

DRAFT October 9, 2007
FOR DISCUSSION PURPOSES ONLY

October 9, 2007

City Council
City of Mission Viejo
200 Civic Center
Mission Viejo, California

City of Mission Viejo Analysis
Concerning Certain Financial Matters
Involving the Capistrano Unified School District

Independent Accountant's Report
on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the Management of the City of Mission Viejo, California ("the City"), solely to assist you assessing certain financial matters involving the Capistrano Unified School District. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the City. 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.

Our procedures and associated findings are as follows:

Redevelopment Tax Increment

- 1) We will inspect the controls and processes used by the Capistrano Unified School District that assures that the financial activity was in compliance with the agreements and restrictions put upon the **redevelopment tax increment** funding.

The Tax Sharing Agreement ("the Agreement") dated December 14, 1992 between the City of Mission Viejo and the Capistrano Unified School District summarizes the restrictions and limitations of the authorized uses of tax increment funds forwarded by the City to the District

- *The District utilized the funding on facility improvements for school sites within the Mission Viejo city limits that benefited the residents of Mission Viejo.*
 - *The District provided sufficient documentation that segregated the tax increment funds for the purpose of tracking its use and for the allocation of interest on idle funds.*
- 2) We will sample 10 to 20 percent of the financial items associated with the **redevelopment tax increment** funding over the past four years.

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- We sampled over 20 percent of the financial items for fiscal years 2002-03, 2003-04, 2004-2005 and 2005-06.
- All transactions sampled met the requirements of the authorizing documents.

3) Compare the District accounting of **redevelopment tax increment** financial activity and compare such accounting to other financial reporting performed by the District to the State or other sources.

- The redevelopment tax increment financial activity reported to the City of Mission Viejo is consistent with other financial reporting prepared by the District
- Below is a table recapping redevelopment tax increment provided by the City of Mission of Viejo to the District:

FY 2003	FY 2004	FY 2005	FY 2006
\$721,552	\$704,196	\$763,876	\$844,308

4) Summarize other financial accounting performed by the District over the past four years and identify any potential substitution of funding that may have occurred for the use of the **redevelopment tax increment** funding.

- Below is a summary of expenditures utilizing the tax increment funding provided by the City of Mission Viejo CRA:

	FY Ending June 2003	FY Ending June 2004	FY Ending June 2005	FY Ending June 2006
Capo Valley High School	\$5,838	\$4,686	\$0	\$0
Newhart Middle School	\$71,019	\$9,230	\$0	\$23,750
2002 COPS Debt Service	\$174,259	\$550,250	\$1,352,304	\$836,345
A portion of the 2002 COPS were used by CUSD for construction improvements related to the Capo Valley High School Pool (\$3,001,203) and Newhart Middle School (\$2,848,061).				

- Below is a recap of tax increment funding held by the Capistrano Unified School District at the end of the last three fiscal years:

Mission Viejo Redevelopment Funds	FY Ending June 2004	FY Ending June 2005	FY Ending June 2006
Balances Held by CUSD	\$1,094,454	\$519,992	\$530,090

- In 2002, the District issued \$31.9 million of certificates of participation (“COPS”) of which a portion financed improvements at Newhart Middle School and Capistrano Valley High School. Initially, the District used redevelopment funds from Mission Viejo to pay approximately 25% of the debt service. The District reduced the allotment of Mission Viejo funds in FY 2005-06 due a recent bond call and is in the process of adjusting the final percentage allotment of debt service. Our testing of expenditures indicated that approximately 22% to 25% of the COPS construction money was used for Mission Viejo school sites, depending upon the final allotment from the 2005-06 bond call. We found from our sampling of expenditures that the documentation of spending was consistent with the requirements of the COPS and tax sharing agreement.

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- *For FY 2005-2006, the amount used towards the COPS was \$607,646. The balance of annual expenditures represents specific construction expenditures on facilities. The tax increment funds obligated towards to COPS will remain constant for the next several years. As the tax increment increase over the next several years, opportunities to fund specific facility expenditures should occur.*

<i>CRA funding committed by District towards 2002 COPS:</i>	
<i>FY 2006-07</i>	<i>\$357,648</i>
<i>FY 2007-08</i>	<i>\$357,648</i>
<i>FY 2008-09</i>	<i>\$357,648</i>
<i>FY 2009-10</i>	<i>\$357,648</i>
<i>FY 2010-11</i>	<i>\$479,991</i>
<i>FY 2011-12</i>	<i>\$562,605</i>

