

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



**MEASURE “C” GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2012*

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## *Introduction*

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**MEASURE “C” GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*Introduction and Citizens’ Oversight Committee Member Listing  
June 30, 2012*

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Fontana Unified School District (the “District”) consists of twenty-nine elementary schools, seven middle schools, four high schools, and two continuation high schools supported by a District Office and an operations center. The District serves approximately 41,000 students.

On June 6, 2006, the voters of the Fontana Unified School District approved by more than 55% Measure “C”, authorizing the issuance and sale of \$275 million of general obligation bonds.

Measure “C” was a Proposition 39 bond, issued pursuant to the provisions of the Education Code of the State of California and pursuant to a resolution adopted by the Board of Education of the District. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens’ Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens’ Bond Oversight Committee was comprised of the following members as of June 30, 2012:

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Brandy Segal	Chairperson	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
Sherman Van Vleet	Vice Chairperson	Business Representative
Maria Castellanos	Member	Parent/ Guardian of Child in District
Karen Coleman	Member	Taxpayer Organization Member
Dayle M. Jamieson	Member	At-Large Community Member
David Manuel	Member	Parent/ Guardian of Child in District
Frank Montes, Jr.	Member	Business Representative
Lee Rohr	Member	At-Large Community Member
D. Wayne Ruble, Ed.D	Member	Active in Senior Citizens' Organization
Matthew Slowik	Member	At-Large Community Member
Luis Vaquera	Member	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
Edward Velasquez	Member	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
Michael K. Wubker, Sr.	Member	Parent/ Guardian of Child in District

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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

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

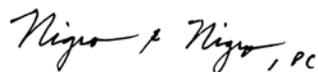
We have audited the accompanying balance sheet of the Measure "C" General Obligation Bond Building Fund (the "Fund") of Fontana Unified School District (the "District") as of June 30, 2012, and the related statement of revenues, expenditures and changes in fund balance as of and for the fiscal year ended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

As discussed in Note 1A, the financial statements present only the individual Measure "C" 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 "C" General Obligation Bond Building Fund of Fontana 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 March 26, 2013 on our consideration of the Measure "C" General Obligation Bond Building Fund of Fontana Unified School 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 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.



March 26, 2013

**MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*Balance Sheet*

*June 30, 2012*

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<b>ASSETS</b>	
Cash	\$ 59,285,525
Accounts receivable	72,156
Due from other funds	<u>1,000,001</u>
<b>Total Assets</b>	<b><u><u>\$ 60,357,682</u></u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>Liabilities</b>	
Accounts payable	\$ 1,393,777
<b>Fund Balance</b>	
Restricted for capital projects	<u>58,963,905</u>
<b>Total Liabilities and Fund Balance</b>	<b><u><u>\$ 60,357,682</u></u></b>

**MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF  
 FONTANA UNIFIED SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance  
 For the Fiscal Year Ended June 30, 2012*

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<b>REVENUES</b>	
Interest earnings	\$ 281,976
	<u>281,976</u>
<b>EXPENDITURES</b>	
Plant Services:	
Materials and supplies	1,942,531
Services and other operating expenditures	197,484
Capital outlay	5,368,893
Other Outgo:	
Debt service - interest	2,840,000
	<u>2,840,000</u>
<b>Total Expenditures</b>	<u>10,348,908</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(10,066,932)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Interfund transfer in	13,587,455
Interfund transfer out	(1,866,983)
	<u>(1,866,983)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>11,720,472</u>
<b>Net Change in Fund Balance</b>	1,653,540
<b>Fund Balance, July 1, 2011</b>	<u>57,310,365</u>
<b>Fund Balance, June 30, 2012</b>	<u>\$ 58,963,905</u>

## MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF FONTANA UNIFIED SCHOOL DISTRICT

*Notes to Financial Statements*

*June 30, 2012*

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

On June 6, 2006 the District voters authorized \$275 million in General Obligation Bonds (Measure "C") to acquire, construct, renovate, and equip certain school facilities. In response, an advisory committee to the District's Governing Board and Superintendent, the Measure "C" Bond Oversight Committee, was established. The Committee's oversight goals include: informing the public on the expenditures of Bond proceeds and reviewing expenditure reports to ensure that Bond proceeds are expended only for purposes set forth in Measure "C".

