

TUSTIN UNIFIED SCHOOL DISTRICT
CITIZENS' OVERSIGHT COMMITTEE
(School Facilities Improvement District No. 2012-1)

Measure S
Annual Report
2012-2013

THIS REPORT IS HEREBY ADOPTED BY THE **TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE** (SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2012-1) PURSUANT TO EDUCATION CODE SECTION 15280(b) AND SUBMITTED TO THE PUBLIC IN CONFORMANCE WITH SUCH SECTION. THIS REPORT COVERS THE PERIOD OF FROM JULY 1, 2012 TO JUNE 30, 2013, AND CERTAIN RELATED MATTERS.

I. MEMBERSHIP OF THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE (School Facilities Improvement District No. 2012-1):

Citizens' Oversight Committee Members

The membership on the Tustin Unified School District Citizens' Oversight Committee during the period covered in this Annual Report included the following persons:

- Bruce Junor *(Senior Citizens' Representative)*
- Rick Nelson *(Business Organization Representative)*
- Bill Pevehouse *(Member At-Large Representative)*
- Katie Pinney *(Member At-Large Representative)*
- Julie Sokol *(Parent/Guardian Representative)*
- Russell Stein *(PTA/PTO/Site Council Representative)*

The following were the officers of the COC for the period covered by this Annual Report:

- Chairperson - Rick Nelson
- Vice Chairperson - Russell Stein
- Secretary - Beth Silvers

II. ACTIVITIES OF THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE:

Minutes describing the activities of the Tustin Unified School District Citizens' Oversight Committee are available as public reports. For more complete descriptions of actions by the Tustin Unified School District (District) Citizens Oversight Committee (COC) please see Minutes of the corresponding meetings posted on the COC Web site. All approved Minutes and Annual Reports are, and have been, posted on the COC Web site: <http://www.tustin.k12.ca.us/domain/1283>.

Additional documents and reports are posted in the COC Web site in accordance with the directives of the COC.

III. CITIZENS' OVERSIGHT COMMITTEE (COC) FINDINGS FOR FISCAL YEAR 2012/2013:

In order to comply with the requirements of Proposition 39, the COC needs to make certain findings as to activities of the COC and the use and expenditure of Measure S Bond proceeds. The COC hereby finds and determines as follows:

1. COC has met regularly.

The meetings of the COC are briefly described above. Minutes of the COC meetings are on file with the School District and are posted on the COC Web site at <http://www.tustin.k12.ca.us/domain/1283>. Agendas for meetings of the COC are also posted on that Web site.

2. COC has received reports, updates, and information on the expenditure of the Measure S Bond funds, and reviewed project expenditures made on projects authorized under Measure S.

The COC has received various reports (both written and oral), including, but not limited to, the District's Measure S Five-Year Plan, Measure S budget, and Measure S Technology Plan, and has received written and oral updates and reports on expenditures relating to the Measure S Bond funds. Those reports and documents are briefly described in the Minutes of meetings, as described above.

A complete list of the reports provided to the COC is available at the School District offices for public review upon request. Information on certain COC handouts and documents is also located on the COC Web site.

3. Measure S Bond funds have been expended on the identified projects authorized by Measure S (Education Code Section 15278(b)(1)).

Based on the documentation and information provided to the COC, as referenced herein, the COC has found, pursuant to Education Code Section 15278(b)(1) that the expenditures of Measure S Bond funds by the School District have been made on costs and expenses of projects authorized by Measure S. The Measure S projects list is posted on the COC Web site at <http://www.tustin.k12.ca.us/domain/1283>.

4. No Measure S monies have been spent on teacher/administrator salaries or other school operating expenses (Education Code Section 15278(b)(2) unrelated to the Bond issue.

Based on the documentation and information provided to the COC, as referenced herein, the COC has found, pursuant to Education Code Section 15278(b)(2) that the School District has not expended Measure S Bond funds on teacher/administrator salaries or other school operating expenses.

5. 2012-13 Audit Reports were reviewed, received and filed with the COC.

