

**MEASURE K
BOND BUILDING FUND OF
ORLAND UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

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

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

The Orland Unified School District was established as a unified school district in July 1997. The District is located approximately 100 miles north of Sacramento, in the Northern Sacramento River Valley, primarily in Glenn County, with about 2% of the District lying in Tehama County. The District encompasses approximately 313 square miles serving approximately 2,223 students. The District currently operates two elementary schools (one K-2 and one 3-5), one intermediate school (grades 6-8), one high school, one continuation high school and two community day schools.

In February 2008, the voters of Orland Unified approved by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bonds, not to exceed \$21,900,000. Measure K is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the Bond until all of the proceeds have been expended for facilities projects.

The Measure K Bonds were issued by the District, through the County of Glenn. On June 4, 2008, Series 2008 Bonds of the Measure K Bond authorization were issued, which consisted of general obligation Bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. As of June 30, 2010, the principal balance outstanding on the Measure K Series 2008 bond was \$7,950,000. On March 24, 2010, Series 2010 anticipation notes of the Measure K Bond authorization were issued, which consisted of Bond revenue anticipation notes in the amount of \$3,997,019 with a stated interest rate of 3.00% and maturing through April 1, 2012. As of June 30, 2010, the principal balance outstanding on the Measure K Series 2008 bond was \$3,997,019.

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 K 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, 2010:

Name	Representation
Ms. Jan Lacy	Senior Citizens' Organization
Ms. Carolyn Pendergrass	Business Community
Mr. Dustin Coughlin	Business Community
Mr. John Erickson	Business Community
Mr. Greg Cochrane	Parent Organization
Ms. Lorraine Hefty	Community at Large
Ms. Shannan Ovard	Community at Large

Measure K Citizens' Bond Oversight Committee and
Governing Board Members of
Orland Unified School District
Orland, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Measure K Bond of Orland Unified School District (the "District") as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2010. 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 Measure K Bond, consisting of the construction proceeds and expenditures of Measure K general obligation bond and bond anticipation notes as issued by the District, through the County of Glenn, 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 Measure K Bond of Orland Unified School District as of June 30, 2010, and the results of its operations for the fiscal year ended June 30, 2010, 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 23, 2011, on our consideration of Orland Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Christy White Accountancy Corporation

San Diego, California
February 23, 2011

Financial Section

**MEASURE K BOND BUILDING FUND
OF ORLAND UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2010**

ASSETS

Cash in county treasury	\$	2,874,282
Accounts receivable		<u>5,793</u>

Total Assets	\$	<u>2,880,075</u>
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LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	501,587
Due to other funds		<u>280,000</u>

Total Liabilities		<u>781,587</u>
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Fund Balance

Unreserved		<u>2,098,488</u>
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Total Liabilities and Fund Balance	\$	<u>2,880,075</u>
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The notes to financial statements are an integral part of this statement.

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

REVENUES	
Operating grants and contributions	\$ 16,984
Total Revenues	<u>16,984</u>
EXPENDITURES	
Facilities acquisition and construction	3,442,817
Costs of issuance	150,976
Plant services	<u>103,338</u>
Total Expenditures	<u>3,697,131</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,680,147)</u>
OTHER FINANCING SOURCES	
Proceeds from long-term debt	3,997,019
Premiums on bond issuance	199,470
Interfund transfers in	554,946
Interfund transfers out	<u>(328,494)</u>
Total Other Financing Sources	<u>4,422,941</u>
Net Change in Fund Balance	742,794
Fund Balance, July 1, 2009	<u>1,355,694</u>
Fund Balance, June 30, 2010	<u><u>\$ 2,098,488</u></u>

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Orland Unified School District was established as a unified school district in July 1997. The District currently operates two elementary schools (one K-2 and one 3-5), one intermediate school (grades 6-8), one high school, one continuation high school and two community day schools.

In February 2008, the voters of Glenn County approved by more than the required 55% favorable vote, Measure K, authorizing the issuance and sale of general obligation bond, not to exceed \$21,900,000. Measure K is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the Bond until all of the proceeds have been expended for facilities projects.

The Measure K Bonds were issued by the District, through the County of Glenn. On June 4, 2008, Series 2008 Bonds of the Measure K Bond authorization were issued, which consisted of general obligation bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. On March 24, 2010, Series 2010 anticipation notes of the Measure K Bond authorization were issued, which consisted of bond revenue anticipation notes in the amount of \$3,997,019 with a stated interest rate of 3.00% and maturing through April 1, 2012.