- *The COPS debt service requirements for the Mission Viejo share varies each year due to uneven amounts of principal being retired and optional bond calls exercised by the District.*
 - *For the four fiscal years from 2002-03 through 2005-06, we found no evidence to indicate that the substitution of funding occurred on projects funded by the Mission Viejo redevelopment tax increment.*
- 5) Provide recommendations to the City of Mission Viejo that could enhance the monitoring of redevelopment funding for school sites within the City.
- *Request that the District provide a final accounting of the debt service allotment from the 2002 COPS*
 - *Pursue an amendment of the tax sharing agreement with the District that specifies the City's ability to inspect the District records as they pertain to the use of redevelopment funds.*
 - *Request that the District account for redevelopment funds in a separate budgeted fund since the amount of funding should be increasing significantly in the coming years.*

CFD 87-1

- 6) Compare bond covenants, agreements, state statutes and other documents that govern the use of CFD 87-1 funding to the monitoring and reporting associated with this funding.
- *We found that annual reporting being made by the District sufficiently meets the requirements of related covenants and statutes.*
- 7) We will inspect the controls and processes used by the Capistrano Unified School District that assures that the financial activity was in compliance with the agreements and restrictions put upon the **CFD 87-1** funding.

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- *The District's CFD 87-1 formation documents summarized the restrictions and limitations of the authorized use of the CFD 87-1 funds and we found that the financial activity was compliant with the agreement and restrictions with CFD 87-1 bond documents.*
- *The District provided sufficient documentation that segregated the CFD 87-1 funds for the purpose of tracking its use and for the allocation of interest on fund balances.*

8) Utilizing County Tax Collector records and data, determine the amount of CFD Taxes generated each year in Mission Viejo and compare such information to District records.

Fiscal Year	CFD 87-1 Tax Revenues per District	Portion Collected in Mission Viejo	Percent Attributed to Mission Viejo
2002-03	\$8,095,440	\$2,596,236	32%
2003-04	\$8,461,526	\$2,596,464	31%
2004-05	\$8,758,450	\$2,710,512	31%
2005-06	\$8,798,693	\$2,768,351	31%

9) We will sample 5 to 10 percent of the financial items associated with the **CFD 87-1** funding over the past four years.

- *We sampled over 10 percent of the financial items for fiscal years 2002-03, 2003-04, 2004-2005 and 2005-06.*
- *All transactions sampled met the requirements of the authorizing documents.*

10) Summarize other financial accounting performed by the District over the past four years and identify any potential substitution of funding that may have occurred for the use of the **CFD 87-1** funding.

Below is a summary of construction costs utilizing the CFD 87-1 funding:

	FY Ending June 2003	FY Ending June 2004	FY Ending June 2005	FY Ending June 2006
District Education Center	\$120,399	\$234,608	\$7,570,025	\$5,889,206
Capo Valley High School*	\$0	\$0	\$0	\$350,338
Aliso Niguel High School	\$0	\$16,916	\$16,916	\$280,681
Newhart Middle School*	\$0	\$0	\$0	\$278,484
Aliso Viejo Middle School	\$0	\$17,989	\$0	\$0
Avila Middle School	\$14,945	\$100		\$11,452
Hankey K-8 School*	\$0	\$0	\$0	\$53,920
Wood Canyon Elementary	\$0	\$31,600	\$0	\$0
Avila Elementary	\$122,958	\$0	(\$80)	\$0
Canyon Elementary	\$106,572	\$250	\$0	\$1,523
Total in Mission Viejo	\$0	\$0	\$0	\$682,742
Amount outside Mission Viejo	\$364,874	\$301,463	\$7,586,861	\$6,182,862
Total	\$364,874	\$301,463	\$7,586,861	\$6,865,604
Percent Spent on Mission Viejo School Sites	0%	0%	0%	10%
*Site located within the City limits of Mission Viejo. Amounts include encumbrances.				

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- *For the four fiscal years from 2002-03 through 2005-06, we found no evidence to indicate that substituted funding occurred on projects funded by the CFD 87-1 revenue sources.*
- *Projects in the following schools located in Mission Viejo were funded by CFD 87-1 Hankey K-8 School, Capistrano Valley High School and Newhart Middle School.*
- *The District may use CFD 87-1 funding anywhere in the CFD 87-1 District for the benefit of the properties served by CFD 87-1, The District is not required to spend any funds in proportion to where they are collected. Also, there is no requirement that the use of funds have to proportionately benefit any properties*
- *Given the long period of time for the life of this funding source, the attendance boundaries of the various schools funded by 87-1 will change over time and the perceived benefit to property owners will not stay constant.*

11) Identify how the District accounts for the CFD 87-1 funding source and document how it plans to expend and account for such funding on a go forward basis.