The required financial and the independent “*performance and financial audit reports*” for Measure S bond proceeds, as required under California Constitution Article XIII and Education Code Sections 15278 and 15280 for Fiscal Year 2012-2013 were performed by the accounting firm of Nigro & Nigro, PC. Copies of the audit reports are attached to this Annual Report as Attachments “A” and “B” and incorporated herein by this reference. The COC notes that the audits did not report any irregularities or failures to comply with statutory and constitutional requirements. The 2012-13 audit reports can also be viewed on the internet at <http://www.tustin.k12.ca.us/domain/1283>. The audit reports were finalized by the District’s Board of Education at their meeting held on January 13, 2014.

6. The COC has received all necessary and requested technical and administrative assistance from the School District (Education Code Section 15280).

Under the requirements of Education Code Section 15280, the School District is required to provide the COC with all necessary technical and administrative assistance without expending Measure S Bond funds. The School District has made presentations to the COC, provided documents and information as set forth herein, and has provided necessary and requested legal and planning support and assistance to the COC. Based on the foregoing, and the documentation and information provided to the COC, as referenced herein, the COC has found that the School District has provided all necessary and requested technical and administrative assistance without expending Measure S Bond funds.

7. COC Web site is operating and includes all required documentation and information (Education Code Section 15280(b)).

The COC internet Web site is operated and maintained by the School District Board on behalf of the COC and is currently located at <http://www.tustin.k12.ca.us/domain/1283>. Information relating to the COC, its activities and documents can be viewed at the COC Web site. This includes minutes of the COC meetings, the 2012-2013 audit reports, which will include this Annual Report following its adoption.

8. Based on the foregoing, the Tustin Unified School District is in compliance with the requirements of Article XIII A 1(b)(3) of the California Constitution.

IV. CONTACT INFORMATION:

Comments, questions and suggestions can be forwarded to the COC through the School District at the following address:

Tustin Unified School District
300 South C Street
Tustin, CA 92780

Attn: Crystal Turner, Assistant Superintendent
Telephone: Phone: (714) 730-7306
Facsimile: Fax: (714) 730-7436


or by e-mail at: cturner@tustin.k12.ca.us

Dates, times and location(s) of COC meetings can be found on the COC Web site. Members of the public are invited to attend.

V. CONCLUSION:

The Citizens' Oversight Committee is pleased to report that the Measure S Bond funds have been used as the voters intended. The independent accounting firm of Nigro & Nigro, PC said in their report "the District complied with the compliance requirements for the Measure "S" General Obligation Bond proceeds listed and tested." Additionally, this committee is pleased to report that careful management by the School District's bond team brought the projects in under budget and that no Bond proceeds were used on teacher or administration salaries or other operating expenses.

ADOPTED, SIGNED AND APPROVED BY THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE ON MARCH 27, 2014.


Secretary

ATTACHMENT "A"

***ANNUAL FINANCIAL AUDIT
And
INDEPENDENT FINANCIAL AUDIT
(2012-2013 Fiscal Year)***

**MEASURE "S" GENERAL OBLIGATION
BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013**



**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2013

Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report.....	1
Basic Financial Statements:	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5

OTHER INDEPENDENT AUDITORS' REPORTS

Independent Auditors' 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.....	9
Independent Auditors' Report on Performance	11

Financial Section



INDEPENDENT AUDITORS' REPORT

The Board of Education and the
Citizens' Bond Oversight Committee
Tustin Unified School District
Tustin, California

We have audited the accompanying financial statements of the Measure "S" General Obligation Bond Building Fund of Tustin Unified School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

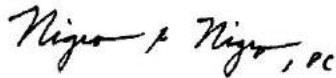
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure "S" General Obligation Bond Building Fund of Tustin Unified School District, as of June 30, 2013, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure "S" General Obligation Bond Building Fund and do not purport to, and do not, present fairly the financial position of the Tustin Unified School District, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



