

**MEASURES "S" AND "A" GENERAL OBLIGATION
BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013**



**MEASURES “S” AND “A” GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2013

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Financial Section

INDEPENDENT AUDITORS' REPORT

To the Governing Board and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, California

We have audited the accompanying financial statements of the Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel Unified School District, as of and for the fiscal years ended June 30, 2013 and 2012, 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 Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel Unified School District, as of June 30, 2013 and 2012, and the changes in financial position thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

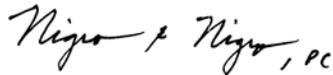
Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel Unified School District's financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measures "S" and "A" General Obligation Bond Building Fund and do not purport to, and do not, present fairly the financial position of the San Gabriel 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 March 19, 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.



Murrieta, California
March 19, 2014

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Balance Sheet

June 30, 2013 and 2012

	2013			2012
	Measure "S"	Measure "A"	Totals	
ASSETS				
Cash	\$ 4,419,476	\$ 13,341,973	\$ 17,761,449	\$ 22,898,602
Accounts receivable	3,531	31,737	35,268	29,483
Total Assets	<u>\$ 4,423,007</u>	<u>\$ 13,373,710</u>	<u>\$ 17,796,717</u>	<u>\$ 22,928,085</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 34,598	\$ 1,519,628	\$ 1,554,226	\$ 1,443,254
Fund Balances				
Restricted for capital projects	4,388,409	11,854,082	16,242,491	21,484,831
Total Liabilities and Fund Balances	<u>\$ 4,423,007</u>	<u>\$ 13,373,710</u>	<u>\$ 17,796,717</u>	<u>\$ 22,928,085</u>

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

*Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2013 and 2012*

	2013			2012
	Measure "S"	Measure "A"	Totals	
REVENUES				
Interest earnings	\$ 4,633	\$ 145,338	\$ 149,971	\$ 90,298
Other local revenues	-	12	12	155,369
Total Revenues	<u>4,633</u>	<u>145,350</u>	<u>149,983</u>	<u>245,667</u>
EXPENDITURES				
Current:				
Plant services:				
Classified salaries & benefits	-	141,134	141,134	74,636
Materials & supplies	97,691	438,935	536,626	918,018
Services	99,249	440,954	540,203	267,469
Capital outlay	-	6,317,442	6,317,442	4,014,418
Debt service:				
Debt issuance costs	-	-	-	507,719
Total Expenditures	<u>196,940</u>	<u>7,338,465</u>	<u>7,535,405</u>	<u>5,782,260</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	2,143,082	-	2,143,082	-
Proceeds from sale of bonds	-	-	-	16,003,464
Proceeds from refunding bonds	-	-	-	9,315,000
Premiums on debt issuance	-	-	-	710,813
Transfers to escrow agent for defeased debt	-	-	-	(9,518,094)
Total Other Financing Sources (Uses)	<u>2,143,082</u>	<u>-</u>	<u>2,143,082</u>	<u>16,511,183</u>
Net Change in Fund Balances	1,950,775	(7,193,115)	(5,242,340)	10,974,590
Fund Balances, Beginning of Year	<u>2,437,634</u>	<u>19,047,197</u>	<u>21,484,831</u>	<u>10,510,241</u>
Fund Balances, End of Year	<u>\$ 4,388,409</u>	<u>\$ 11,854,082</u>	<u>\$ 16,242,491</u>	<u>\$ 21,484,831</u>

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District voters authorized the issuance of two General Obligation Bonds. The first bond issuance was authorized on March 5, 2002 for \$46,045,000 under the Measure "S" bond election. The purpose of the Measure "S" bond funds is for constructing, reconstructing, rehabilitating and replacing school facilities, including the furnishing and equipping of school facilities, and the acquisition or leasing of real property for school facilities.

The second bond was authorized on February 5, 2008 under the Measure "A" election. The voters authorized the District to issue up to \$65,075,000. The proceeds of the bonds are being used to finance construction, modernization of facilities, furnishing and equipping school facilities and upgrading of technology.

Both bonds passed under the provisions of Proposition 39. To comply with the requirements, an oversight committee must be established to ensure that the school bond funds are invested as voters intended. The District's Governing Board expanded the duties of the existing Long Range Facilities Master Plan Committee to include the oversight responsibilities. The Committee was established in 1998 to provide recommendations to the Governing Board. The Committee's oversight goals include: advising on bond construction priorities, reviewing school bond construction plans, verifying that project plans are in alignment with the budget, and ensuring compliance with conditions of Measure "S" and Measure "A" bond authorizations.

