

**MEASURE J
BOND BUILDING FUND
OF
PITTSBURG UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Bond Oversight Committee Member Listing
June 30, 2010**

Pittsburg Unified School District ("the District") was established in 1933 and covers approximately 61 square miles. The District provides education for grades K-12 and is currently operating: eight elementary schools, two middle schools, a comprehensive high school, a continuation high school, an adult education program, and an independent study and alternative learning center.

On November 7, 2006, the voters of Contra Costa County approved by more than 55% Measure J, authorizing the issuance and sale of \$85,000,000 of general obligation bonds. On September 26, 2007, the District issued Series A of the Election of 2006 General Obligation Bonds in the amount of \$15,000,000. On May 12, 2010, the District issued Series B of the Election of 2006 General Obligation Bonds in the amount of \$35,000,000.

Measure J was a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability measures. 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 measure pursuant to the 55% majority authorized in Measure J including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond proceeds.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2010:

| Name | Title | Representation |
|--------------------|--------------|-----------------------------|
| Ron Quesada | President | Chamber of Commerce |
| Marvin Pounds | Member | Community At Large Member |
| Eddie Hart, Jr. | Member | Community At Large Member |
| Anthony Blackman | Member | Community At Large Member |
| Guadalupe Balderas | Member | DELAC Parent |
| Fran Confetti | Member | Senior Citizen Organization |
| Andre Mims | Member | District Parent |
| De'Shawn Woolridge | Member | Community At Large Member |
| Richard Tomlinson | Member | School Site Council Parent |



Governing Board Members and
Measure J Citizens' Bond Oversight Committee
Pittsburg Unified School District
Pittsburg, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Measure J Bond Building Fund of Pittsburg Unified School District and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2010. These financial statements are the responsibility of Pittsburg Unified School 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 Measure J Bond Building Fund and are not intended to present fairly the financial position of Pittsburg Unified School 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 Measure J Bond Building Fund of Pittsburg Unified School District as of June 30, 2010 and for the fiscal 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 February 17, 2011 on our consideration of Measure J Bond Building Fund of Pittsburg Unified School District's internal control over financial reporting and 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Measure J Bond Building Fund of Pittsburg Unified School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Christine White (Accountancy Corporation)

San Diego, California

February 17, 2011

Financial Section

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Balance Sheet
June 30, 2010

ASSETS

| | | |
|-------------------------|----|--------------------------|
| Cash in county treasury | \$ | 12,497,797 |
| Investments | | <u>691</u> |
| Total assets | \$ | <u><u>12,498,488</u></u> |

LIABILITIES AND FUND BALANCE

Liabilities

| | | |
|-------------------|----|------------------|
| Accounts payable | \$ | <u>1,162,071</u> |
| Total liabilities | | <u>1,162,071</u> |

Fund Balance

| | | |
|------------------------------------|----|--------------------------|
| Reserved for capital projects | | <u>11,336,417</u> |
| Total liabilities and fund balance | \$ | <u><u>12,498,488</u></u> |

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

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2010

| | |
|---------------------------------------|----------------------|
| REVENUES | |
| Earnings on investments | \$ 105,109 |
| | <u>105,109</u> |
| Total revenues | <u>105,109</u> |
| EXPENDITURES | |
| Facility acquisition and construction | 23,031,755 |
| | <u>23,031,755</u> |
| Total expenditures | <u>23,031,755</u> |
| Deficiencies of Revenues | |
| Under Expenditures | <u>(22,926,646)</u> |
| OTHER FINANCING SOURCES | |
| Transfers in | 14,127,253 |
| | <u>14,127,253</u> |
| Total other financing sources | <u>14,127,253</u> |
| Net Change in Fund Balance | <u>(8,799,393)</u> |
| Fund Balance, July 1, 2009 | <u>20,135,810</u> |
| Fund Balance, June 30, 2010 | <u>\$ 11,336,417</u> |

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

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pittsburg Unified School District, (“the District”) was founded in 1933 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 eight elementary schools, two middle schools, a comprehensive high school, a continuation high school, an adult education program, and an independent study and alternative learning center.

On November 7, 2006 the District voters authorized \$85,000,000 in general obligation bonds (Measure J) to build new classrooms that emphasize science, technology, and vocational rooms, separate ninth and tenth grade classrooms and facilities, upgrade the cafeteria and library, renovate restrooms, and upgrade electrical and plumbing systems at Pittsburg high schools. Pittsburg Unified School District is authorized to repair, replace, construct and renovate school facilities and equipment.