January 6, 2014

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

Balance Sheet

June 30, 2013

	<u>Measure "S"</u>
ASSETS	
Cash	\$ 31,450,027
Accounts receivable	11,294
Due from other funds	473
	<hr/>
Total Assets	\$ 31,461,794
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 2,050,203
Due to other funds	5,583
	<hr/>
Total Liabilities	2,055,786
Fund Balance	
Restricted for capital projects	29,406,008
	<hr/>
Total Liabilities and Fund Balance	\$ 31,461,794
	<hr/> <hr/>

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013*

	<u>Measure "S"</u>
REVENUES	
Interest earnings	<u>\$ 32,238</u>
EXPENDITURES	
Plant Services:	
Classified salaries	71,298
Benefits	27,361
Materials and supplies	1,841,274
Services and other operating expenditures	218,153
Capital outlay	3,238,144
Debt Service:	
Issuance costs	<u>387,500</u>
Total Expenditures	<u>5,783,730</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,751,492)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from debt issuance	35,000,000
Premium on debt issuance	<u>157,500</u>
Total Other Financing Sources (Uses)	<u>35,157,500</u>
Net Change in Fund Balance	29,406,008
Fund Balance, July 1, 2012	<u>-</u>
Fund Balance, June 30, 2013	<u>\$ 29,406,008</u>

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 6, 2012, a special election of the registered voters was held in School Facilities Improvement District No. 2012-1, at which more than the required 55 percent of voters authorized the issuance and sale of not to exceed \$135 million principal amount of general obligation bonds of the District to upgrade classrooms, science labs, equipment, instructional technology, and infrastructure. In response, an advisory committee to the District's Governing Board and Superintendent, the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include ensuring compliance with the conditions of Measure "S".

On March 14, 2013, the District issued the first series of bonds, Series A, in the amount of \$35,000,000. The bond proceeds are accounted for in the District's Bond Building Fund (using sub-fund 2129). The statements presented are not intended to be a complete presentation of the District's financial position or results of operations.

B. Basis of Accounting

The Measure "S" General Obligation Bond Building Fund is a governmental fund reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

C. 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.

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. All encumbrances are liquidated as of June 30. If there is a balance on a contract encumbered at year end that has not yet been earned, the balance is moved as an encumbrance into the next fiscal year. This allows for continuity in tracking contracts.

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable: Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Restricted: Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

Committed: The District's highest decision-making level of authority rests with the District's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

Assigned: Resources that are constrained by the District's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

Unassigned: Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

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.

NOTE 2 - CASH

Pooled Funds

In accordance with Education Code Section 41001, the District maintains all of its Building Fund cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 2 - CASH (continued)

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 in the amount of \$11,294 represent the amount due from the County Treasurer for interest earnings.

NOTE 4 - INTERFUND ACTIVITY

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 and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Building Fund due from General Fund for unemployment insurance paid	<u>\$</u> 473
Building Fund due to General Fund for benefits paid	<u>\$</u> 5,583

NOTE 5 - MEASURE "S" GENERAL OBLIGATION BONDS

On March 14, 2013, the District issued \$35 million of Series A Election of 2012 General Obligation Bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds were issued to upgrade classrooms, science labs, equipment, instructional technology and infrastructure, and to pay costs of issuance of the bonds.

The bonds were issued as: Serial Bonds of \$28,740,000 with stated interest rates ranging between 2.0% and 5.0% and fully maturing on August 1, 2014. Term Bonds of \$6,260,000 with a stated interest rate of 3.5% due August 1, 2037. At June 30, 2013, the outstanding principal balance of the bonds was \$35,000,000.

