

TUSTIN UNIFIED SCHOOL DISTRICT
CITIZENS' OVERSIGHT COMMITTEE
(School Facilities Improvement District No. 2008-1)
Measure L

PERIOD COVERING - JULY 1, 2011 TO JUNE 30, 2012

ANNUAL REPORT

THIS REPORT IS HEREBY ADOPTED BY THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE (SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 2008-1) 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, 2011 TO JUNE 30, 2012, AND CERTAIN RELATED MATTERS.

I. MEMBERSHIP OF THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE (School Facilities Improvement District No. 2008-1):

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:

- David Albus *(Parent/Guardian of Student)*
- Nancy Gran *(Business Organization Representative)*
- Bruce Junor *(Senior Citizen's Organization Representative)*
- George Jeffries *(Tax Payer Representative)*
- Simon Russek *(PTA/PTO/Site Council Representative)*
- Margaret Sepulveda *(Member At-Large Representative)*
- William Teter *(Member At-Large Representative)*

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

- Chairperson, Bruce Junor
- Vice Chairperson, William Teter
- Secretary, Leticia Barrozo

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 Website. All approved Minutes and Annual Reports are posted on the COC Website: <http://www.tusdmeasurel.org>.

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

III. CITIZENS' OVERSIGHT COMMITTEE (COC) FINDINGS FOR FISCAL YEAR 2011-2012:

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 L 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 Website at <http://www.tusdmeasurel.org>. Agendas for meetings of the COC are also posted on that website.

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

The COC has received various reports (both written and oral), including, but not limited to, construction and project timelines, has taken tours, has received written and oral updates and reports on expenditures relating to the Measure L 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 COC handouts and documents is also located on the COC Website.

3. The COC has Visited Schools and Project Sites.

These visits included the school sites mentioned in the Committee minutes.

4. Measure L Series A and B Bond funds have been expended on the identified projects authorized by Measure L (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 L Bond funds by the School District have been made on costs, expenses and construction/acquisition/installation costs of projects authorized by Measure L.

The specific projects authorized by Measure L are posted on the COC website at <http://www.tusdmeasurel.org>. Construction updates on the Measure L projects can also be found at that same website.

5. No Measure L 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 L Bond funds on teacher/administrator salaries or other school operating expenses.

6. 2011-12 Audit Reports were reviewed, received and filed with the COC.

The required annual performance and financial audits for Fiscal Year 2011-2012 were performed by the accounting firm of Nigro & Nigro, PC. The audit reports were reviewed, received and filed by action of the COC. Copies of the audits 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 (i.e. the audits are "clean"). The 2011-12 audit reports can be viewed on the internet at <http://www.tusdmeasurel.org>.

7. 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 L 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 architectural, construction management, 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 L Bond funds.

8. COC Website is operating and includes all required documentation and information (Education Code Section 15280(b)).

The COC internet website is operated and maintained by the School District Board on behalf of the COC and is currently located at <http://www.tusdmeasure1.org>. Information relating to the COC, its activities and documents can be viewed at the COC website. This includes minutes of the COC meetings, the 2011-2012 audit report and other reports issued by the COC, which will include this Annual Report following its adoption.

9. 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: Anthony Soria, Chief Financial Officer
Telephone: Phone: (714) 730-7301, Ext. 302
Facsimile: Fax: (714) 505-8397

or on the COC website by e-mail at: asoria@tustin.k12.ca.us

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

ADOPTED, SIGNED AND APPROVED BY THE TUSTIN UNIFIED SCHOOL DISTRICT CITIZENS' OVERSIGHT COMMITTEE ON JULY 23, 2013.

Secretary

ATTACHMENT "A"
COPY OF ANNUAL FINANCIAL AUDIT
(2011-2012 Fiscal Year)

**MEASURE "L" GENERAL OBLIGATION
BOND BUILDING FUND OF
TUSTIN UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2012**

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

For the Fiscal Year Ended June 30, 2012

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Financial Section

INDEPENDENT AUDITORS' REPORT

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

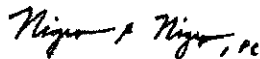
We have audited the accompanying balance sheet of the Measure "L" General Obligation Bond Building Fund (the "Fund") of Tustin Unified School District (the "District") as of June 30, 2012, and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended June 30, 2012. 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 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 opinions.

As discussed in Note 1A, the financial statements present only the individual Measure "L" General Obligation Bond Building Fund and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure "L" General Obligation Bond Building Fund of Tustin Unified School District, as of June 30, 2012, and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the Measure "L" General Obligation Bond Building Fund of Tustin Unified School District's internal control over financial reporting and 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 the internal control over financial reporting or on 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.