An advisory committee to the District’s Governing Board and Superintendent, called the Measure J Citizens’ Bond Oversight Committee, was established. The Committee’s oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, verifying the project plans are in alignment with the budget, and ensuring compliance with the conditions of Measure J.

The statements presented are for the individual Measure J 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).

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 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 collected 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 substantial 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.

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 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. The adopted and final budget are presented for the Measure J Bond Building Fund in the supplementary information section.

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 AND INVESTMENTS

Summary of Investments

Cash and investments as of June 30, 2010 included \$691 held in the Local Agency Investment Fund (LAIF) and cash in the Contra Costa County Treasury Pool amounting to \$12,497,797.

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 proceed 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.

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Policies and Practices (continued)

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.

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 |

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations (continued)

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

Investments – The investments are held with the Local Agency Investment Fund (LAIF). The program is offered to local agencies and is also part of Pool Money Investment Account (PMIA). The investment has a fair market value of \$692 and an amortized book value of \$691.

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's Measure J Bond Building Fund maintains an investment with the Contra Costa County Investment Pool with a fair value of approximately \$12,522,793 and an amortized book value of \$12,497,797. The weighted average maturity for this pool is 122 days.

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. The individual investments within the Contra Costa County Investment Pool are rated at A 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.

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 3 – MEASURE J GENERAL OBLIGATION BONDS

2008 General Obligation Bond

On September 26, 2007, the District issued Series A of the Election of 2006 Measure J General Obligation Bonds in the amount of \$15,000,000 with issuance costs of \$287,650 and interest rates that range from 4.0% - 8.0%.

At June 30, 2010, the principal balance outstanding on these bonds was \$12,000,000. The annual requirements to amortize the District's Measure J, Series A, general obligation bonds outstanding as of June 30, 2010, is as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2010-11 | \$ 350,000 | \$ 533,299 | \$ 883,299 |
| 2011-12 | 355,000 | 506,874 | 861,874 |
| 2012-13 | 380,000 | 486,374 | 866,374 |
| 2013-14 | 390,000 | 470,011 | 860,011 |
| 2014-15 | 415,000 | 452,905 | 867,905 |
| 2016-2020 | 2,210,000 | 1,997,450 | 4,207,450 |
| 2021-2025 | 2,525,000 | 1,516,591 | 4,041,591 |
| 2026-2030 | 3,115,000 | 901,256 | 4,016,256 |
| 2031-2033 | 2,260,000 | 164,885 | 2,424,885 |
| Total | <u>\$ 12,000,000</u> | <u>\$ 7,029,645</u> | <u>\$ 19,029,645</u> |

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 3 – MEASURE J GENERAL OBLIGATION BONDS (continued)

2010 General Obligation Bond

On May 12, 2010, the District issued Series B of the Election of 2006 Measure J General Obligation Bonds in the amount of \$35,000,000 with issuance costs of \$718,382 and interest rates that range from 2.5% - 5.0%.

At June 30, 2010, the principal balance outstanding on these bonds was \$35,000,000. The annual requirements to amortize the District’s Measure J, Series B, general obligation bonds outstanding as of June 30, 2010, is as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|----------------------|----------------------|
| 2010-11 | \$ 140,000 | \$ 1,812,588 | \$ 1,952,588 |
| 2011-12 | 455,000 | 1,803,663 | 2,258,663 |
| 2012-13 | 470,000 | 1,790,963 | 2,260,963 |
| 2013-14 | 485,000 | 1,778,419 | 2,263,419 |
| 2014-15 | 490,000 | 1,761,950 | 2,251,950 |
| 2016-2020 | 2,915,000 | 8,470,450 | 11,385,450 |
| 2021-2025 | 3,855,000 | 7,662,628 | 11,517,628 |
| 2026-2030 | 4,850,000 | 6,630,281 | 11,480,281 |
| 2031-2035 | 7,975,000 | 5,032,569 | 13,007,569 |
| 2034-2040 | 13,365,000 | 1,961,016 | 15,326,016 |
| Total | <u>\$ 35,000,000</u> | <u>\$ 38,704,527</u> | <u>\$ 73,704,527</u> |

NOTE 4 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2010, Measure J Bond Building Fund expenditures exceeded appropriations as follows:

| | |
|---|------------|
| Classified salaries | \$ 89,005 |
| Employee benefits | \$ 30,896 |
| Books and supplies | \$ 487,656 |
| Services and other Operating Expenditures | \$ 203,793 |

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 5 – CONSTRUCTION COMMITMENTS

As of June 30, 2010, the District had commitments with respect to unfinished capital projects to be paid from Measure J bond funds.