The bond proceeds and uses are accounted for in the District's Bond Building Fund. The statements presented are for the individual Measures "S" and "A" 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 San Gabriel 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 Measures "S" and "A" and Election 2008 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 in the District's Bond Interest and Redemption Fund.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 2 – CASH

Cash at June 30, 2013 and 2012 is reported at fair value and consisted of the following:

	<u>2013</u>	<u>2012</u>
Pooled Funds:		
Cash in County Treasury	\$ 15,547,000	\$ 20,725,907
Deposits:		
Cash with fiscal agent	<u>2,214,449</u>	<u>2,172,695</u>
Total Cash	<u>\$ 17,761,449</u>	<u>\$ 22,898,602</u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its 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, 2013 and 2012, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 2 – CASH (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, none of the District's bank balance was exposed to custodial credit risk because it was FDIC insured.

Cash balances held with fiscal agent are insured up to \$500,000 of the net equity balance, including \$250,000 in cash by the Securities Investor Protection Corporation (SIPC) and are collateralized by the respective financial institutions. In addition, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, \$1,714,449 of net equity and \$1,964,449 of the District's balance held with fiscal agent was exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable in the amount of \$35,268 and \$29,483 represent amounts due from the Los Angeles County Treasurer for interest earnings for the quarters ended June 30, 2013, and 2012, respectively.

NOTE 4 – INTERFUND TRANSACTIONS

Transfers From Other Funds

Transfers from other funds for the fiscal year ended June 30, 2013 consisted of the following:

County School Facilities Fund transfer to Building Fund for reimbursement of construction costs	<u>\$ 2,143,082</u>
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MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF SAN GABRIEL UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 5 – GENERAL OBLIGATION BONDS

Election of 2002 – Measure "S"

An election of the registered voters of the District was held on March 5, 2002, of which more than 55 percent of the persons voting on the proposition voted to authorize the issuance and sale of \$46,045,000 principal amount of general obligation bonds. The bonds are being issued to renovate and modernize school facilities.

Election of 2008 – Measure "A"

On February 5, 2008 District voters authorized the District to issue up to \$65,075,000 general obligation bonds by more than fifty-five percent of the vote. The proceeds of the bonds are being used to finance construction and modernization of facilities.

2005 General Obligation Refunding Bonds

On January 6, 2005, the District issued Refunding Bonds in the amount of \$17,955,000. The bonds were issued as Serial Bonds with stated interest rates ranging from 3.0% to 5.0% and fully maturing on August 1, 2025. Of the \$18.6 million net proceeds from the Refunding Bonds, an amount equal to \$17,973,873 was used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series A bonds. All defeased debt has been repaid.

2012 General Obligation Refunding Bonds

On March 22, 2012, the District issued \$6,475,000 of General Obligation Refunding Bonds. The Bonds consist of serial bonds bearing fixed rates ranging from 2.0 to 4.5 percent with annual maturities from August 2012 through August 2024. The net proceeds of \$6,701,747 (after issuance costs of \$181,532 and original issue premium of \$408,279) were used to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series A and Series B.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$246,228 remain to be amortized. As of June 30, 2013, the principal balance outstanding on the defeased debt amounted to \$1,475,000.

2012 General Obligation Refunding Bonds, Series B

On May 8, 2012, the District issued \$2,840,000 of General Obligation Refunding Bonds. The Bonds consist of serial bonds bearing fixed rates ranging from 2.0 to 3.25 percent with annual maturities from August 2012 through August 2025. The net proceeds of \$2,816,347 (after issuance costs of \$83,387 and original issue premium of \$59,734) were used to refund a portion of the District's outstanding General Obligation Bonds, Election of 2002, Series A.

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 5 – GENERAL OBLIGATION BONDS (continued)

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the refunded bond escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred charges on refunding on the statement of net assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$66,251 remain to be amortized. As of June 30, 2013, there was no principal balance outstanding on the defeased debt.

