

SEPARATE COVER ITEM

Board Meeting: February 12, 2013

Item No: 14.1.3

Document: Measure E & S Audits

TRACY UNIFIED SCHOOL DISTRICT
SAN JOAQUIN COUNTY
TRACY, CALIFORNIA

MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006

PERFORMANCE AUDIT

JUNE 30, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure E, General Obligation Bonds, Election of 2006

We have conducted a performance audit of the Measure E Bond Program of Tracy Unified School District's compliance with California Proposition 39, as incorporated in Article XIII A of the California Constitution, for the fiscal year ended June 30, 2012. 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 performance audit.

We conducted this performance audit in accordance with standards applicable to 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 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. Our audit does not provide a legal determination on the District's compliance with specific requirements.

The attached performance audit presents the objectives and scope of services for the audit of the Measure E Bond Program. The report also includes the procedures performed and the results of those procedures.

In our opinion, the Tracy Unified School District's Measure E Bond Program complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2012. This report is intended solely for the information and use of the District's Board and the Measure E, General Obligation Bonds, Election of 2006, Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

EXECUTIVE SUMMARY

Background

In a general election held on November 7, 2000, California voters approved Proposition 39, which provides that the governing board of a school district may pursue the authorization and issuance of bonds by a 55% vote of the electorate. As a result of the passage of Proposition 39, language was added to the Trustees Code addressing the requirement to establish a Citizens' Oversight Committee to monitor and audit bond proceeds to ensure they are spent only on school and classroom improvements and not for any other purpose.

Proposition 39 contains two specific reporting requirements that are applicable to the District's general obligation bond program. The first requirement is for school district boards to provide for an annual, independent financial audit of the proceeds from the sale of the bonds until all of the funds have been expended for school facilities projects. The second requirement is for school district boards to provide for an annual, independent performance audit to ensure that the bond funds have been expended only on the specific projects listed in the ballot measure.

Financial audits provide reasonable assurance about whether the financial statements of an entity present fairly the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Performance audits are an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of an organization, program, or activity, in order to provide information to improve public accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action.

On February 14, 2006, the Board of Trustees of Tracy Unified School District voted to place a 55% school facilities bond (Measure E) on the June 2006 ballot. On June 6, 2006, the Measure E Bonds were authorized at a special election of the registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$51,000,000.

During fiscal year 2011-12, the Tracy Unified School District engaged Stephen Roatch Accountancy Corporation to perform the required financial and performance audits of the Measure E, General Obligation Bonds, Election of 2006 for the fiscal year ended June 30, 2012.

Objective

The objective of the performance audit is to provide an independent assessment of the District's compliance with certain state laws and procedures, as specified by the Tracy Unified School District, for the purpose of assisting the Measure E, General Obligation Bonds, Citizens' Oversight Committee to:

- Inform the public concerning the expenditure of bond funds.
- Ensure that bond funds are expended only for the purposes described in the ballot measure.
- Ensure that no funds are used for any teacher or administrative salaries or any other school operating expenditures.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

EXECUTIVE SUMMARY (CONCLUDED)

Scope of Services

To achieve the stated objective, the Tracy Unified School District requested Stephen Roatch Accountancy Corporation conduct a performance audit that consists solely of the following procedures:

- Review expenditures made from the bond proceeds and determine if the bond funds were used only for the purposes of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities. (California Constitution, Article XIII A, 1(b)(3)(A))
- Review expenditures made from the bond proceeds and determine if any of the bond funds were used to pay for teacher or administrative salaries, or any other school operating expenditures. (California Constitution, Article XIII A, 1(b)(3)(A))
- Review expenditures made from the bond proceeds and determine if the bond funds were spent only on projects identified in the ballot measure. (California Constitution, Article XIII A, 1(b)(3)(C))
- Review expenditures made from the bond proceeds and determine if bond funds were expended in accordance with District and State guidelines for bidding and procurement.
- Review the accounting system and account codes used by the District, and determine if they provide an adequate system for tracking bond fund expenditures by project.
- Review and evaluate whether the District's actions are consistent with assertions presented in the ballot measure.
- Review payments made to vendors and contractors to determine if the payments were made in accordance with required payment schedules.
- Review the bond sale transactions and determine if all bond proceeds were deposited into the appropriate District funds and/or bond trustee accounts.
- Make recommendations that will help to improve the District bond program, if applicable.

