

MEASURES R AND S BOND BUILDING FUND

**PALOS VERDES PENINSULA
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

June 30, 2009

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2009
Table of Contents**

| | <u>Page</u> |
|---|-------------|
| Introduction and Citizens' Oversight Committee Member Listing..... | 1 |
| Independent Auditors' Report..... | 2 |
| FINANCIAL STATEMENTS | |
| Balance Sheet..... | 4 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance..... | 5 |
| Notes to Financial Statements..... | 6 |
| OTHER AUDITORS' REPORTS | |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 14 |
| Independent Auditors' Report on Performance..... | 16 |
| FINDINGS AND RESPONSES SECTION | |
| Schedule of Findings and Responses..... | 20 |

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2009**

Palos Verdes Peninsula Unified School District (the "District") consists of one early childhood center, ten elementary schools, three grades 6-8 intermediate schools, two comprehensive high schools, and one continuation school. The District serves approximately 12,000 students.

In November 2005, the voters of Palos Verdes Peninsula Unified School District approved by more than 55% Measures R and S, authorizing the issuance and sale of \$40,000,000 of general obligation bonds. Of the \$40,000,000 authorization, \$30,000,000 is attributable to Measure R and \$10,000,000 is attributable to Measure S.

On March 9, 2006, Series 2006 of the bonds were sold and consisted of general obligation bonds of \$36,873,221 with stated interest rates of 3.5% to 5.0% and fully maturing on March 1, 2031. The March 2006 bond issuance included \$11,865,000 in general obligation refunding bonds for the purpose of advance refunding a portion of the District's outstanding Election of 2000, Series B general obligation bonds. The remainder of the March 2006 bond issuance, \$25,008,221, is for the purpose of District construction, repair, and improvement projects as approved by the voters in Measures R and S. At June 30, 2009 the principal balance outstanding on the Measures R and S bonds was \$25,801,809, including accreted interest on the capital appreciation bonds. The principal balance outstanding of all bonded debt of the District was \$73,358,344.

Measures R and S were Proposition 39 bonds, issued by Palos Verdes Peninsula 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, 2009:

- John Resich, Chairperson
- Donald Reeves, Vice Chairperson
- Dina Aryan-Zahlan, Member
- Alvin Hughes, Member
- Cathy Hendrickson, Member
- Maarten Oversier, Member
- Randy Smith, Member
- David Wagman, Member

Measures R and S Citizens' Bond Oversight Committee and
Governing Board Members of
Palos Verdes Peninsula Unified School District
Palos Verdes Estates, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of the Measures R and S Bond Building Fund of Palos Verdes Peninsula Unified School District (the "District") as of June 30, 2009 and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2009. 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 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 R and S 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 R and S Bond Building Fund of Palos Verdes Peninsula Unified School District as of June 30, 2009, and the results of its operations for the year 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 November 22, 2009 on our consideration of the Measures R and S Bond Building Fund of Palos Verdes Peninsula 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.

Nigro Nigro & White, PC

San Diego, California
November 22, 2009

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2009**

| | Measure R Bond | Measure S Bond | Total Building Fund |
|---|---------------------|-------------------|------------------------|
| ASSETS | | | |
| Cash in county treasury | \$ 2,423,290 | \$ 36,082 | \$ 2,459,372 |
| Interest receivable | 17,594 | - | 17,594 |
| Total Assets | <u>\$ 2,440,884</u> | <u>\$ 36,082</u> | <u>\$ 2,476,966</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,985,342 | \$ 43,694 | \$ 2,029,036 |
| Total Liabilities | <u>1,985,342</u> | <u>43,694</u> | <u>2,029,036</u> |
| Fund Balance | | | |
| Unreserved | 455,542 | (7,612) | 447,930 |
| Total Liabilities and Fund Balance | <u>\$ 2,440,884</u> | <u>\$ 36,082</u> | <u>\$ 2,476,966</u> |

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

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2009**

| | Measure R Bond | Measure S Bond | Total Building Fund |
|---------------------------------------|-------------------|-------------------|------------------------|
| REVENUES | | | |
| Interest earnings | \$ 199,054 | \$ 6,706 | \$ 205,760 |
| Total Revenues | <u>199,054</u> | <u>6,706</u> | <u>205,760</u> |
| EXPENDITURES | | | |
| Facility acquisition and construction | <u>11,317,566</u> | <u>992,970</u> | <u>12,310,536</u> |
| Total Expenditures | <u>11,317,566</u> | <u>992,970</u> | <u>12,310,536</u> |
| Net Change in Fund Balance | (11,118,512) | (986,264) | (12,104,776) |
| Fund Balance, July 1, 2008 | <u>11,574,054</u> | <u>978,652</u> | <u>12,552,706</u> |
| Fund Balance, June 30, 2009 | <u>\$ 455,542</u> | <u>\$ (7,612)</u> | <u>\$ 447,930</u> |

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

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Palos Verdes Peninsula Unified School District serves the four Peninsula cities and is located in Los Angeles County. The District is currently operating one early childhood center, ten elementary schools, three grades 6-8 intermediate schools, two comprehensive high schools, and one continuation school.