The general obligation bonds issued as of June 30, 2013 were as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance July 1, 2012	Deductions	Balance, June 30, 2013
Measure "S"							
2002 A	6/12/2002	2/1/2027	3.0% - 5.375%	\$ 28,432,600	\$ 1,832,600	\$ 720,000	\$ 1,112,600
2002 B	11/18/2004	8/1/2029	2.5% - 4.625%	6,778,892	5,128,892	60,000	5,068,892
2002 C	7/10/2007	8/1/2032	3.75% - 4.75%	10,832,878	10,727,878	60,000	10,667,878
				<u>46,044,370</u>	<u>17,689,370</u>	<u>840,000</u>	<u>16,849,370</u>
Measure "A"							
2008 A	8/12/2008	8/1/2033	3.0% - 5.5%	20,548,245	18,353,245	265,000	18,088,245
2008 B	5/8/2012	8/1/2037	2.0% - 5.97%	16,003,464	16,003,464	-	16,003,464
				<u>36,551,709</u>	<u>34,356,709</u>	<u>265,000</u>	<u>34,091,709</u>
Refunding Bonds							
2005 Refunding	1/6/2005	8/1/2025	3.0% - 5.0%	17,955,000	17,040,000	85,000	16,955,000
2012 Refunding	3/22/2012	8/1/2024	2.0% - 4.5%	6,475,000	6,475,000	65,000	6,410,000
2012 Refunding (B)	5/8/2012	8/1/2025	2.0% - 3.25%	2,840,000	2,840,000	50,000	2,790,000
				<u>27,270,000</u>	<u>26,355,000</u>	<u>200,000</u>	<u>26,155,000</u>
					<u>\$ 78,401,079</u>	<u>\$ 1,305,000</u>	<u>\$ 77,096,079</u>

The annual requirements to amortize all general obligation bonds payable outstanding as of June 30, 2013 were as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ 2,060,000	\$ 2,475,434	\$ 4,535,434
2014-15	2,325,000	2,405,121	4,730,121
2015-16	2,590,000	2,323,765	4,913,765
2016-17	2,500,000	2,236,308	4,736,308
2017-18	2,408,245	2,068,751	4,476,996
2018-23	17,906,896	9,890,103	27,796,999
2023-28	20,251,841	13,886,681	34,138,522
2028-33	20,347,644	22,841,407	43,189,051
2033-38	6,706,453	12,299,734	19,006,187
Total	<u>\$ 77,096,079</u>	<u>\$ 70,427,304</u>	<u>\$ 147,523,383</u>

**MEASURES “S” AND “A” GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2013, the District had commitments with respect to unfinished capital projects of approximately \$7.2 million to be paid from a combination of State and local funds.

NOTE 7 - SUBSEQUENT EVENT

General Obligation Bond Issuance

On October 22, 2013, The Governing Board authorized additional issuances of 2008 Measure “A” General Obligation Bonds, Series C and D. The bonds were issued on December 4, 2013 in the amount of \$22,997,960. The bonds are being issued to finance construction and modernization of facilities.

Supplementary Information

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013

	<u>Measure "S"</u>	<u>Measure "A"</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from operations	\$ -	\$ 12	\$ 12
Cash paid for operating expenses	<u>(184,504)</u>	<u>(7,239,929)</u>	<u>(7,424,433)</u>
Net Cash Provided (Used) by Operating Activities	<u>(184,504)</u>	<u>(7,239,917)</u>	<u>(7,424,421)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>1,657</u>	<u>142,529</u>	<u>144,186</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interfund transfers in	<u>2,143,082</u>	<u>-</u>	<u>2,143,082</u>
Net increase (decrease) in cash	1,960,235	(7,097,388)	(5,137,153)
Cash, July 1, 2012	<u>2,459,241</u>	<u>20,439,361</u>	<u>22,898,602</u>
Cash, June 30, 2013	<u>\$ 4,419,476</u>	<u>\$ 13,341,973</u>	<u>\$ 17,761,449</u>

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

To the Governing Board and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, 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 Measures "S" and "A" General Obligation Bond Building Fund of San Gabriel 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 March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Gabriel 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 San Gabriel Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the San Gabriel 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

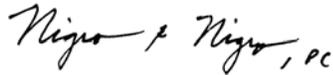
As part of obtaining reasonable assurance about whether San Gabriel Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as findings 2013-1 and 2013-2.