Conclusion

On December 7, 2012, Stephen Roatch Accountancy Corporation completed the above procedures, which constitute the performance audit of the Measure E, General Obligation Bonds, Election of 2006, for the fiscal year ended June 30, 2012. The results of the performance audit are presented in the Summary of Audit Results section of this report.

SUMMARY OF AUDIT RESULTS

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDIT RESULTS

1. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were used only for the purposes of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities. (California Constitution, Article XIII A, 1(b)(3)(A))

Results:

All expenditures reviewed were made for allowable purposes in accordance California Constitution, Article XIII A, 1(b)(3)(A).

2. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were used to pay for teacher or administrative salaries, or any other school operating expenditures. (California Constitution, Article XIII A, 1(b)(3)(A))

Results:

None of the expenditures reviewed were used to pay for teacher or administrative salaries, or any other school operating expenditures prohibited by California Constitution, Article XIII A, 1(b)(3)(A).

3. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were spent only on projects identified in the ballot measure. (California Constitution, Article XIII A, 1(b)(3)(C))

Results:

All expenditures reviewed were made for projects that were identified in the ballot measure.

4. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were expended in accordance with District and State guidelines for bidding and procurement.

Results:

We noted no instances where District and State guidelines for bidding and procurement were not followed.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDIT RESULTS (CONCLUDED)

5. Procedure:

Review the accounting system and account codes used by the District, and determine if they provide an adequate system for tracking bond fund expenditures by project.

Results:

The accounting system and account codes used by the District provide an adequate system for tracking bond fund expenditures by project.

6. Procedure:

Review and evaluate whether the District's actions are consistent with assertions presented in the ballot measure.

Results:

The District's actions appear to be consistent with assertions presented in the ballot measure.

7. Procedure:

Review payments made to vendors and contractors to determine if the payments were made in accordance with required payment schedules.

Results:

All payments reviewed were made in accordance with required payment schedules.

8. Procedure:

Review the bond sale transactions and determine if all bond proceeds were deposited into the appropriate District funds and/or bond trustee accounts.

Results:

No bonds were issued during fiscal year 2011-12.

9. Procedure:

Make recommendations that will help to improve the District bond program, if applicable.

Results:

There are no recommendations to report as a result of this performance audit.

TRACY UNIFIED SCHOOL DISTRICT
SAN JOAQUIN COUNTY
TRACY, CALIFORNIA

MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008

PERFORMANCE AUDIT

JUNE 30, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure S, General Obligation Bonds, Election of 2008

We have conducted a performance audit of the Measure S Bond Program of Tracy Unified School District's compliance with California Proposition 39, as incorporated in Article XIII A of the California Constitution, for the fiscal year ended June 30, 2012. 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 performance audit.

We conducted this performance audit in accordance with standards applicable to 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 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. Our audit does not provide a legal determination on the District's compliance with specific requirements.

The attached performance audit presents the objectives and scope of services for the audit of the Measure S Bond Program. The report also includes the procedures performed and the results of those procedures.

In our opinion, the Tracy Unified School District's Measure S Bond Program complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2012. This report is intended solely for the information and use of the District's Board and the Measure S, General Obligation Bonds, Election of 2008, Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

EXECUTIVE SUMMARY

Background

In a general election held on November 7, 2000, California voters approved Proposition 39, which provides that the governing board of a school district may pursue the authorization and issuance of bonds by a 55% vote of the electorate. As a result of the passage of Proposition 39, language was added to the Trustees Code addressing the requirement to establish a Citizens' Oversight Committee to monitor and audit bond proceeds to ensure they are spent only on school and classroom improvements and not for any other purpose.

Proposition 39 contains two specific reporting requirements that are applicable to the District's general obligation bond program. The first requirement is for school district boards to provide for an annual, independent financial audit of the proceeds from the sale of the bonds until all of the funds have been expended for school facilities projects. The second requirement is for school district boards to provide for an annual, independent performance audit to ensure that the bond funds have been expended only on the specific projects listed in the ballot measure.