- *As of June 30, 2006, the District had unspent funds in CFD 87-1 totaling \$17,765,407.*
- *The District provided documentation on the use of prospective funding from CFD 87-1 that is consistent with the parameters of the original limitations of this funding source. The CFD has a bonded debt limit and a very specific list of capital projects itemized by the original district formation documents.*
- *The District provided documentation indicating that it plans to finance prospective projects with 87-1 funding for the following schools: Aliso Niguel High School, Capistrano Valley High School, Newhart Middle School and Hankey Elementary School.*

MEASURE “A”

12) We will inspect the controls and processes used by the Capistrano Unified School District that assures that the financial activity was in compliance with the agreements and restrictions put upon the **Measure “A”** funding.

- *The District’s Measure “A” bond documents summarizes the restrictions and limitations of the authorized use of the funds and we found that the financial activity was compliant with the restrictions of the bond documents.*
- *The District provided sufficient documentation that segregated the Measure “A” funds for the purpose of tracking its use and for the allocation of interest on fund balances.*

13) We will sample 5 to 10 percent of the financial items associated with the **Measure “A”** funding over the past four years.

- *We sampled over 10 percent of the financial items for fiscal years 2002-03, 2003-04, 2004-2005 and 2005-06.*
- *All transactions sampled met the requirements of the authorizing documents.*

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14) Summarize other financial accounting performed by the District over the past four years and identify any potential substitution of funding that may have occurred for the use of the **Measure “A”** funding.

- *For the four fiscal years from 2002-03 through 2005-06, we found no evidence to indicate that substituted funding occurred on projects funded by Measure “A” revenue sources.*
- *The District received State matching funds for its building projects funded by Measure “A” as high as 80% for some projects. These matching funds leveraged the construction money provided by Measure “A”. On a normal basis, State matching ranges from 30% to 60%. State matching can only be used for school sites or other student related facilities.*
- *Please note that the District may use Measure “A” funding anywhere in the District for the benefit of the entire District. Bond issue documents do not require the District to spend any funds in proportion to where they are collected. Also, there is no requirement that the use of funds have to proportionately benefit any properties.*

15) Utilizing County Tax Collector records and data, determine the amount of **Measure “A”** taxes generated each year in Mission Viejo and compare such information to District records.

<i>Fiscal Year</i>	<i>Total Assessed Taxes</i>	<i>Portion Collected in Mission Viejo</i>	<i>Percent Attributed to Mission Viejo</i>
2002-03	\$3,118,181	\$953,242	31%
2003-04	\$4,100,210	\$1,014,566	25%
2004-05	\$4,282,050	\$1,211,934	28%
2005-06	\$4,282,050	\$1,188,049	28%

16) Identify how the District accounts for the **Measure “A”** funding source and document how it plans to expend and account for such funding on a go forward basis.

- *The table recaps Measure “A” and State Matching spending from the inception of Measure “A” through June 30, 2006 for school sites within the City of Mission Viejo:*

School Site	Measure “A”	State Matching	Total Spending	
Capo Valley High School	\$3,373,736	\$5,060,604	\$8,434,340	
Barcelona Elementary School	\$365,191	\$547,787	\$912,978	
Castille Elementary School	\$484,109	\$1,936,435	\$2,420,544	
Hankey Elementary School	\$2,353,631	\$530,447	\$2,884,078	
Viejo Elementary School	\$394,884	\$592,326	\$987,210	
Total in Mission Viejo	\$6,971,551	\$8,667,599	\$15,639,150	10%
Amount outside Mission Viejo	\$58,904,054	\$76,649,637	\$135,553,691	90%

Please note the spending shown does not include other CUSD funding sources.

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- *As of June 30, 2006, the District had unspent funds in Measure “A” totaling \$9,528,594*
- *The District provided documentation on the use of prospective funding from Measure “A” that is consistent with the parameters of the limitations of the voter approved tax measure. The District has plans for additional improvements at the following Mission Viejo school sites: Capo Valley High School, Hankey K-8 School, Barcelona Hills Elementary and Newhart Middle School.*

17) Compare bond covenants, agreements, state statutes and other documents that govern the use of Measure ‘A’ funding to the monitoring and reporting associated with this funding.

- *We found that annual reporting being made by the District sufficiently meets the requirements of related covenants and statutes.*

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the financial records and internal controls of Capistrano Unified School District or the City of Mission Viejo. 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 management of the City of Mission Viejo, California and is not intended to be and should not be used by anyone other than the City.

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