

**MEASURES "S" AND "A" GENERAL OBLIGATION
BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2011**



**MEASURES “S” AND “A” GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2011

Table of Contents

FINANCIAL SECTION

Page

Independent Auditors' Report 1
Basic Financial Statements:
 Balance Sheet 2
 Statement of Revenues, Expenditures, and Changes in Fund Balances 3
Notes to Financial Statements 4

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..... 8
Independent Auditors' Report on Performance 10

FINDINGS AND RESPONSES

Schedule of Audit Findings and Responses 12
Summary Schedule of Prior Audit Findings 13

Financial Section



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, California

We have audited the accompanying balance sheet of the Measures "S" and "A" General Obligation Bond Building Fund (the "Fund") of San Gabriel Unified School District (the "District") as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance as of and for the year ended June 30, 2011. 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 and the standards applicable to financial and performance audits contained in *Government 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 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Measures "S" and "A" General Obligation Bond Building Fund 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 Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel Unified School District, as of June 30, 2011, and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2012 on our consideration of the Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel 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.

Nigro & Nigro, PC

July 19, 2012

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Balance Sheet

June 30, 2011

	<u>Measure "S"</u>	<u>Measure "A"</u>	<u>Total</u>
ASSETS			
Cash	\$ 2,225,640	\$ 8,536,019	\$ 10,761,659
Investments	250,948	-	250,948
Accounts receivable	950	39,983	40,933
Total Assets	<u>\$ 2,477,538</u>	<u>\$ 8,576,002</u>	<u>\$ 11,053,540</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 7,664	\$ 535,637	\$ 543,301
Fund Balance			
Restricted for capital projects	<u>2,469,874</u>	<u>8,040,365</u>	<u>10,510,239</u>
Total Liabilities and Fund Balance	<u>\$ 2,477,538</u>	<u>\$ 8,576,002</u>	<u>\$ 11,053,540</u>

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

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**
*Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2011*

	<u>Measure "S"</u>	<u>Measure "A"</u>	<u>Total</u>
REVENUES			
Interest earnings	\$ 3,780	\$ 70,771	\$ 74,551
Other local revenues	-	80,942	80,942
Total Revenues	<u>3,780</u>	<u>151,713</u>	<u>155,493</u>
EXPENDITURES			
Plant Services:			
Salaries and benefits	276	192,987	193,263
Materials and supplies	1,415	690,634	692,049
Services	17,192	206,727	223,919
Capital Outlay	-	2,752,175	2,752,175
Total Expenditures	<u>18,883</u>	<u>3,842,523</u>	<u>3,861,406</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,103)</u>	<u>(3,690,810)</u>	<u>(3,705,913)</u>
Fund Balances, July 1, 2010	<u>2,484,977</u>	<u>11,731,175</u>	<u>14,216,152</u>
Fund Balances, June 30, 2011	<u>\$ 2,469,874</u>	<u>\$ 8,040,365</u>	<u>\$ 10,510,239</u>

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

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On March 5, 2002 the District voters authorized \$46,045,000 in General Obligation Bonds (Measure "S") for the purpose of constructing, reconstructing, rehabilitating and replacing school facilities, including the furnishing and equipping of school facilities, and the acquisition or leasing of real property for school facilities. In response, an advisory committee to the District's Governing Board and Superintendent, the Measure "S" Bond Oversight Committee, was established. The Committee's oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, verifying that project plans are in alignment with the budget, and ensuring compliance with conditions of Measure "S".

On February 5, 2008 District voters authorized the District to issue up to \$65,075,000 General Obligation Bonds (Measure "A"). The proceeds of the bonds are being used to finance construction and modernization of facilities and to prepay the outstanding certificates of participation.

The bond proceeds and uses are accounted for in the District's Bond Building Fund. The statements presented are for the individual Measures "S" and "A" General Obligation 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 San Gabriel Unified School 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).

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 of Measures "S" and "A" and Election 2008 General Obligation Bond Building Fund 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 when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due in the District's Bond Interest and Redemption Fund.

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.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2011 are reported at fair value and consisted of the following:

Pooled Funds:	
Cash in County Treasury	<u>\$ 8,839,912</u>
Deposits:	
Cash with fiscal agent	<u>1,921,747</u>
Total Deposits	<u>1,921,747</u>
Total Cash	<u>\$ 10,761,659</u>
Investments:	
Bond Investments	<u>\$ 250,948</u>

Investment security ratings reported as of June 30, 2011 are defined by Standard and Poors.

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2011, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, cash balances held in banks and revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, none of the District's bank balance of was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Investments - Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy limits investment purchases to investments with a term not to exceed three years. Investments purchased with maturity terms greater than three years require approval by the Board of Education. Investments purchased with maturities greater than one year require written approval by the Superintendent prior to commitment. Maturities of investments held at June 30, 2011 consist of the following:

	Rating	Fair Value*	Maturity	
			Less Than One Year	One Year Through Five Years
Investment maturities:				
Federal Home Loan Bank	AAA	\$ 126,473	\$ -	\$ 126,473
Berkshire Hathaway Financial Corp	AA+	51,397	-	51,397
Caterpillar Financial Service	A	25,615	-	25,615
National Rural Utility Cooperative	A+	50,531	50,531	-
Total		<u>\$ 254,016</u>	<u>\$ 50,531</u>	<u>\$ 203,485</u>

* Amounts reported on a cost basis since they do not differ significantly from fair value.

Investments - Credit Risk

The District's investment policy limits investment choices to obligations of local, state and federal agencies, commercial paper, certificates of deposit, repurchase agreements, corporate notes, banker acceptances, and other securities allowed by State Government Code Section 53600. At June 30, 2011, all investments represented governmental securities which were issued, registered and held by the District's agent in the District's name.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments - Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had the following investment that represents more than five percent of the District's net investments.

