,180
2014	1,460,000	2,695,680	4,155,680
2015	985,000	2,622,680	3,607,680
2016	1,020,000	2,580,818	3,600,818
2017-2021	6,005,000	12,191,543	18,196,543
2022-2026	5,740,000	10,837,800	16,577,800
2027-2031	40,365,000	7,336,250	47,701,250
Total	<u>\$ 58,090,000</u>	<u>\$ 43,853,381</u>	<u>\$ 101,943,381</u>

Series 2011 Refunding General Obligation Bonds

On June 7, 2011, the District issued Series 2011 general obligation refunding bonds for an aggregate amount of \$37,790,000, and consists on current interest bonds bearing fixed interest rates ranging from 2.0% - 5.0% with a maturity date of August 1, 2026. The net proceeds were used to refund a portion of the District’s Election 2002, Series 2002 general obligation bonds and to pay certain costs of issuance associated with the refunding bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District’s liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$1,345,500 remain to be amortized. As of June 30, 2011, the principal balance outstanding on the defeased debt amounted to \$37,790,000.

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 5 – ELECTION OF 2002 MEASURE C GENERAL OBLIGATION BONDS (continued)

Series 2011 Refunding General Obligation Bonds (continued)

The refunding decreased the District’s total debt service payments by \$4,676,908. The transaction resulted in an economic gain (difference between the present value of debt service on the old and the new bonds) of \$3,547,623.

The 2011 Refunding General Obligation Bonds are scheduled to mature as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	\$ 775,000	\$ 177,454	\$ 952,454
2013	1,875,000	1,572,238	3,447,238
2014	1,920,000	1,515,488	3,435,488
2015	1,990,000	1,447,588	3,437,588
2016	2,055,000	1,377,238	3,432,238
2017-2021	11,535,000	5,583,550	17,118,550
2022-2026	14,320,000	2,983,425	17,303,425
2027	3,320,000	161,000	3,481,000
Total	<u>\$ 37,790,000</u>	<u>\$ 14,817,981</u>	<u>\$ 52,607,981</u>

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011 and 2010**

NOTE 6 – SUBSEQUENT EVENT

Subsequent to June 30, 2011, the District issued General Obligation Refunding Bonds, Election of 2002, Series B to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series 2004. The bonds were issued for \$43,700,000 with stated interest rates of 2% to 5% and mature on July 1, 2023.

**OTHER INDEPENDENT
AUDITORS' REPORTS**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

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

We have audited the financial statements of the Election of 2002 Measure C Bond Building Fund of Mount Diablo Unified School District as of and for the fiscal year ended June 30, 2011 and 2010, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

SAN DIEGO

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Election of 2002 Measure C Bond Building Fund of Mount Diablo Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's Governing Board, the Election of 2002 Measure C Bond Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Mount Diablo Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Chint White Accountancy Corporation

San Diego, California

January 31, 2012



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We have audited the financial statements of the Election of 2002 Measure C Bond Building Fund of the Mount Diablo Unified School District (the "District") as of and for the fiscal year ended June 30, 2011 and 2010 and have issued our report thereon dated January 31, 2012. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Election of 2002 Measure C Bond Building Fund ("Measure C") for the fiscal year ended June 30, 2011 and 2010. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

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

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

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

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

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal years 2010-11 and 2009-10 financial statement balances for the Measure C Bond Building Fund are not materially misstated.

Results of Procedures Performed:

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

Facilities Site Walk

Procedures Performed:

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

Results of Procedures Performed:

We noted during the tour of Clayton Valley High School that the landscaping of the premises was retrofitted with new sod and flack bushes. In addition, the District installed new irrigation systems. At Pine Valley Middle School, we viewed the new irrigation system and new turf throughout the school.