NOTE 6 – INTERFUND TRANSACTIONS

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

The County School Facilities Fund transferred \$7,929,013 into the Measure J Bond Building Fund during the fiscal year 2009-10 for CTE grants obtained for capital projects relating to Pittsburg High School. Also, the Capital Facilities Fund transferred \$6,198,240 into the Measure J Bond Building Fund for reimbursement payments made on the certificate of participation.

Supplementary Information Section

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT**
Budgetary Comparison Schedule – Measure J Bond Building Fund
For the Fiscal Year Ended June 30, 2010

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance with Final Budget - Pos (Neg) |
|--|------------------|----------------|-----------------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Earnings on investments | \$ 200,000 | \$ 200,000 | \$ 105,109 | \$ 94,891 |
| Total revenues | 200,000 | 200,000 | 105,109 | (94,891) |
| Expenditures | | | | |
| Classified salaries | - | - | 89,005 | (89,005) |
| Employee benefits | 145 | 145 | 31,041 | (30,896) |
| Books and supplies | - | - | 487,656 | (487,656) |
| Services and other operating expenditures | - | 26,376 | 229,569 | (203,193) |
| Capital outlay | 60,347,184 | 50,799,648 | 22,194,484 | 28,605,164 |
| Total expenditures | 60,347,329 | 50,826,169 | 23,031,755 | 27,794,414 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (60,147,329.00) | (50,626,169) | (22,926,646) | 27,699,523 |
| Other Financing Sources | | | | |
| Transfers in | 17,026,647 | 23,557,890 | 14,127,253 | (9,430,637) |
| Total other financing sources | 17,026,647 | 23,557,890 | 14,127,253 | (9,430,637) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (43,120,682) | (27,068,279) | (8,799,393) | 18,268,886 |
| Fund Balances, July 1, 2009 | 42,449,444 | 20,135,810 | 20,135,810 | - |
| Fund Balances, June 30, 2010 | \$ (671,238) | \$ (6,932,469) | \$ 11,336,417 | \$ 18,268,886 |

Other Independent Auditor's Reports

Governing Board Members and
Measure J Citizens' Bond Oversight Committee
Pittsburg Unified School District
Pittsburg, 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**

Independent Auditor's Report

We have audited the financial statements of Measure J Bond Building Fund of Pittsburg Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated February 17, 2011. 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 the Measure J Bond Building Fund of Pittsburg Unified School District's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Measure J Bond Building Fund of Pittsburg Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Measure J Bond Building Fund of Pittsburg 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as Findings #2010-1 through #2010-2 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure J Bond Building Fund of Pittsburg 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 grants, 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*.

Pittsburg Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Pittsburg Unified School District's responses and, accordingly, we express no opinion on them.

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

Chintalvi Accountancy Corporation

San Diego, California
February 17, 2011

Governing Board Members and
Measure J Citizens' Bond Oversight Committee
Pittsburg Unified School District
Pittsburg, California

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have audited the financial statements of the Measure J Bond Building Fund of the Pittsburg Unified School District ("the District") as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated February 17, 2011. 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 recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations 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 Measure J General Obligation Bond for the fiscal year ended June 30, 2010. 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 Measure J 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.

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 construction management and management of the District office regarding internal controls to:

- Prevent fraud, waste, or abuse regarding Measure J resources
- Ensure adequate separation of duties exists in the business services department for Measure J funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)

Construction Management:

Through our inquiry, it was determined that RGM & Associates (Construction Management) has been handling facility projects at the District for approximately 8 years. RGM employs their own accountant who tracks all contracts, purchase orders, and payments. The invoices are approved by the lead construction manager of each project that the invoice was associated with. The invoice is forwarded for approval to others as appropriate, such as, California Design (Architect) or the inspector of the projects. Once invoices are approved by the outside parties involved, it is further processed and sent to the District's business services department. Additionally, RGM assists the District with the bidding of project for services. RGM prepares a detailed request for proposal for services which the District reviews and revises as necessary before it is published and sent to competing vendors.

Business Services:

When business services receives the invoice, it is reviewed and approved by the Director of Finance and then forwarded to accounts payable for the invoice to be math and price verified and compared to the purchase ordered for accuracy. The accounts payable clerks will then enter the invoice for payment into the RUMBA system (general ledger system). A report is generated and sent to the Contra Costa County Office of Education for the warrants to prepared and printed. The County Office of Education prepares all warrants once approved and returns them to the District. It is the District's responsibility to review the warrants that are issued by the County Office of Education to ensure accuracy and to send the payment to the appropriate vendor. The District's Accounting Supervisor and the District's accounts payable clerks meet with RGM's accountant to reconcile the facilities payment/billing activity to the general ledger every week.

