JEFFERSON SCHOOL DISTRICT

MEASURE J
GENERAL OBLIGATION BONDS, ELECTION OF 2010
FINANCIAL AUDIT

JUNE 30, 2011

Cichella & Tokunaga, LLP
Certified Public Accountants

JEFFERSON SCHOOL DISTRICT

MEASURE J
GENERAL OBLIGATION BONDS, ELECTION OF 2010

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Jefferson School District

and

Citizens' Oversight Committee
Measure J General Obligation Bonds, Election of 2010

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson School for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2011. We have also audited the accompanying Measure J General Obligation Bonds, Election of 2010, Balance Sheet as of June 30, 2011 and Statement of Revenues, Expenditures, and Change in Fund Balance for the fiscal year ended June 30, 2011. 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 Balance Sheet and Statement of Revenues, Expenditures, and Change in Fund Balance are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Measure J General Obligation Bonds, Election of 2010, as of June 30, 2011 and the change in financial position thereof for the fiscal year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 5, 2011, on our consideration of Jefferson School District's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 do not provide an opinion on the internal control over financial reporting or 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.

Cichella + Tokunaga LLP

El Dorado Hills, California
February 2, 2012

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JEFFERSON SCHOOL DISTRICT

MEASURE J, GENERAL OBLIGATION BONDS, ELECTION OF 2010

BALANCE SHEET
JUNE 30, 2011

Assets		
Deposits and Investments	$	5,958,270
Accounts Receivable		4,923
Total Assets		5,963,193
Liabilities		
Accounts Payable		-
Total Liabilities		-
Fund Balance		
Unreserved:		
Designated for Measure J Projects		5,963,193
Total Fund Balance		5,963,193
Total Liabilities and Fund Balance	$	5,963,193

The accompanying notes are an integral part of these statements

JEFFERSON SCHOOL DISTRICT

MEASURE J, GENERAL OBLIGATION BONDS, ELECTION OF 2010

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Revenues	
Interest Revenue	$ 4,923
Total Revenues	4,923
Expenditures	
Jefferson School	13,512
Monticello Elementary	14,487
Tom Hawkins Elementary	13,512
Anthony C. Traina Elementary	17,464
Districtwide	379,949
Total Expenditures	438,924
Excess (Deficiency) of Revenue Over Expenditures	(434,001)
Other Financing Sources	6,397,194
Net Change in Fund Balance	5,963,193
Fund Balance - July 1, 2010	-
Fund Balance - June 30, 2011	$ 5,963,193

The accompanying notes are an integral part of these statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Jefferson Elementary School District was organized in June 1870 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-8 as mandated by the State and/or Federal agencies. The District operates three elementary and one middle school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Jefferson Elementary School District, this includes general operations, food service, and student related activities of the District.

In April 2011, Jefferson 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.

The Bonds were authorized to be issued at an election held on November 2, 2010, by 55% or more of the votes cast by eligible voters within the District, labeled Measure J. The measure 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. The Series A Bonds are the first issue pursuant to such authorization and are being issued as Current Interest Bonds and as Capital Appreciation Bonds. The District expects to issue additional bonds up to the authorized amount.

An oversight committee to the District's Governing Board and Superintendent, called the Citizens' Oversight Committee (COC), was established pursuant to the requirements of State law and the provisions of the Measure J bond. The COC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The COC provides oversight and advises the public whether the District is spending the Measure J Bond funds for school capital improvements within the scope of projects outlined in the Measure J Bond project list. In fulfilling its duties, the COC reviews, among other things, the District's annual performance and financial audits of Measure J activity.

Citizens' Oversight Committee Members	Position	Term
Nineb Paul Tumazi	Member	2 years
Raul C. Salazar	Member	1 year
Nicole Riley	Chair Person	2 years
Russell Lovell	Member	2 years
Jennifer Couch	Vice-Chair	2 years
Craig Saalwaechter	Member	1 year
Michael Petrucelli	Secretary	1 year

The statements presented are for the individual Measure J Bond Building Fund of the District, consisting of net construction proceeds of Election of 2010 general obligation bonds as issued by the District, through the County of San Joaquin, and are not intended to be a complete presentation of the District's financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

Accounting Policies

Jefferson School District (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 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* (AICPA).

Fund Accounting

The accounts of the District are organized on the basis of funds, which are considered to be separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means, by which spending activities are controlled. The proceeds from the sale of general obligation bonds, and the subsequent expenditure of the bond funds, are accounted for in the Building Fund of the District.

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.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measureable and available to finance expenditures of the current fiscal period. "Measureable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Deposits and Investments

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 County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost.

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; 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.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

NOTE 2 – DEPOSITS AND INVESMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, consist of $5,958,270 of County Pool Investments.

County Pool Investments

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 Authorization

Limitation as they related to interest rate risk, credit risk, and concentration of credit risk are indicated in the following schedule:

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 Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in the 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 placing substantially all of its deposits with the county treasury pool. The fair value of deposits with the County Treasurer at June 30, 2011 was $ $5,981,994 and the weighted average maturity of the pool was less than one year.

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 District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2011. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

			Rating as of Year End		
Investment Type	Carrying Value	Fair Value	AAA	Aa	Unrated
County Pool Investments	$ 5,958,270	$ 6,137,018	$ -	$ -	$ 5,958,270

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. However, the District does not hold any investments in any one issuer that represent five percent or more of the total investments held by the District.

NOTE 3 – CONSTRUCTION COMMITTMENTS

The Measure J Bond Building Fund had no construction commitments as of June 30, 2011.

NOTE 4 – MEASURE J GENERAL OBLIGATION BONDS

Bonded Debt

The outstanding general obligation bonded debt of the District at June 30, 2011 is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Issued	Redeemed	Bonds Outstanding June 30, 2011
4/27/2011	2041	2.0% - 5.5%	$6,397,194	$ -	$6,397,194	$ -	$ 6,397,194

Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	$ -	$ 71,032	$ 71,032
2013	55,000	319,644	374,644
2014	60,000	318,544	378,544
2015	70,000	316,744	386,744
2016	10,000	314,644	324,644
2017-2021	215,000	1,559,519	1,774,519
2022-2026	554,096	1,561,224	2,115,320
2027-2031	401,565	2,189,903	2,591,468
2032-2036	1,626,533	1,599,547	3,226,080
2037-2041	3,405,000	600,325	4,005,325
Total	$ 6,397,194	$ 8,851,126	$15,248,320

INDEPENDENT AUDITOR'S 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

Board of Education
Jefferson School District

and

Citizens' Oversight Committee
Measure J General Obligation Bonds, Election of 2010

We have audited the basic financial statements of Jefferson School District for the fiscal year ended June 30, 2011, and have issued our report thereon dated December 5, 2011. We have also audited the accompanying Measure J General Obligation Bonds, Election of 2010, Balance Sheet as of June 30, 2011 and Statement of Revenues, Expenditures, and Change in Fund Balance, as of and for the fiscal year ended June 30, 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 District's internal control over financial reporting as a basis for 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 in 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. 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 Jefferson 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*.

This report is intended for information of the District's Governing Board and the Measure J General Obligation Bonds, Election of 2010, Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Jefferson School District, and is not intended to be and should not be used by anyone other than these specified parties.

Cichella + Tokunaga LLP

El Dorado Hills, California
February 2, 2012

JEFFERSON SCHOOL DISTRICT

MEASURE J, GENERAL OBLIGATION BONDS, ELECTION OF 2010

SUMMARY OF FINDINGS AND RECOMMENDATIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

There are no matters to report for the fiscal year ended June 30, 2011.

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