An advisory committee to the District's Governing Board and Superintendent, called the Measure K Citizens' Bond Oversight Committee, was established pursuant to the requirements of State law and the provisions of Measure K.

The statements presented are for the Measure K Bond of the District, consisting of the net construction proceeds of Measure K Series 2008 general obligation bond and Series 2010 bond anticipation notes as issued by the District and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

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

MEASURE K BOND BUILDING FUND
OF ORLAND 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 collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

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

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Glenn 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 K BOND BUILDING FUND
OF ORLAND 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. 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 Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as cash in county treasury for \$2,874,282.

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

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

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the Glenn County Investment Pool with a fair value of approximately \$2,875,353 and an amortized book value of \$2,874,282.

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

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Per County investment policy, the investments within the Glenn County Investment Pool are rated A or higher 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, 2010 consist of interest earned on investments of \$5,793.

NOTE 4 – CONSTRUCTION COMMITMENTS

As of June 30, 2010, the Measure K Bond had outstanding construction commitments of approximately \$587,524.

NOTE 5 – INTERFUND ACTIVITIES

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, expenditures, and 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. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2010 consisted of \$280,000 due to the County School Facilities Fund from the Measure K Bond Building Fund for modernization projects.

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

NOTE 5 – INTERFUND ACTIVITIES (continued)

Interfund Transfers

Amounts transferred to other funds during 2009-10 consist of a transfer of \$554,946 from the County School Facilities Fund to the Measure K Bond Building Fund for modernization projects and \$280,000 from the Measure K Bond Building Fund to the County School Facilities Fund for modernization projects. There was also a transfer of \$48,494 from the Measure K Bond Building Fund to the Bond Interest and Redemption Fund.

NOTE 6 – MEASURE K GENERAL OBLIGATION BONDS

As of June 30, 2010, the principal balance outstanding on the District's Measure K Series 2008 general obligation bonds and Series 2010 Bond anticipation notes was \$11,947,019.

- On June 4, 2008, Series 2008 Bonds of the Measure K Bond authorization were issued, which consisted of general obligation Bonds in the amount of \$8,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2031. The Bonds were issued at a premium amounting to \$362,686.
- On March 24, 2010, Series 2010 anticipation notes of the Measure K Bond authorization were issued, which consisted of Bond revenue anticipation notes in the amount of \$3,997,019 with a stated interest rate of 3.00% and maturing through April 1, 2012. The anticipation notes were issued at a premium amounting to \$199,470.

Bond Issue	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2009	Additions	Deletions	Outstanding June 30, 2010
2008 Series	6/4/2008	3.00% - 5.00%	2032	\$ 8,000,000	\$ 8,000,000	\$ -	\$ 50,000	\$ 7,950,000
2010 Series	3/24/2010	3.00%	2012	\$ 3,997,019	-	3,997,019	-	3,997,019
				<u>\$ 11,997,019</u>	<u>\$ 8,000,000</u>	<u>\$ 3,997,019</u>	<u>\$ 50,000</u>	<u>\$ 11,947,019</u>

MEASURE K BOND BUILDING FUND
OF ORLAND UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 6 – MEASURE K GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all Measure K Series 2008 and Series 2010 general obligation Bonds payable outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 150,000	\$ 453,783	\$ 603,783
2011-12	4,062,019	450,948	4,512,967
2012-13	90,000	349,098	439,098
2013-14	115,000	346,398	461,398
2014-15	100,000	342,948	442,948
2016-2020	885,000	1,622,638	2,507,638
2021-2025	1,760,000	1,332,013	3,092,013
2026-2030	3,095,000	780,725	3,875,725
2031-2032	1,690,000	105,370	1,795,370
Total	<u>\$ 11,947,019</u>	<u>\$ 5,783,921</u>	<u>\$ 17,730,940</u>

Other Independent Auditor's Reports

Measure K Citizens' Bond Oversight Committee and
Governing Board Members of
Orland Unified School District
Orland, 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 the Measure K Bond of Orland Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated February 23, 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 Orland 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 Orland Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orland 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 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 and #2010-2 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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 K Bond of Orland 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*.