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Performance audits are an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of an organization, program, or activity, in order to provide information to improve public accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action.

On June 24, 2008, the Board of Trustees of Tracy Unified School District voted to place a 55% school facilities bond (Measure S) on the November 2008 ballot. On November 4, 2008, the Measure S Bonds were authorized at a special election of the registered voters of the District, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of general obligation bonds with a principal amount not to exceed \$43,100,000.

During fiscal year 2011-12, the Tracy Unified School District engaged Stephen Roatch Accountancy Corporation to perform the required financial and performance audits of the Measure S, General Obligation Bonds, Election of 2008 for the fiscal year ended June 30, 2012.

Objective

The objective of the performance audit is to provide an independent assessment of the District's compliance with certain state laws and procedures, as specified by the Tracy Unified School District, for the purpose of assisting the Measure S, General Obligation Bonds, Citizens' Oversight Committee to:

- Inform the public concerning the expenditure of bond funds.
- Ensure that bond funds are expended only for the purposes described in the ballot measure.
- Ensure that no funds are used for any teacher or administrative salaries or any other school operating expenditures.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

EXECUTIVE SUMMARY (CONCLUDED)

Scope of Services

To achieve the stated objective, the Tracy Unified School District requested Stephen Roatch Accountancy Corporation conduct a performance audit that consists solely of the following procedures:

- Review expenditures made from the bond proceeds and determine if the bond funds were used only for the purposes of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities. (California Constitution, Article XIII A, 1(b)(3)(A))
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- Review the accounting system and account codes used by the District, and determine if they provide an adequate system for tracking bond fund expenditures by project.
- Review and evaluate whether the District's actions are consistent with assertions presented in the ballot measure.
- Review payments made to vendors and contractors to determine if the payments were made in accordance with required payment schedules.
- Review the bond sale transactions and determine if all bond proceeds were deposited into the appropriate District funds and/or bond trustee accounts.
- Make recommendations that will help to improve the District bond program, if applicable.

Conclusion

On December 7, 2012, Stephen Roatch Accountancy Corporation completed the above procedures, which constitute the performance audit of the Measure S, General Obligation Bonds, Election of 2008, for the fiscal year ended June 30, 2012. The results of the performance audit are presented in the Summary of Audit Results section of this report.

SUMMARY OF AUDIT RESULTS

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDIT RESULTS

1. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were used only for the purposes of the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities. (California Constitution, Article XIII A, 1(b)(3)(A))

Results:

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Results:

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3. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were spent only on projects identified in the ballot measure. (California Constitution, Article XIII A, 1(b)(3)(C))

Results:

All expenditures reviewed were made for projects that were identified in the ballot measure.

4. Procedure:

Review expenditures that will be charged against the bond proceeds and determine if they were expended in accordance with District and State guidelines for bidding and procurement.

Results:

We noted no instances where District and State guidelines for bidding and procurement were not followed.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
PERFORMANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDIT RESULTS (CONCLUDED)

5. Procedure:

Review the accounting system and account codes used by the District, and determine if they provide an adequate system for tracking bond fund expenditures by project.

Results:

The accounting system and account codes used by the District provide an adequate system for tracking bond fund expenditures by project.

6. Procedure:

Review and evaluate whether the District's actions are consistent with assertions presented in the ballot measure.

Results:

The District's actions appear to be consistent with assertions presented in the ballot measure.

7. Procedure:

Review payments made to vendors and contractors to determine if the payments were made in accordance with required payment schedules.

Results:

All payments reviewed were made in accordance with required payment schedules.

8. Procedure:

Review the bond sale transactions and determine if all bond proceeds were deposited into the appropriate District funds and/or bond trustee accounts.

Results:

No bonds were issued during fiscal year 2011-12.

9. Procedure:

Make recommendations that will help to improve the District bond program, if applicable.

Results:

There are no recommendations to report as a result of this performance audit.