San Gabriel Unified School District's Responses to Findings

San Gabriel Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. San Gabriel Unified School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Murrieta, California
March 19, 2014

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

To the Governing Board and
Measures "S" and "A" Bond Oversight Committee
San Gabriel Unified School District
San Gabriel, California

We have examined the San Gabriel Unified School District's compliance with the performance requirements for the Proposition 39 Measures "S" and "A" General Obligation Bonds 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 San Gabriel Unified School District Building Fund are documented.
- Expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measures "S" and "A".
- 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. 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 Measures "S" and "A" with regards to the approved bond projects list. We performed the following procedures:

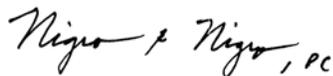
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We tested approximately \$5.0 million in bond fund invoices paid and \$70,000 in payroll related expenditures, for a total of approximately \$5.1 million. This represents about 68% of total fund expenditures. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to the subcontractors, other vendors, and salaries for technology related services. Salaries tested were for employees whose duties were directly attributable to the bond projects.
- We reviewed the approved project listing as set out in the Measures "S" and "A" election documents.
- We visited construction sites at Washington Elementary and Jefferson Middle Schools to ensure that expenditures made corresponded with the actual work performed at the site.
- We verified that funds from the Building Fund were 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 only used for authorized expenditures.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to Public Contract Code Section 20111.
- We verified that the District did not exceed change order limitations in excess of 10% pursuant to Public Contract Code.

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 Measures "S" and "A" General Obligation Bonds proceeds listed and tested above, except as described in the findings and responses section of this report.

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



Murrieta, California
March 19, 2014

Findings and Responses

**MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF
SAN GABRIEL UNIFIED SCHOOL DISTRICT**

Schedule of Audit Findings and Responses

June 30, 2013

Finding 2013-1: Citizens' Bond Oversight Committee Formation

Finding: Education Code Section 15282(a) states that the citizens' oversight committee must consist of at least seven members and must be comprised of the following groups: one member shall be active in a business organization representing the business community located within the district, one member shall be active in a senior citizens' organization, one member shall be active in a bona fide taxpayers' organization, one member shall be the parent or guardian of a child enrolled in the district, and one member shall be both a parent or guardian of a child enrolled in the district and active in a parent-teacher organization, such as the Parent Teacher Association or school site council. The Citizens' Oversight Committee does not currently have a member representing a business organization. As a result, the committee does not have all of the required representations.

Recommendation: The District should continue performing its due diligence in seeking out a new member to fill the vacancy and ensure that the correct representations are present on the Citizens' Bond Oversight Committee.

District Response: The Long-Range Facilities Master Plan Oversight Committee will actively recruit new members to serve the unrepresented group (business organization).

Finding 2013-2: Unallowable Expenditures

Finding: During the review of the Long-Range Facilities Master Plan Oversight Committee Minutes, it was noted that the District paid the annual maintenance fee for the SmarteTools software program. SmarteTools is the District's accounting software program. While the expense is a technological expense, it is not attributable to classroom use as required by the project listing and does not improve student access to modern technology as required in the bond language. Additionally, the expense is a normal operating expense of the District, and will continue to be incurred on an ongoing basis after the bond funds are exhausted. Payment of operating expenses with bond funds are considered prohibited by the California Constitution, Article XIII A, Section 1(b)(3)(A), which states that bond proceeds are subject to restricted use and shall not be used for school operating expenses.

Recommendation: The District should ensure that all items coded to the bond fund fall under the approved project listing for the Bond funds. During the payment process, there should be a second review of what is being applied to the bond fund to ensure that what is actually being processed for payment is applicable to the bond fund. Additionally, the District should reimburse the bond fund for the cost of the maintenance fee that was paid.

District Response: The cost of the software was previously approved (by the Board) to be covered by the bond funds as part of the technology projects, but the District will pay from the General Fund starting this year.

MEASURES "S" AND "A" GENERAL OBLIGATION BOND BUILDING FUND OF SAN GABRIEL UNIFIED SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Fiscal Year Ended June 30, 2013

Original Finding No.	Finding	Recommendation	Current Status
<i>Finding 2012-1: Citizens' Oversight Committee Membership Requirements</i>	<p>Education Code Section 15282 (a)(1) requires at least one member of the Citizens' Oversight Committee to be active in a business organization representing the business community located within the District.</p> <p>During 2011-12, the District did not have an Oversight Committee member representing the business community.</p>	<p>We recommend the District advertise for the position until it is filled.</p>	<p>Not Implemented. See Finding 2013-1.</p>