Tests of Expenditures

Procedures Performed:

We tested expenditures to determine whether Election of 2002 Measure C Bond Building Fund were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure C ballot measure language). The expenditure test included a sample of 12 payments, totaling \$179,715 or approximately 87%, and \$398,941 or approximately 42% of total expenditures for 2010-11 and 2009-10, respectively.

Results of Procedures Performed:

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

Test of Contracts and Bid Procedures

Procedures Performed:

We inquired of new projects that were subject to bidding requirements set forth by the District and California Public Contract Code. We determined in our testing whether proper change order processing and approval procedures were followed. For the fiscal years ended June 30, 2011 and 2010, we reviewed contract change orders to contracts for Election of 2002 Measure C Bond projects to determine compliance with District policy and the provisions of the California Public Contract Code.

Results of Procedures Performed:

We found that one contract was awarded for the Measure C bond. The contract followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder. The landscape improvements project was awarded to Blossom Valley Construction for \$462,050. In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and was in compliance with applicable provisions of the Public Contract Code. The contract noted above had approved change orders of approximately 4% of the original contract amount. Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Measure C Bond projects in fiscal years 2010-11 and 2009-10.

Establishment of the Citizen's Oversight Committee

Procedures Performed:

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

Results of Procedures Performed:

We found that the District had no Citizen's Oversight Committee (COC) established in conformity Education Code. The results of our auditing procedures disclose instances of non-compliance, as described in the accompany schedule of findings and responses as item #2011-1.

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

In our opinion, the District complied, in all material respects, with the compliance requirements for the Election of 2002 Measure C Bond, for the fiscal years ended June 30, 2011 and 2010, as listed and tested above. However, the results of our auditing procedures disclosed a non-compliance with education code, as described in the accompanying schedule of findings and responses.

Mount Diablo Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's Governing Board, the Election of 2002 Measure C Bond Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Mount Diablo Unified School District and is not intended to be and should not be used by anyone other than these specified parties.


San Diego, California
January 31, 2012

FINDINGS AND RESPONSES SECTION

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Years Ended June 30, 2011 and 2010**

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

Finding #2011-1: Establishment Citizens' Oversight Committee

Criteria: Per Education Code section 15278 through 15282, the District is required to establish a bond oversight committee for Proposition 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bonafide tax payer association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. In addition, the citizens' oversight committee shall convene to provide oversight for, but not be limited to the following:

- Ensuring that bond revenues are expended only for the purposes set forth in Article XIII A of the California Constitution.
- Ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
- Receiving and reviewing copies of the annual, independent financial and performance audit.
- Inspecting school facilities and grounds to ensure that bond revenues are expended in compliance with Article XIII A of the California Constitution.
- Receiving and reviewing copies of any deferred maintenance proposals or plans developed by the District.
- Reviewing efforts by District to maximize bond revenues by implementing cost-saving measures.

Moreover, the citizens' oversight committee shall issue regular reports on the results of its activities. The report shall be issued at least once a year. Minutes of the proceedings of the citizens' oversight committee and all documents received and reports issued shall be a matter of public record and be made available on an Internet website maintained by the governing board.

**ELECTION OF 2002 MEASURE C BOND BUILDING FUND
MOUNT DIABLO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2011**

Finding #2011-1: Establishment Citizens' Oversight Committee (continued)

Condition: We noted that the Election of 2002 Measure C Bond Citizens' Oversight Committee was dissolved.

Cause: Unknown.

Effect: Non-compliance with Education Code Sections 15278 - 15282.

Recommendation: We recommend that the District reelects a citizens' oversight committee (COC) that meets and follows the criterion indicated in the Education Code Sections 15278 through 15282.

District Response: The District has been engaged in an extended recruitment process to reconstitute a COC for the 2002 Measure C Bond Program since October, 2011. Notwithstanding the lack of response to this posted recruitment the District continues to solicit applications from potential candidates and intends to approach eligible members of the standing 2010 Measure C COC in an effort to identify individuals who might also be interested in serving on the 2002 COC.