In November 2005, the voters of Palos Verdes Peninsula Unified School District approved by more than 55% Measures R and S, authorizing the issuance and sale of \$40,000,000 of general obligation bonds for the purpose of: replacing sewer and water lines, improving fire alarms, upgrading heating/ventilation, replacing portable buildings, constructing classrooms to accommodate growth, improving seismic safety, and completing projects in the District's facilities plan.

An advisory committee to the District's Governing Board and Superintendent, called the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include: actively review and report on the proper expenditure of taxpayers' money for school construction; monitor District compliance with Article XIII A of the California Constitution and advise the public accordingly; provide for communication with and from the community on all issues related to Measures R and S; and report to the Palos Verdes Peninsula Unified School District Board of Education at least once per year on all Measure R and S activities.

The statements presented are for the individual Measures R and S 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).

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

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 Los Angeles 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.

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

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 – CASH

Cash as of June 30, 2009 consists of the following:

| <u>Cash in County Treasury</u> | |
|--------------------------------|---------------------|
| Building Fund Measure R | \$ 2,423,290 |
| Building Fund Measure S | 36,082 |
| Total | <u>\$ 2,459,372</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.

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 2 – CASH (continued)

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.

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 some 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 on the next page:

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 2 – CASH (continued)

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 Los Angeles County Investment Pool with a fair value at June 30, 2009 of approximately \$2,470,685, and an amortized book value of \$2,459,372. The weighted average maturity for the Los Angeles County Investment Pool is 495 days as of June 30, 2009.

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 may be measured by the assignment of a rating by a nationally recognized credit rating organization. The individual investments within the Los Angeles County Investment Pool are rated at least A by Moody's Investors Service.

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 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of \$17,594 of interest earned on the District's investment in the County Treasury.

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 4 – MEASURES R AND S GENERAL OBLIGATION BONDS

On March 9, 2006, the Palos Verdes Peninsula Unified School District issued Series 2006 General Obligation Bonds in the amount of \$36,873,221. The issue included Measure R, Series 2006 Bonds of \$23,004,233 and Measure S, Series 2006 Bonds of \$2,003,988. Stated interest rates for this issue range from 3.5% to 5.0%, with capital appreciation accretion rates ranging from 4.96% to 7.65%. At June 30, 2009 the principal balance outstanding was \$24,269,935 for Measure R and \$1,531,874 for Measure S.

The annual requirements to amortize the Measures R general obligation bonds payable of the District, outstanding as of June 30, 2009, are as follows:

| Fiscal Year | Current Interest Bonds | | |
|-------------|------------------------|---------------------|----------------------|
| | Principal * | Interest | Total |
| 2009-10 | \$ 55,000 | \$ 679,962 | \$ 734,962 |
| 2010-11 | 115,000 | 678,038 | 793,038 |
| 2011-12 | 165,000 | 673,725 | 838,725 |
| 2012-13 | 210,000 | 667,538 | 877,538 |
| 2013-14 | 265,000 | 659,138 | 924,138 |
| 2014-19 | 2,435,000 | 3,065,738 | 5,500,738 |
| 2019-24 | 4,865,000 | 2,372,010 | 7,237,010 |
| 2024-28 | 6,510,000 | 854,000 | 7,364,000 |
| Total | <u>\$ 14,620,000</u> | <u>\$ 9,650,149</u> | <u>\$ 24,270,149</u> |

* Principal excludes accreted interest of \$9,649,933 as of June 30, 2009

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 4 – MEASURES R AND S GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize the Measures S general obligation bonds payable of the District, outstanding as of June 30, 2009, are as follows:

| Fiscal Year | Current Interest Bonds | | |
|-------------|------------------------|-------------------|---------------------|
| | Principal * | Interest | Total |
| 2009-10 | \$ 295,000 | \$ 55,019 | \$ 350,019 |
| 2010-11 | 15,000 | 44,694 | 59,694 |
| 2011-12 | 20,000 | 44,131 | 64,131 |
| 2012-13 | 20,000 | 43,381 | 63,381 |
| 2013-14 | 25,000 | 42,681 | 67,681 |
| 2014-19 | 215,000 | 193,806 | 408,806 |
| 2019-24 | 405,000 | 135,050 | 540,050 |
| 2024-28 | 365,000 | 33,031 | 398,031 |
| Total | <u>\$ 1,360,000</u> | <u>\$ 591,793</u> | <u>\$ 1,951,793</u> |

