

**ALUM ROCK UNION ELEMENTARY
SCHOOL DISTRICT**
San Jose, California

**MEASURE J GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT**
June 30, 2014

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
San Jose, California

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and Independent Citizens' Bond
Oversight Committee for Measure J
Alum Rock Union Elementary School District
San Jose, California

We have conducted a performance audit of the Alum Rock Union Elementary School District (the "District") Measure J General Obligation Bond funds for the year ended June 30, 2014.

We conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 3 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure J General Obligation Bonds 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 Alum Rock Union Elementary School District's compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Alum Rock Union Elementary School District to determine if internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution. Accordingly, we do not express any assurance on the internal control.

The results of our procedures indicated that, in all significant respects, Alum Rock Union Elementary School District expended Measure J General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Board of Trustees and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 1, 2014

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
BACKGROUND INFORMATION

LEGISLATIVE HISTORY

On July 26, 2012, the Alum Rock Union Elementary School District (the "District") submitted for voter approval Measure J, a bond measure to authorize the sale of \$125 million in bonds to improve school facilities. This measure was submitted to voters under the terms and conditions of Proposition 39 (Article XIII of the California State Constitution), which requires a 55 percent affirmative vote for passage.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT GENERAL OBLIGATION BONDS,
MEASURE J**

The Alum Rock Union Elementary School District, Santa Clara County, California Election of 2012 General Obligation Bonds, Measure J were authorized at an election of the registered voters of the Alum Rock Union Elementary School District held on November 6, 2012 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$125,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the addition and modernization of certain District facilities. The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes. The summarized text of the ballot language was as follows:

"To improve neighborhood schools by removing mold and asbestos; fix leaky, deteriorated roofs; replacing inefficient/aging heating, ventilation, and electrical systems to save money; improving fire safety/ security; updating computer technology/ science labs for 21st century learning; repairing aging restrooms; and acquiring, constructing, and repairing sites/ facilities, shall Alum Rock Union Elementary School District issue \$125 million in bonds at legal rates with required independent financial audits, citizens oversight and no money for administrators' salaries..."

The financial activity related to the Measure J General Obligation Bonds is recorded in the Fund 21 (Building Fund) in the District's audited financial statements.

On July 31, 2013, the District issued series A 2012 General Obligation Bonds, totaling \$32,400,000. Repayment of the Bonds is made from the special parcel tax revenues levied in connection with this bond issue. The Bonds bear interest at rates ranging from 4.00% to 6.00% and are scheduled to mature through 2043.

On August 29, 2013, the District issued series B, 2012 Taxable General Obligation Bonds, totaling \$3,600,000. Repayment of the Bonds is made from the special parcel tax revenues levied in connection with this bond issue. The Bonds bear interest at rates ranging from 0.496% to 4.378% and are scheduled to mature through 2023.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
OBJECTIVES, SCOPE, METHODOLOGY AND CONCLUSIONS

OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure J General Obligation Bond funds for the year ended June 30, 2014 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Education, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure J General Obligation Bond project expenditures for the year ended June 30, 2014 (the "List"). A total of \$9,168,846 in expenditures from July 1, 2013 through June 30, 2014 were identified.

METHODOLOGY

We performed the following procedures to the List of Measure J General Obligation Bond project expenditures for the year ended June 30, 2014:

- Interviewed District management to determine that controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Documented District procedures and controls over planning, bidding, contracting, expenditure of bond funds and financial reporting.
- Performed tests to determine that the District controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Verified the mathematical accuracy of the List.
- Reconciled the list to total bond expenditures as reported by the District in the District's audited financial statements for the year ended June 30, 2014, presented as the Building Fund.
- Selected a sample of expenditures totaling \$3,330,813. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented 36% of the total expenditure value. Verified that funds were used to improve neighborhood schools, fix leaky, deteriorated roofs, improve fire safety, repair and upgrade classrooms, improve student safety and security, renovate outdated restrooms, upgrade heating/ventilation/electrical systems for energy efficiency, and computer technology and that funds were not spent for salaries or other administrative expenses.

CONCLUSION

The results of our procedures indicated that, in all significant respects, Alum Rock Union Elementary School District expended Measure J General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Board of Trustees and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIII A of the California Constitution.