Internal Control Evaluation (continued)

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 2009-10 financial statement balances for the Measure J Bond Fund were not materially misstated. Furthermore, we performed a walk-through of the contract bid and payment processing cycles with staff involved to ensure procedures were being performed.

Results of Procedures Performed:

Overall, the results of audit 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. However, we do have some recommendations noted as in Findings #2010-1 through #2010-2 in the accompanying Schedule of Findings and Responses designed to help improve the internal controls over payment processing.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Measure J funds expended for the fiscal year ended June 30, 2010 were for valid facilities acquisition and construction purposes. We toured Pittsburg High School site where 2009-10 construction work occurred.

Results of Procedures Performed:

Within Building B at Pittsburg High School, we noted that new storage lockers for the students were installed. The building was equipped with new carpet, laminates flooring and newly surfaced ceilings with lighting fixtures. Classrooms were outfitted with new white board screens and premium sound systems. The renovation of the elevator pit was near completion. In addition, dual pane windows were installed in all areas of the building. Lastly, concrete paving was poured and lighting fixtures were installed outside of the building which leads to the entrance/exit of the school.

Pittsburg High School had fresh cement poured in the courtyard area with the new patio and concession stand areas built for student use.

Buildings C, D, E, and F had construction in these areas. These areas included work on the technology building classrooms, the gym, and girls' locker room.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested approximately \$20.5 million (89%) of the 2009-10 expenditures (23 separate vendor payments) for validity, allowability and accuracy. Expenditures sampled in our test included payments made to the construction management company, architects and other vendors.
2. We tested payments made to RGM & Associates, the Measure J construction management company, California Design West, the architects, and S.J. Amoroso, the general contractor. We obtained the contracts for the companies listed above and ensured that position rates per contract were accurately billed to the District.

Results of Procedures Performed:

We found the expenditures tested to be in compliance with the terms of the Measure J ballot and applicable State laws and regulations without exception. Also, our analysis indicated that the District is receiving program management services that are reasonable as compared to other school districts, with regard to billing rates, hours charged, and the ratio of consultants to District employees.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2010, we did not perform bidding procedures due to no construction contracts being subject to formal bidding requirements determined by the District's bidding policy and Public Contract Code provisions related to contracting and bidding.

Citizens' Oversight Committee

Procedures Performed:

In accordance with AB (Assembly Bill) 1908 and Education Code Section 15278, the District is required to establish a bond oversight committee for Prop 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers association, 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.

Results of Procedures Performed:

We found that the District's Governing Board has not selected members of all sectors required by Education Code 15278. However, the District advertised the vacant committee position in the newspaper and on the internet. We noted that the District was unsuccessful in gaining any applicants who are active in a taxpayers' organization but will continue to make the position available should a qualified candidate come forward.

Our audit of compliance made for the purpose 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 Measure J General Obligation Bond, for the fiscal year ended June 30, 2010, as listed and tested above.

Pittsburg Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Pittsburg Unified School District's responses and, accordingly, we express no opinion on them.

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

Christine White
Accountancy Corporation

San Diego, California
February 17, 2011

Findings and Responses Section

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2010**

Finding #2010-1: Accounts Payable vs. Purchasing Function

Finding: We noted the District does not have a separate department devoted to purchasing functions. Currently, the Accounts Payable Department sets up new vendors and makes payments, creating a lack of segregation of duties. The lack of segregation of duties could cause fictitious vendors to be setup and fraudulent payments to be made.

Recommendation: We recommend that the District segregate the vendor set-up function to an individual who is separate from the Accounts Payable Department. Vendor set-up ability should be a function of the Purchasing department.

District Response: The Board of Education is considering the establishment of a purchasing position to segregate the duties between Accounts Payable and Purchasing functions.

Finding #2010-2: Expenditure Testing

Finding: Pre-approval of expenditures is an important function that helps the District ensure that they are within their spending limits. During the expenditure testing, we noted 2 of 23 expenditures tested, nearly 9%, had purchase orders dated after the invoice date.

Recommendation: We recommend that the District establishes purchase orders prior to payment of all vendors to ensure purchase requisitions are approved; budgeted funds are sufficient and final purchase orders are signed and distributed to all affected parties. Blanket purchase orders may be implemented at the beginning of the year for frequently used vendors

District Response: The District has established procedures to eliminate this deficiency as well as provided training to staff.

**MEASURE J BOND BUILDING FUND OF
PITTSBURG UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010**

There were no finding and responses in 2008-09.