JEFFERSON ELEMENTARY SCHOOL DISTRICT

MEASURE J
GENERAL OBLIGATION BONDS, ELECTION OF 2010
PERFORMANCE AUDIT REPORT

FOR THE FISCAL YEAR ENDING
JUNE 30, 2013

Cichella & Tokunaga, LLP
Certified Public Accountants

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MEASURE J
GENERAL OBLIGATION BONDS, ELECTION OF 2010

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Governing Board Member and
Measure J Citizens' Oversight Committee (COC)
Jefferson Elementary School District
Tracy, California

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We were engaged to conduct a performance audit of the Jefferson Elementary School District (the District), Measure J General Obligation Bond Resource for the year ended June 30, 2013.

We conducted this performance audit in accordance with the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIIIA, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's Measure J General Obligation Bond Resource internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIIIA, Section 1 (b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's Measure J General Obligation Bond Resource internal control.

The results of our tests indicated that the District Measure J General Obligation Bond Resources were expended only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIIIA, Section 1 (b)(3)(C) of the California Constitution.

Cichella + Tokunaga LLP

El Dorado Hills, California
January 14, 2014

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JEFFERSON ELEMENTARY SCHOOL DISTRICT

MEASURE J, GENERAL OBLIGATION BONDS, ELECTION OF 2010

PERFORMANCE AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SUMMARY

Jefferson Elementary School District (the District) has implemented controls over the expenditures of Measure J school construction bond proceeds, to comply with Proposition 39 requirements as well as the requirements of the Measure J ballot measure. The performance audit evaluated Measure J Bond Program internal controls and Measure J expenditures. As noted in the accompanying schedule of audit findings and management's responses, no exceptions were noted regarding the use of Measure J Bond Program funds for approved Measure J purposes.

The District's plans for prudent use of Measure J Bond Program funds properly considers critical school needs, including seismic safety requirements, school and student safety issues, computer technology, and aging, outdated or deteriorating school buildings. The scope of the Measure J Bond Program was defined in the formulation of the Measure J ballot language that was approved by District voters on November 2, 2010.

This report is the second annual performance audit report of the Measure J Bond Program, as Measure J was approved by the District's voters during the fiscal year ended June 30, 2013.

AUTHORITY FOR ISSUANCE

The Measure J General Obligation Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The District received authorization at an election held on November 2, 2010, to issue bonds of the District in an aggregate principal amount not to exceed $35,400,000 to finance specific construction and renovation projects approved by eligible voters within the District (the 2010 Authorization). The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District

PURPOSE OF ISSUANCE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the Election.

Measure J authorized the District to issue bonds in an aggregate principal amount not to exceed $35,400,000 to finance new construction and additions to and modernization of school facilities for the District.

In April 2011, Jefferson Elementary School District issued Series A of the Election of 2010 in the amounts of $5,830,000 in current interest bonds and $567,194 in capital appreciation bonds. Interest on the current interest bonds is payable on August 1 and February 1 of each year, commencing August 1, 2011. The capital appreciation bonds accrete interest compounded semi-annually on August 1 and February 1, commencing August 1, 2022. The proceeds from the sale of the bonds will be used for the acquisition, construction and furnishing of equipment for district facilities.

In April 2013, Jefferson Elementary School District issued Series B of the Election 2010 in the amounts of $1,700,000 in current interest bonds, $14,603,679 in capital appreciation bonds and $6,695,791 in convertible

capital appreciation bonds. Interest on the current interest bonds is payable on August 1 and February 1 of each year, commencing August 1, 2015. The capital appreciation bonds and convertible capital appreciation bonds accrete interest compounded semi-annually on August 1 and February 1, commencing August 1, 2023. The proceeds from the sale of the bonds will be used for the acquisition, construction and furnishing of equipment for district facilities.

The Series A and Series B Bonds are the first and second issue pursuant to the Measure J authorization. The District expects to issue additional bonds up to the authorized amount.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278 - 15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIIIA, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.

3. Requires the school district to appoint a citizen's oversight committee (COC).

4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.

5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

The Measure J ballot measure was approved by the District voters in November 2, 2010. Measure J is a Proposition 39 Bond, requiring 55% favorable vote for passage and requirements per Article 13A of the California Constitution.