Federal Home Loan Bank	50%
Berkshire Hathaway Financial Corp	20%
Caterpillar Financial Service	10%
National Rural Utility Cooperative	20%

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable in the amount of \$13,533 represents the amount due from the Los Angeles County Treasurer for interest earnings for the quarter ended June 30, 2011. An additional amount of \$27,400 of accounts receivable is due from IBI Group for a refund on the overpayment of architect fees.

NOTE 4 – GENERAL OBLIGATION BONDS

The general obligation bonds issued as of June 30, 2011 are as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011
2002A	6/12/2002	2/1/2027	3.0% - 5.375%	\$ 28,432,600	\$ 10,972,600	\$ -	\$ 515,000	\$ 10,457,600
2004B	11/18/2004	8/1/2029	2.5% - 4.625%	6,778,892	6,683,892	-	35,000	6,648,892
2005Ref.	1/6/2005	8/1/2025	3.0% - 5.0%	17,955,000	17,205,000	-	80,000	17,125,000
2007C	7/10/2007	8/1/2032	3.75% - 4.75%	10,832,878	10,807,878	-	35,000	10,772,878
2008A	8/12/2008	8/1/2033	3.0% - 5.5%	20,548,245	19,988,245	-	720,000	19,268,245
				<u>\$ 84,547,615</u>	<u>\$ 65,657,615</u>	<u>\$ -</u>	<u>\$ 1,385,000</u>	<u>\$ 64,272,615</u>

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total
2011-12	\$ 1,705,000	\$ 1,533,319	\$ 3,238,319
2012-13	1,190,000	1,508,383	2,698,383
2013-14	1,320,000	1,442,261	2,762,261
2014-15	1,125,000	1,411,324	2,536,324
2015-16	1,270,000	1,375,805	2,645,805
2016-21	11,353,245	6,026,600	17,379,845
2021-26	20,948,619	4,446,656	25,395,275
2026-31	16,167,313	15,251,754	31,419,067
2031-34	<u>9,193,438</u>	<u>8,806,562</u>	<u>18,000,000</u>
Total	<u>\$ 64,272,615</u>	<u>\$ 41,802,664</u>	<u>\$ 106,075,279</u>

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**

To the Board of Trustees and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, California

We have audited the accompanying balance sheet of the Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel Unified School District (the "District") as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2011, and have issued our report thereon dated July 19, 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

In planning and performing our audit, we considered San Gabriel 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 San Gabriel Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Gabriel Unified School District's internal control over financial reporting.

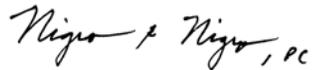
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 was not designed to identify all deficiencies in internal control over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Gabriel 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 Measures "S" and "A" Bond Oversight Committee, the District Governing Board, management, and the taxpayers of San Gabriel Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

July 19, 2012



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

To the Board of Trustees and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, California

We have examined the San Gabriel Unified School District's compliance with the performance requirements for the Proposition 39 Measures "S" and "A" General Obligation Bonds for the fiscal year ended June 30, 2011, 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 District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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.

Objectives

The objectives of the examination of compliance applicable to the District are to determine with reasonable assurance that:

- The expenditures charged to the San Gabriel Unified School District Building Fund are documented.
- Expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measures "S" and "A".
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2010 to June 30, 2011. 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 also included within the scope of our audit. Expenditures incurred subsequent to June 30, 2011 were not reviewed or included within the scope of our audit or in this report.

Procedures Performed

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2011 for the Building Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measures "S" and "A" with regards to the approved bond projects list. We performed the following procedures:

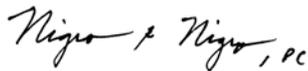
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We tested approximately \$2.2 million in bond fund invoices paid. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to the subcontractors and other vendors.
- We reviewed the approved project listing as set out in the Measures "S" and "A" election documents.
- We visited construction sites at Jefferson Middle and Del Mar High School to ensure that expenditures made corresponded with the actual work performed at the site.
- We 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 and we verified that funds held in the Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to Public Contract Code Section 20111.
- We verified that the District did not exceed change order limitations in excess of 10% pursuant to Public Contract Code.

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

In our opinion, the District complied with the compliance requirements for the Measures "S" and "A" General Obligation Bonds proceeds listed and tested above.

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



July 19, 2012

Findings and Responses

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**
Schedule of Audit Findings and Responses
June 30, 2011

There were no findings for the fiscal year ended June 30, 2011.

MEASURES “S” AND “A” GENERAL OBLIGATION BOND BUILDING FUND OF SAN GABRIEL UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2011

Original Finding No.	Finding	Recommendation	Current Status
<i>Finding 2010-1: Unallowable Salary Charged</i>	The District charges the salary for the Project Manager to the sub-fund established for the 2002 Measure “S” Bond. The official ballot measure language for this bond states that no money shall be used for salaries or administrative expenses.	The District should transfer all salaries charged to the 2002 bond sub-fund into another fund which accepts this position salary as an allowable cost. The District should familiarize management with the official ballot measure for bonds in order to prevent the use of bond funds towards unallowable expenses.	Implemented.
<i>Finding 2010-2: Citizens’ Oversight Committee Meeting Minutes</i>	The District does not maintain documents noting the activity taking place during all of the Citizens’ Oversight Committee meetings. The District does not post all of the Citizens’ Oversight Committee Meetings on a website maintained by the District in accordance with Education Code Section 15280 (b).	The District should maintain complete and accurate records documenting all of the activity of the Citizens’ Oversight Committee Meetings. The District should also post all of the Citizens’ Oversight Committee Meeting minutes online in a timely manner.	Implemented.