TRACY UNIFIED SCHOOL DISTRICT
SAN JOAQUIN COUNTY
TRACY, CALIFORNIA

MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006

FINANCIAL AUDIT

JUNE 30, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
FINANCIAL AUDIT
JUNE 30, 2012

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure E, General Obligation Bonds, Election of 2006

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying Measure E, General Obligation Bonds, Election of 2006, Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, as of and for the fiscal year ended June 30, 2012. These 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 of the Measure E Building Fund 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 Measure E, General Obligation Bonds, Election of 2006, Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Measure E Building Fund financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Measure E, General Obligation Bonds, Election of 2006, as of June 30, 2012, and the respective change in financial position thereof for the year 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 December 7, 2012, on our consideration of Tracy Unified School District's internal controls over Measure E Building Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Measure E Building Fund 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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
BALANCE SHEET
JUNE 30, 2012

Assets

Deposits and Investments (Note 2)	\$ 8,488,877
Accounts Receivable	
Interest	4,417
Due from County School Facilities Fund	<u>6,511,072</u>
Total Assets	<u>\$ 15,004,366</u>

Liabilities and Fund Balance

Liabilities:	
Accounts Payable	\$ 1,580
Due to General Fund	8,775
Due to County School Facilities Fund	<u>233,097</u>
Total Liabilities	243,452
Fund Balance:	
Restricted:	
Restricted for Measure E Projects	<u>14,760,914</u>
Total Liabilities and Fund Balance	<u>\$ 15,004,366</u>

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>		
Interest Revenue	\$ 21,868	\$ 21,868
Transfers In - County School Facilities Fund	6,897,380	6,897,379
Total Revenues	<u>6,919,248</u>	<u>6,919,247</u>
<u>Expenditures</u>		
<i>District Wide:</i>		
Measure E Related Administrative Costs	22,150	8,775
<i>Tracy High School:</i>		
Modernization / Roofing	18,170	18,169
Modernization - Agriculture Center	50,000	50,000
Theater Renovation	50,000	50,000
Miscellaneous Projects	300	300
Cafeteria / Classrooms	233,098	233,097
Pool Renovation	139,904	139,903
Total Expenditures	<u>513,622</u>	<u>500,244</u>
Net Changes in Fund Balance	<u>\$ 6,405,626</u>	6,419,003
Fund Balance - July 1, 2011		<u>8,341,911</u>
Fund Balance - June 30, 2012		<u>\$ 14,760,914</u>

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

Tracy Unified School District (the "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 U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Fund Accounting

The accounts of the District are organized on the basis of funds, which are considered to be separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The proceeds from the sale of general obligation bonds, and the subsequent expenditure of the bond funds, are accounted for in the Building Fund of the District.

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.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

D. Deposits and Investments

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Trustees Code Section 41001).

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, consist of the following:

County Pool Investments \$ 8,488,877

County Pool Investments

County pool investments consist of District cash held by the San Joaquin County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations / Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 8,488,877	\$ 8,485,136	\$ 6,487,108	\$ 2,001,769

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$ 8,488,877	\$ 8,485,136			\$ 8,488,877

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer that represent five percent or more of the total investments held by the District.

Custodial Credit Risk - Deposits

This 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. However, 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.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2012, the District does not have any investments of this type.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the San Joaquin County Treasury was not available.

NOTE 3 - COUNTY SCHOOL FACILITIES FUND

The Building Fund transferred \$482,075 to the County School Facilities Fund for bond approved Measure E projects during fiscal year 2011-12. These transfers are recorded as expenditures in the Building Fund in the fiscal year they are transferred to the County School Facilities Fund, even though, the funds may not be expended in the County School Facilities Fund in the same fiscal year transferred.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Building Fund of the District.

B. Construction Commitments

As of June 30, 2012, the District has the following commitments with respect to the unfinished Measure E related capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Tracy High School - Modernization	\$ 111,825	Sep-2012
Tracy High School - Stadium	<u>1,069,410</u>	July-2013
Total	<u>\$ 1,181,235</u>	

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure E, General Obligation Bonds, Election of 2006

We have audited the accompanying Measure E, General Obligation Bonds, Election of 2006, Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, as of and for the fiscal year ended June 30, 2012. 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 Tracy Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Tracy Unified School District's internal control over Measure E Building Fund 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over the Measure E Building Fund 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.