**MEASURE "S" GENERAL OBLIGATION BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements
June 30, 2013*

NOTE 5 - MEASURE "S" GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize Measure "S" general obligation bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ -	\$ 1,104,167	\$ 1,104,167
2014-15	2,465,000	1,229,294	3,694,294
2015-16	2,705,000	1,164,069	3,869,069
2016-17	2,110,000	1,081,294	3,191,294
2017-18	2,310,000	992,894	3,302,894
2018-23	4,590,000	4,117,169	8,707,169
2023-28	4,280,000	3,272,719	7,552,719
2028-33	6,785,000	2,211,415	8,996,415
2033-38	9,755,000	892,793	10,647,793
Total	\$ 35,000,000	\$ 16,065,814	\$ 51,065,814

NOTE 6 - CONSTRUCTION COMMITMENTS

As of June 30, 2013, the District had commitments with respect to unfinished capital projects of approximately \$3.8 million from Measure "S" funds.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Piggy-Back Contract

In June 2013, the District purchased computer equipment through use of a contract awarded by Western States Contracting Alliance with Lenovo, Inc. through authorized vendor CDW Government, LLC, which specifically provided that other governmental entities may purchase under its terms and conditions, also known as a "piggy-back" contract. The agreement was for a total amount not to exceed \$6.7 million to be paid from Measure "S" funds.

After examination of the contract, the Orange County Department of Education has determined that the agreement does not qualify as a valid "piggy-back" contract, and is refusing to release the funds, although the District has already accepted receipt of the equipment. The District is currently in negotiations with all parties to resolve the matter. At the date of the audit, the possibility of a negative outcome cannot be reasonably estimated, therefore, no liability has been established.

Other Independent Auditors' Reports



**INDEPENDENT AUDITORS' 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**

The Board of Education and
the Citizens' Bond Oversight Committee
Tustin Unified School District
Tustin, California

We have audited, in accordance with the 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, the financial statements of the Measure "S" General Obligation Bond Building Fund of Tustin Unified School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tustin Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Tustin Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tustin Unified School District's internal control.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

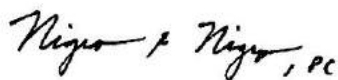
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tustin 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 6, 2014

ATTACHMENT "B"

ANNUAL PERFORMANCE AUDIT
(2012-2013 Fiscal Year)



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Education and the
Citizens' Bond Oversight Committee
Tustin Unified School District
Tustin, California

We have examined the Tustin Unified School District's compliance with the performance requirements for the Proposition 39 Measure "S" General Obligation Bond for the fiscal year ended June 30, 2013, under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

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.

Objectives

The objectives of the examination of compliance applicable to the District are to determine with reasonable assurance that:

- The expenditures charged to the Tustin Unified School District Building Fund (sub-fund 2129) are appropriate.
- Expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure "S".
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2012 to June 30, 2013. The 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 the proceeds of the bonds, were also included within the scope of our audit. Expenditures incurred subsequent to June 30, 2013 were not reviewed or included within the scope of our audit or in this report.

Procedures Performed

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 (sub-fund 2129). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measure "S" with regards to the approved bond projects list. We performed the following procedures:

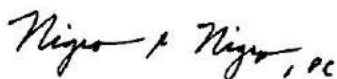
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We tested payments made to the construction management company and reviewed the terms of the contract.
- We tested approximately \$4.8 million in bond fund invoices paid, which is approximately 83% of expenditures incurred during the year. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our testing included payments made to the construction management company, subcontractors and other vendors.
- We visited construction sites at Tustin High School to ensure that expenditures made corresponded with the actual work performed at the site.
- We reviewed the approved project listing as set out in the Measure "S" election documents.
- We verified that funds from the Building Fund were generally expended for the construction, reconstruction, acquisition, furnishing and equipping of District facilities constituting the authorized bond projects and we verified that funds held in the Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We verified that the lease-leaseback agreement contained provisions or information that included the value of the lease, that the title to the improvements on the site vests with the District upon completion of the project, and that the lease shall terminate within 180 days of the filing of a notice of completion or occupancy of the project by the District, whichever occurs first.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to Public Contract Code Sections 20111
- We reviewed a sample of "piggy-back" purchases to ensure that procedures were followed pursuant to Public Contract Code Sections 20118.

Our audit of compliance made for the purpose set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the Measure "S" General Obligation Bond proceeds listed and tested above.

This report is intended for the information of the Board of Education, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.



January 6, 2014