

**LINCOLN UNIFIED
SCHOOL DISTRICT**

**GENERAL OBLIGATION BONDS
FINANCIAL REPORT
JUNE 30, 2005**

**BUILDING FUND
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JUNE 30, 2005**

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INDEPENDENT AUDITORS' REPORT

Citizen's Fiscal Oversight Committee
And Governing Board
Lincoln Unified School District
Stockton, California

We have audited the accompanying financial statements of the Building Fund of the Lincoln Unified School District, as of and for the year ended June 30, 2005, as listed in the table of contents. 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. 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 1, the financial statements present only the Building Fund, and do not purport to, and do not, present fairly the financial position and results of operations of the Lincoln Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund, of the Lincoln Unified School District at June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vavinek, Ture, Day & Co LLP

Pleasanton, California
September 16, 2005

**BUILDING FUND
BALANCE SHEET
JUNE 30, 2005**

ASSETS

Cash and investments	\$ 29,943,733
Accounts receivable	207,095
Total Assets	<u>\$ 30,150,828</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 282,038
Total Liabilities	<u>282,038</u>

FUND EQUITY

Fund balances	
Undesignated	29,868,790
Total Fund Equity	<u>29,868,790</u>
Total Liabilities and Fund Equity	<u>\$ 30,150,828</u>

The accompanying notes are an integral part of these financial statements.

**BUILDING FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

REVENUES	
Interest income	\$ 274,839
Total Revenues	<u>274,839</u>
EXPENDITURES	
Current expenditures	
Professional services	775,114
Capital outlay	
Improvement of sites	14,973
Improvement/remodeling	<u>170,907</u>
Total Expenditures	<u>960,994</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	(686,155)
OTHER FINANCING SOURCES	
Other sources	<u>30,554,945</u>
NET CHANGE IN FUND BALANCE	29,868,790
FUND BALANCE, BEGINNING OF YEAR	-
FUND BALANCE, END OF YEAR	<u><u>\$ 29,868,790</u></u>

The accompanying notes are an integral part of these financial statements.

BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lincoln Unified School District bond fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Lincoln Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the Lincoln Unified School District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2004. The authorized issuance amount of the bonds is \$50,000,000. The first series of bonds in the amount of \$29,999,379 have been sold. These financial statements are not intended to present fairly the financial position and results of operations of the Lincoln Unified School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

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

The financial statements of the Lincoln Unified School District Building Fund are accounted for under the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on general long-term debt, which is recognized when due.

**BUILDING FUND
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2005**

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. No amounts were reserved or designated at June 30, 2005.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Supplemental taxes for repayment of bond proceeds are collected by the County of San Joaquin from all taxable property within the District. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10, and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Joaquin bills and collects the taxes for the District. The District recognizes tax revenues when received. The tax revenues collected for repayment of the bonds is accumulated in the bond interest and redemption fund of the Lincoln Unified School District, which has not been included in these financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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/expenses during the reporting period. Actual results could differ from those estimates.

NOTE #2 – INVESTMENTS

Investments Authorized Under Debt Agreements - The debt agreement limits investments to the San Joaquin County Investment Pool. The Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
County Pooled Investment Funds	N/A	None	None

Investment 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.

BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

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 depositing substantially all of its funds in the County Treasury Pool. The fair value of deposits at the County Treasury at June 30, 2005 was \$29,922,722 and the weighted average maturity of the pool is 0.17 years.

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 Building Fund only invests in County Pooled Investment Funds which are not required to be rated.

NOTE #3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2005, consist of the following:

Interest	<u>\$ 207,095</u>
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NOTE #4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consists of the following:

Vendor payables	<u>\$ 282,038</u>
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NOTE #5 – LONG-TERM DEBT

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Assets in the Entity Wide financial statements of the Lincoln Unified School District.

The following provides information on the outstanding general obligation bonds:

Issue Date	Maturity Date	Interest Rate	Original Issue	Beginning Of Year	Issued	Redeemed	End Of Year
2/16/2005	8/1/2029	3.0-6.75%	\$ 29,999,379	-	\$ 29,999,379	-	\$ 29,999,379

BUILDING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Debt Service Requirements

The general obligation bonds mature through 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2006	\$ -	\$ 1,059,137	\$ 1,059,137
2007	410,000	1,123,222	1,533,222
2008	525,000	1,104,523	1,629,523
2009	600,000	1,082,023	1,682,023
2010	685,000	1,059,748	1,744,748
2011-2015	4,205,000	4,906,712	9,111,712
2016-2020	6,330,000	3,910,112	10,240,112
2021-2025	9,965,000	2,233,644	12,198,644
2026-2029	7,279,379	7,595,758	14,875,137
Total	\$29,999,379	\$24,074,879	\$ 54,074,258