The bond proceeds and uses are accounted for in the District's Building Fund. The statements presented are for the individual Measure "C" 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 Fontana Unified School District accounts for its financial transactions in accordance with the policies and procedures of the California 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 "C" 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 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.

#### 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.

**MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2012*

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**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 consisted of \$72,156 due from the San Bernardino County Treasurer for interest earnings for the quarter ended June 30, 2012.

**NOTE 4 – INTERFUND ACTIVITIES**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate. 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 benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Interfund activity as of and for the fiscal year ended June 30, 2012 was as follows:

**Due From Other Funds**

County School Facilities Fund due to Building Fund to correct an expense charged to the incorrect fund	\$ 1,000,000
Debt Service Fund due to Building Fund for bond anticipation note interest	<u>1</u>
	<u>\$ 1,000,001</u>

**Interfund Transfers In**

County School Facilities Fund to Building Fund for payback of funds borrowed for modernization projects	\$ 11,944,192
Capital Project Fund for Blended Components Units to Building Fund for the transfer of expenses for the new building at FMS	1,643,263
	<u>\$ 13,587,455</u>

**Interfund Transfers Out**

Building Fund transfer to Capital Project Fund for Blended Component Units for modernization expenses	<u>\$ 1,866,983</u>
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**MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2012*

**NOTE 5 – MEASURE "C" GENERAL OBLIGATION BONDS**

The bonds were authorized at an election of the registered voters of the District held on June 6, 2006, at which more than 55% percent of the voters authorized the issuance and sale of \$275 million 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 bonds were issued to acquire, construct, renovate, and equip certain school facilities.

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2011	Deductions	Balance, June 30, 2012
2006A	8/10/2006	2031	4.00%-5.25%	\$ 90,000,000	\$ 82,665,000	\$ -	\$ 82,665,000
2006B	3/11/2008	2033	3.00%-5.25%	70,585,909	70,485,909	465,000	70,020,909
BAN	1/7/2010	2012	4.00%	94,997,120	94,997,120	-	94,997,120
				<u>\$ 255,583,029</u>	<u>\$ 248,148,029</u>	<u>\$ 465,000</u>	<u>\$ 247,683,029</u>

**Series A**

On August 10, 2006, the District issued \$90,000,000 of Series A Bonds to acquire, construct, renovate, and equip certain District facilities. The bonds were issues as follows: Current Interest Serial Bonds of \$62.5 million with stated interest rates ranging between 4.0% to 5.25% and fully maturing on August 1, 2028 and \$27.5 million Term Bonds with a stated interest rate of 5.25% and maturing on August 1, 2031. At June 30, 2012, the outstanding balance on the bonds was \$82,665,000.

The annual requirements to amortize all Series A general obligation bonds payable outstanding as of June 30, 2012 were as follows:

Fiscal Year	Principal	Interest	Total
2012-13	\$ 100,000	\$ 4,322,600	\$ 4,422,600
2013-14	400,000	4,312,600	4,712,600
2014-15	725,000	4,290,100	5,015,100
2015-16	1,065,000	4,247,644	5,312,644
2016-17	1,450,000	4,181,625	5,631,625
2017-22	12,875,000	19,232,718	32,107,718
2022-27	24,350,000	14,430,938	38,780,938
2027-32	41,700,000	5,908,875	47,608,875
Total	<u>\$ 82,665,000</u>	<u>\$ 60,927,100</u>	<u>\$ 143,592,100</u>

**Series B**

On March 11, 2008, the District issued \$70,585,909 of Series B Bonds to acquire, construct, renovate, and equip certain District facilities. The bonds were issues as follows: Current Interest Serial Bonds of \$45.0 million with stated interest rates ranging between 3.0% to 5.0% and fully maturing on August 1, 2026, \$15.75 million Term Bonds due August 1, 2028 and yielding 4.86% and \$9.8 million Capital Appreciation Bonds with interest rates ranging between 5.71% to 7.71% and maturing on February 1, 2033. At June 30, 2012, the outstanding balance in the bonds was \$70,020,909.