January 8, 2013

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

Balance Sheet

June 30, 2012

	<u>Measure "L"</u>
ASSETS	
Cash	\$ 8,790,223
Accounts receivable	<u>4,211</u>
Total Assets	<u>\$ 8,794,434</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 3,704,837
Fund Balance	
Restricted for capital projects	<u>5,089,597</u>
Total Liabilities and Fund Balance	<u>\$ 8,794,434</u>

**MEASURE "L" 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, 2012*

	<u>Measure "L"</u>
REVENUES	
Interest earnings	<u>\$ 121,194</u>
Total Revenues	<u>121,194</u>
EXPENDITURES	
Plant Services:	
Materials and supplies	134,228
Services and other operating expenditures	184,227
Capital outlay	<u>29,010,224</u>
Total Expenditures	<u>29,328,679</u>
Net Change in Fund Balance	(29,207,485)
Fund Balance, July 1, 2011	<u>34,297,082</u>
Fund Balance, June 30, 2012	<u>\$ 5,089,597</u>

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

*Notes to Financial Statements
June 30, 2012*

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 4, 2008, an election was held in the District, whereby the voters approved by a 58.5% vote Measure "L", which authorizes the District to issue up to \$95 million of general obligation bonds. The bonds will be used to acquire, construct, renovate, upgrade and provide repair of existing school facilities. The Committee's oversight goals include reviewing and reporting on the proper expenditure of taxpayers' money for school construction, that bond funds are spent on projects included on the ballot, and that annual independent performance and financial audits are performed.

On March 30, 2010, the District issued the first series of bonds, Series A, in the amount of \$12,000,000 and Sub-Series A-1, Build America Bonds, in the amount of \$13,000,000. The bond proceeds and uses are accounted for in the District's Bond Building Fund (using subfund 2126).

On June 9, 2011, the District issued the second series of bonds, Series B, in the amount of \$25,000,000. The bond proceeds and uses are accounted for in the District's Bond Building Fund (using subfund 2127). The statements presented are for the individual Measure "L" General Obligation Bond Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The Tustin Unified School 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 generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. 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.

The financial statements of the Measure "L" General Obligation Bond Building Fund are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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

Notes to Financial Statements

June 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

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, 2012, 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, 2012 in the amount of \$4,211 represent the amount due from the County Treasurer for interest earnings for the month ended June 30, 2012.

NOTE 4 - MEASURE "L" GENERAL OBLIGATION BONDS

The District authorized bonds at a regularly scheduled election of the registered voters of the District held on November 4, 2008, at which more than 55% of the voters authorized the issuance and sale of up to \$95 million of general obligation bonds. The bonds are being used to acquire, construct, renovate, upgrade and provide repair of existing school facilities.

A summary of outstanding Measure "L" general obligation bonds is as follows:

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Balance, July 1, 2011</u>	<u>Deductions</u>	<u>Balance, June 30, 2012</u>
2008A	3/30/2010	2034	3.0% - 6.589%	\$ 25,000,000	\$ 25,000,000	\$ 1,000,000	\$ 24,000,000
2008B	6/9/2011	2037	2.0% - 5.0%	25,000,000	25,000,000	-	25,000,000
				<u>\$ 50,000,000</u>	<u>\$ 50,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 49,000,000</u>

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

Notes to Financial Statements

June 30, 2012

NOTE 4 - MEASURE "L" GENERAL OBLIGATION BONDS (continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	\$ 1,275,000	\$ 3,308,520	\$ 4,583,520
2013-14	590,000	2,603,708	3,193,708
2014-15	640,000	2,585,658	3,225,658
2015-16	745,000	2,565,357	3,310,357
2016-17	890,000	2,541,132	3,431,132
2017-22	6,765,000	11,964,163	18,729,163
2022-27	9,515,000	10,065,337	19,580,337
2027-32	13,475,000	7,006,272	20,481,272
2032-37	15,105,000	2,269,664	17,374,664
Total	<u>\$ 49,000,000</u>	<u>\$ 44,909,811</u>	<u>\$ 93,909,811</u>

NOTE 5 - CONSTRUCTION COMMITMENTS

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of approximately \$24.5 million from Measure "L" funds.

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 the financial statements of the Measure "L" General Obligation Bond Building Fund of Tustin Unified School District (the "District") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 8, 2013. 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

Management of Tustin Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Tustin Unified School 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 Tustin Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tustin Unified School District's internal control over financial reporting.

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 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.

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.

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*.

This report is intended solely for the information and use of the Measure "L" Bond Oversight Committee, the District Governing Board, management, and the taxpayers of Tustin Unified School District and is not intended to be and should not be used by anyone other than the specified parties.

Nigro & Nigro, PC

January 8, 2013

ATTACHMENT "B"
COPY OF ANNUAL PERFORMANCE AUDIT
(2011-2012 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 "L" General Obligation Bond for the fiscal year ended June 30, 2012, 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 (subfunds 2126 and 2127) 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 "L".
- 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, 2011 to June 30, 2012. 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, 2012 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, 2012 for the Building Fund (subfunds 2126 and 2127). 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 "L" 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 \$14.35 million in bond fund invoices paid, which is approximately 49 percent 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 Foothill and Tustin High Schools 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 "L" 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.

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 "L" 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.

Theresa A. Higgins, PC

January 8, 2013