* Principal excludes accreted interest of \$171,876 as of June 30, 2009

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009**

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2009, the District had commitments with respect to unfinished capital projects as shown:

| <u>Project Description</u> | <u>Remaining Commitments</u> |
|---------------------------------|----------------------------------|
| Measure R Construction Projects | \$ 4,434,911 |
| Total | <u>\$ 4,434,911</u> |

NOTE 6 – NEGATIVE FUND BALANCE

As of June 30, 2009 there was a deficit in the Measure S Fund amounting to \$7,612. Unrestricted General Fund dollars will cover the negative Bond Building Fund balance at the close of the bond program.

Measures R and S Citizens' Oversight Committee and
Governing Board Members of
Palos Verdes Peninsula Unified School District
Palos Verdes Estates, California

**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***

We have audited the financial statements of Measures R and S Bond Building Fund of Palos Verdes Peninsula Unified School District (the District) as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated November 22, 2009. We conducted our audit in accordance with generally accepted auditing standards 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 the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 the District's Measures R and 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 Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
November 22, 2009

Measures R and S Citizens' Oversight Committee and
Governing Board Members of
Palos Verdes Peninsula Unified School District
Palos Verdes Estates, California

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

We have audited the financial statements of the Measures R and S Bond Building Fund of the Palos Verdes Peninsula Unified School District (the "District") as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated November 22, 2009. Our audit was made in accordance with generally accepted auditing standards in the United States 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 audit, we also performed an audit for compliance as required in the performance requirements for the Proposition 39/Measures R and S General Obligation Bonds for the fiscal year ended June 30, 2009. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measures R and S Bonds were only used for the purposes set forth in the ballot 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 Proposition, evaluated the remodeling, new construction and renovations of items which will repair local schools and improve student safety conditions of the District.

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 or abuse regarding Measure R and S projects
- Ensure adequate separation of duties exists in the accounting for Measure R and S funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)

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 year 2008-09 financial statement balances for the Measure R and S Bond 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. An unqualified opinion was expressed on the financial statements.

| |
|-----------------------------|
| Facilities Site Walk |
|-----------------------------|

Procedures Performed:

We performed a site walk to verify that Measure R and S funds expended for the fiscal year ended June 30, 2009 were for valid facilities acquisition and construction purposes. NNW toured three District construction sites where 2008-09 construction work occurred: Malaga Cove, Palos Verdes High School and Palos Verdes Peninsula High School.

Results of Procedures Performed:

Malaga Cove was undergoing substantial modernization of the school site including painting, plumbing, fire alarm installation, flooring, ceiling replacements, lighting, electrical and site irrigation. Palos Verdes Peninsula High School was undergoing modernization of the administration building which included restoring restrooms, electrical, lighting, and new shelves and cabinets. Palos Verdes High School's Pool and Gymnasium floor were installed as of the date of our audit. We found that construction projects observed were for valid facilities and construction purposes set forth in the ballot measures.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

We tested expenditures to determine whether Measure R and S funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure R and S ballot measure language). The expenditure test included a sample of 39 payments, totaling \$2.5 million.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Measure R and S ballot measure and applicable State laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2009, NNW performed testing of 3 contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

- Project: Malaga Cove Modernization, Construction/Modernization
Original Contract Award Amount: \$6,105,000

- Project: Science Lab Building at PVHS, Buildings Installation
Original Contract Award Amount: \$1,384,345

- Project: Valmonte Modernization, Construction/Modernization
Original Contract Award Amount: \$849,000

Test of Contracts and Bid Procedures (continued)

Results of Procedures Performed:

We found that the contracts tested followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder.

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 with the compliance requirements for the Measure R and S General Obligation Bonds as listed and tested above.

This report is intended solely for the information and use of the Measure R and S Citizens' Oversight Committee, the District's Governing Board, management, and the taxpayers of Palos Verdes Peninsula Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Nigro Nigro & White, PC

San Diego, California
November 22, 2009

Findings and Responses Section

**MEASURES R AND S BOND BUILDING FUND
OF PALOS VERDES PENINSULA UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
June 30, 2009**

This section of the report presents the findings of the audit of the Measures R and S Bond Building Fund for the fiscal year ended June 30, 2009, as well as the District's responses to the findings. There were no audit findings to report in 2008-09.