**MEASURE "C" GENERAL OBLIGATION BOND BUILDING FUND OF  
FONTANA UNIFIED SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2012*

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**NOTE 5 – MEASURE "C" GENERAL OBLIGATION BONDS (continued)**

The annual requirements to amortize all Series B general obligation bonds payable outstanding as of June 30, 2012 were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	\$ 775,000	\$ 3,079,562	\$ 3,854,562
2013-14	900,000	3,054,375	3,954,375
2014-15	1,075,000	3,018,125	4,093,125
2015-16	1,250,000	2,981,844	4,231,844
2016-17	1,450,000	2,928,719	4,378,719
2017-22	12,625,000	13,260,000	25,885,000
2022-27	26,400,000	8,646,750	35,046,750
2027-32	22,084,554	24,221,758	46,306,312
2032-33	3,461,355	19,038,645	22,500,000
Total	<u>\$ 70,020,909</u>	<u>\$ 80,229,778</u>	<u>\$ 150,250,687</u>

**Bond Anticipation Notes**

On January 7, 2010, the District issued General Obligation Bond Anticipation Notes in the amount of \$94,997,120. The notes were issued to finance the acquisition, construction, renovation and equipping of certain District facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization. The issue consisted of: a) Current Interest Notes of \$71,000,000 with an interest rate of 4.0% and fully maturing on December 1, 2012 and b) Capital Appreciation Notes of \$23,997,120 with an accretion rate of 11.95% and fully maturing on December 1, 2012. At June 30, 2012, the outstanding principal was \$94,997,120.

The future requirements to amortize general obligation bond anticipation notes payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	<u>\$ 94,997,120</u>	<u>\$ 12,442,880</u>	<u>\$ 107,440,000</u>

**NOTE 6 – CONSTRUCTION COMMITMENTS**

As of June 30, 2012, the District had commitments with respect to unfinished capital projects of approximately \$659,000 to be paid from a combination of State and local funds.

**NOTE 7 – SUBSEQUENT EVENTS**

On October 25, 2012, the District authorized \$47,259,440 in Election of 2006, Series C bonds in order to pay certain outstanding bond anticipation notes of the District and to pay costs of issuance.

On October 25, 2012, the District authorized \$78,115,000 in refunding bonds to refund a portion of the outstanding General Obligation Bonds the District originally issued for authorized school purposes.

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***Other Independent Auditors' Reports***

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**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  
Fontana Unified School District  
Fontana, California

We have audited the financial statements of the Measure "C" General Obligation Bond Building Fund of Fontana Unified School District as of and for the year ended June 30, 2012, and have issued our report thereon dated March 26, 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 Fontana Unified School District is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fontana Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Measure "C" General Obligation Bond Building Fund of Fontana Unified School District's internal control over financial reporting.

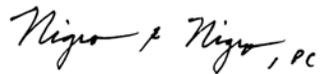
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination 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 Measure "C" General Obligation Bond Building Fund of Fontana 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 "C" General Obligation Bond Oversight Committee, the District Governing Board, management, and the taxpayers of Fontana Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Nigro & Nigro, PC".

March 26, 2013



## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We have examined the Fontana Unified School District's compliance with the performance requirements for the Proposition 39 Measure "C" 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 Fontana Unified School District Building Fund 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 "C".
- 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. 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 "C" 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 \$5.7 million in bond fund invoices paid, which is a combination of 2011-12 expenditures and payments on liabilities accrued as of June 30, 2012 and paid in 2012-13. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to the construction management company, subcontractors and other vendors.
- We reviewed the approved project listing as set out in the Measure "C" election documents.
- We visited construction sites at Citrus High School and Fontana Middle School to ensure that expenditures made corresponded with the actual work performed at the site.
- 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 reviewed a sample of public projects to ensure that formal bidding procedures were followed pursuant to Public Contract Code Section 22032.

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 "C" 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.

*Nigro & Nigro, PC*

March 26, 2013