NOTE #6 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2005, the Building Fund, 2002 had no commitments with respect to unfinished capital projects:

LINCOLN UNIFIED SCHOOL DISTRICT

**GENERAL OBLIGATION BONDS
AGREED-UPON PROCEDURES
REPORT
JUNE 30, 2005**

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

Citizens' Fiscal Oversight Committee
Lincoln Unified School District
Stockton, California

We have performed the agreed-upon procedures, which were agreed to by the management of the Lincoln Unified School District and the Citizen's Fiscal Oversight Committee, to review 25% of all expenditures for the 2004 General Obligation Bond for the period of July 1, 2004 to June 30, 2005 for the purpose of verifying if the use of the funds is within the scope of the published materials specifying the intended use of bond funds. We used election documents, and the project list as the guidance for the intended use of the funds. For any expenditures in question, we will recommend that the District obtain the opinion of legal counsel and we will inform this committee as to the issues. Management is responsible for Lincoln Unified School District's compliance with election documents, district resolutions, and the project priority list. This engagement to perform agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and meets the compliance requirements to perform an "audit" as outlined in Subparagraph (C) of paragraph (3) of subdivision (b) of section 1 of Article XIII A of the California Constitution. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Financial Summary

1. The general obligation bond funds were authorized at an election of the registered voters of the District held on November 2, 2004. The bonds were authorized at an issuance of \$50,000,000 principal amount for the purpose of financing the addition and modernization of school facilities. The first series of the bonds was issued in February 2005 with a face value of \$29,999,379 and sold for \$31,186,263.
2. Total expenditures and commitments through June 30, 2005, were \$960,994, including \$555,565 for bond issuance costs.

3. An analysis of expenditures is as follows:

Expenditures	<u>Total</u>
Current Expenditures	
Services and operating expenditures	\$ 219,549
Bond issuance costs	555,565
Capital outlay	
New construction	14,973
Improvement of sites	<u>170,907</u>
Total expenditures	960,994
Contract commitments, June 30, 2005	-
Total expenditures and commitments	<u><u>\$ 960,994</u></u>

Available unspent funds from the first bond series as of June 30, 2005 are:

General obligation bonds proceeds, series 1	\$ 31,186,263
Required funding of repayment reserves	(631,318)
Interest earned in building fund	274,839
Total expenditures and commitments	<u>(960,994)</u>
Amount available	<u><u>\$ 29,868,790</u></u>

Agreed Upon Procedures Performed

1. Verify that the expenditure of funds were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net funds from the sale of the General Obligation Bonds were deposited in total into the District's accounts by obtaining settlement statement for the new bond issue and verifying amounts deposited into the building and bond interest and redemption funds.
3. Select at least 25% of the expenditures and verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election materials, district resolutions, and the project priority list that were distributed to the voters.
4. Verify that District's internal control procedures are operating according to District policies.
5. Verify that the State and District policies were followed in the awarding of bids and expenditure of the funds.

Results of Procedures

1. The general obligation bond fund expenditures were accounted for separately in the building fund of the District.

2. The net funds from the proceeds from the sale of the general obligation bonds were deposited into the building fund in the current period.
3. Our review of the expenditures for the year ended June 30, 2005, did not reveal any items that were paid from the general obligation bond funds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on November 5, 2004. We did not request that management of the District obtain any legal opinions on expenditures for the year ended June 30, 2005.

We reviewed invoices totaling \$254,700, which amounted to 27% of total expenditures and the invoices reviewed are listed as follows:

Date	Object Code	Function Code	Vendor	Description as indicated by invoice	Amount
				Program Management Services	
5/26/2005	5809	8500	Caldwell Flores Winters, Inc.	11/04 through 3/05	123,390.42
				Program Management Services	
6/30/2005	5809	8500	Caldwell Flores Winters, Inc.	11/04 through 3/05	93,009.58
6/30/2005	6120	8500	Williams Scotsman, Inc.	Storage Container	14,972.80
6/30/2005	6281	8500	Booker Gery Architecture	Architecture	10,254.00
6/30/2005	6281	8500	Booker Gery Architecture	Architecture	13,073.00
				Invoices Tested	254,699.80
				Total Expenditures	960,994
				Percent Tested	27%

4. Our review of the internal control procedures followed on randomly selected invoices revealed no exceptions to the internal control policies of the District.
5. Our review of the awarding of contracts and the disbursement of funds revealed no exceptions to the policies of the State and the District.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Lincoln Unified School District and the Citizen's Fiscal Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
September 16, 2005