OBJECTIVES OF THE AUDIT

Bond Requirements and Controls

1. Determine compliance with Bond requirements and controls established to assure efficiency and effectiveness of the construction program.

2. Specific items addressed include evaluation of the District's Facilities Master Plan, COC composition and activities, annual performance and financial audits, and compliance with applicable state laws.

Bond Expenditures

1. Determine whether expenditures charged to the Building Fund Measure J General Obligation Bond Resource have been made in accordance with the bond project list approved by the voters through the approval of Measure J.

2. Determine whether salary transactions charged to the Building Fund Measure J General Obligation Bond Resource were in support of the Measure J and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2012 to June 30, 2013. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2013 were not reviewed or included within the scope of our audit or in this report.

SUMMARY OF EXPENDITURES

Total expenditures as of June 30, 2013, were $3,661,768 and are allocated among the following sites:

1.	Jefferson School	$735,465
2.	Monticello Elementary School	$1,242,673
3.	Tom Hawkins Elementary School	$1,001,185
4.	Anthony C. Traina Elementary School	$669,181
5.	Districtwide	$13,264

The districtwide expenditures are primarily related to bond planning and districtwide improvements.

STATUS OF MEASURE J BOND PROJECTS

Completed projects include Monticello Elementary School modernization, installation of a gym divider at Tom Hawkins Elementary School and flag pole/courtyard with benches at Anthony C. Traina Elementary School. Additionally, Tom Hawkins School was modernized with the expansion of outdoor walkways and other modifications in the courtyards.

Monticello, Tom Hawkins and Anthony C. Traina Elementary Schools had shade structures installed as well as outdoor eating areas at Monticello and Anthony C. Traina Elementary Schools. Running tracks and fields were completed at Monticello, Tom Hawkins and Anthony C. Traina Elementary Schools.

Also during the year, planning for the Jefferson School Modernization and the Anthony C. Traina Elementary School Gym projects continued. The construction for these projects will begin in the summer of 2014.

PROCEDURES PERFORMED AND RESULTS OF TESTING

Bond Requirements and Controls

We found in our testing that bond requirements were met and controls were operating effectively to assure the efficiency and effectives of the construction program. The District works with its legal and financial advisors to ensure that Measure J bond issuances do not exceeds the property assessed valuation limitation in the District's area. The first series of Measure J bonds, in the amount of $6,397,194, was issued in April 2011. The second series of Measure J bonds, in the amount of $22,999,470, was issued in April 2013. The Measure J COC was established by the District in June 2011.

The Governing Board of the District approves facilities project priorities, subject to constraints set forth in the Measure J ballot language as well as the funding constraints presented by the local property tax limitation.

The first series of the Measure J bonds issued in April 2011 were properly deposited in the Building Fund of the District and is separately accounted for by resource code.

The second series of Measure J bonds issued in April 2013 were properly deposited in the Building Fund of the District and is separately accounted for by resource code.

The Governing Board and management have properly procured the required annual financial and performance audits for the Measure J Bond for fiscal year ended June 30, 2013.

Bond Expenditures

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2013 for the Building Fund Measure J. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIIIA, Section 1(b)(3)(C) of the California Constitution and Measure J as to the approved bond projects list. We performed the following procedures:

1. Verified the Building Fund – Measure J General Obligation Bond Resource expenditures were accounted separately as Fund 21 (Building Fund – Measure J General Obligation Bond Resources) of the District.

2. We examined non-payroll related expenditures aggregating $3,490,373, which is 96% of the total Measure J General Obligation Bond non-payroll related expenditures for the year ended June 30, 2013. Our review did not reveal any items that were paid from the Measure J General Obligation Bond proceeds that did not comply with the intended use of bond proceeds approved by the voters of the District on November 2, 2010.

3. In our review of the general ledger and project expenditures reports, we found no payroll related expenditures for the year ended June 30, 2013. Our review did not reveal any items that were paid from the Measure J General Obligation Bond proceeds that did not comply with the intended use of bond proceeds approved by the voters of the District on November 2, 2010.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Jefferson Elementary School District has properly accounted for the expenditures held in the Building Fund Measure J resources and that such expenditures were made for authorized Bond Projects.

Ciciulla + Pitumaga LLP

El Dorado Hills, California
January 14, 2014

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

None reported