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

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

 Chintle White Accountancy Corporation

San Diego, California

February 23, 2011

Measure K Citizens' Bond Oversight Committee and
Governing Board Members of
Orland Unified School District
Orland, California

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have audited the financial statements of the Measure K Bond of the Orland Unified School District (the "District") as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated February 23, 2011. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Measure K General Obligation Bond for the fiscal year ended June 30, 2010. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of the Measure K Bond were only used for the purposes set forth in the ballot Measure K 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 management regarding internal controls to:

- Prevent fraud or abuse regarding Measure K projects
- Ensure adequate separation of duties exists in the accounting for Measure K 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 2009-10 financial statement balances for the Measure K Bond Building Fund are not materially misstated.

Results of Procedures Performed:

The results of our audits tests show that internal control procedures appear, except as noted below, 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. However, we do have a recommendation to improve internal controls by requiring the use of purchase orders for documenting pre-approval on vendor contracts, refer to Finding #2010-1. This findings does not affect the District's compliance with applicable laws and regulations.

Facilities Site Walk

Procedures Performed:

We performed a site walk accompanied by the District's Maintenance & Safety Coordinator to inspect new construction and modernization work completed in 2009-10. We selected two sites from among the bond projects with 2009-10 expenditures. The sites visited were:

- Orland High School (Modular Wing, Football Field, Tennis Courts)
- C.K. Price Middle School (Gymnasium, Cafeteria, Parking Lot Resurfacing)

Results of Procedures Performed:

Results of the site walks attained a coverage ratio of over 75% of site-based expenditures and indicate that the major 2009-10 Measure K construction projects at Orland High School and C.K. Price Middle School were completed and advanced into 2010-11 expenditure/construction phases where applicable.

The nature of the construction projects observed during our facilities site walk appear to be consistent with the District's facilities master plan and with the Measure K ballot language as approved by district voters.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether Measure K 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 K ballot measure language). The expenditure test included a sample of 30 payments totaling \$3,411,553, or 96% of total expenditures for fiscal year 2009-10.
2. We also tested payments made to Zane Schreder & Associates and Nichols Melburg & Rossetto, the Measure K construction management and architectural planning firms, respectively. We obtained the contracts for these firms 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 K ballot measure, Facilities Master Plan, and applicable State laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2010, we performed testing of a contract, awarded during 2009-10, to determine compliance with District policy and the provisions of the California Public Contract Code related to contracting and bidding:

Project: C.K Price MS Gymnasium and Cafeteria Projects

Contractor: R & R Horn, Inc.

Original Contract Award Amount: \$3,813,397

Results of Procedures Performed:

We found that the contract tested involved a competitive selection process in accordance with the provisions of lease-leaseback contracts.

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 K General Obligation Bond as listed and tested above.

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

Chintle Vith Accountancy Corporation

San Diego, California
February 23, 2011

Findings and Responses Section

**MEASURE K BOND BUILDING FUND
OF ORLAND UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS
June 30, 2010**

This section of the report identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to our financial and performance audit of the Measure K Bond Building Fund of the Orland Unified School District.

Finding #2010-1 Cash Disbursements

Finding: During our testing of internal controls over the cash disbursement function, we found that purchase orders are not always generated for District expenditures. Twenty-eight (28) out of 30 expenditures sampled were not accompanied by a purchase order.

Recommendation: We recommend that purchase orders and contracts be approved before expenditures are incurred and that all supporting documentation be maintained. If the purchased item is of urgent need, we recommend a verbal purchase order number be obtained from the business office followed up by a written order. Adhering to this process will help ensure that unauthorized expenditures do not occur and that no double payments are made to vendors.

District Response: The district has since implemented this process. All construction, inspection, testing, architect, project manager and any other costs will have a purchase order in place.

Finding #2010-2 Accounting for Bond Issuance Transaction

Finding: In March, 2010, the District recorded the proceeds of the Election of 2010 bond revenue anticipation notes in the Measure K Bond Building Fund 21. The bond proceeds were recorded net of issuance premium and costs of issuance. Proper accounting for the bond issuance transaction is to record the bond issuance at gross, including any premiums on issuance and costs of issuance. Guidance for this accounting treatment is set forth in the 2008 California School Accounting Manual (CSAM) at Procedure 705, as published by the California Department of Education.

Recommendation: We recommend that District implement a procedure to record future bond issuances at gross, in accordance with guidance at CSAM Procedure 705.

District Response: The district will contact the Glenn County Department of Finance to have these bond proceeds coded into the correct accounts.