Board of Trustees
Tracy Unified School District /
Citizens' Oversight Committee
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure E Building Fund'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 the Measure E Building Fund 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 related to the Measure E Building Fund that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's Board and the Measure E, General Obligation Bonds, Election of 2006, Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

FINDINGS AND RECOMMENDATIONS SECTION

TRACY UNIFIED SCHOOL DISTRICT
MEASURE E
GENERAL OBLIGATION BONDS, ELECTION OF 2006
SUMMARY OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

There are no matters to report for the fiscal year ended June 30, 2012.

TRACY UNIFIED SCHOOL DISTRICT
SAN JOAQUIN COUNTY
TRACY, CALIFORNIA

MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008

FINANCIAL AUDIT

JUNE 30, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
FINANCIAL AUDIT
JUNE 30, 2012

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FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure S, General Obligation Bonds, Election of 2008

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying Measure S, General Obligation Bonds, Election of 2008, Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, as of and for the fiscal year ended June 30, 2012. These 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 of the Measure S Building Fund 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 Measure S, General Obligation Bonds, Election of 2008, Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Measure S Building Fund financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Measure S, General Obligation Bonds, Election of 2008, as of June 30, 2012, and the respective change in financial position thereof for the year 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 December 7, 2012, on our consideration of Tracy Unified School District's internal controls over Measure S Building Fund financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Measure S Building Fund 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.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
BALANCE SHEET
JUNE 30, 2012

Assets

Deposits and Investments (Note 2)	\$ 15,468,913
Accounts Receivable	
Interest	<u>8,904</u>
Total Assets	<u>\$ 15,477,817</u>

Liabilities and Fund Balance

Liabilities:

Accounts Payable	\$ 3,679,391
Due to General Fund	<u>8,632</u>
Total Liabilities	3,688,023

Fund Balance:

Restricted:

Restricted for Measure S Projects	<u>11,789,794</u>
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Total Liabilities and Fund Balance	<u>\$ 15,477,817</u>
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TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>		
Interest Revenue	\$ 61,873	\$ 60,304
Transfers In - County School Facilities Fund	6,052	6,052
Other Sources	7,658	7,658
	<hr/>	<hr/>
Total Revenues	75,583	74,014
<u>Expenditures</u>		
<i>District-Wide:</i>		
Measure S Related Administrative Costs	19,650	8,575
Technology	2,000	
Technology - Network Equipment	341,850	340,322
Technology - Servers	176,392	176,391
Technology - Clock, Bell and Communication Center	28,800	28,737
Technology - MDF, IDF, Security	380,436	373,026
Technology - Surveillance	1,734,961	1,734,907
Technology - Rack Infrastructure	1,286,118	1,286,845
Technology - Projection System	68,227	62,429
Technology - MDF, IDF	103,509	101,721
<i>McKinley Elementary School:</i>		
Modernization	5,082,793	5,081,487
<i>Monte Vista Middle School:</i>		
Modernization	9,273,935	9,273,928
	<hr/>	<hr/>
Total Expenditures	18,498,671	18,468,368
Net Changes in Fund Balance	<u>\$ (18,423,088)</u>	(18,394,354)
Fund Balance - July 1, 2011		<hr/> 30,184,148
Fund Balance - June 30, 2012		<u>\$ 11,789,794</u>

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

Tracy Unified School District (the "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 U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Fund Accounting

The accounts of the District are organized on the basis of funds, which are considered to be separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The proceeds from the sale of general obligation bonds, and the subsequent expenditure of the bond funds, are accounted for in the Building Fund of the District.

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.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

D. Deposits and Investments

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Trustees Code Section 41001).

The County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, consist of the following:

Cash with Fiscal Agent	\$ 1,075,079
County Pool Investments	<u>14,393,834</u>
Total Deposits and Investments	<u>\$ 15,468,913</u>

Cash with Fiscal Agent

Cash with fiscal agent relates to earned retention funds held in escrow accounts at Roseville Bank of Commerce that will be released to the contractor at the completion of the McKinley Elementary School and Monte Vista Middle School modernization projects.

County Pool Investments

County pool investments consist of District cash held by the San Joaquin County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio).

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations / Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, as the length of the maturity of an investment increases, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair value of the District's investment to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>More Than 1 Year</u>
County Pool Investments	\$ 14,393,834	\$14,387,490	\$ 10,999,613	\$ 3,394,221

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
County Pool Investments	\$14,393,834	\$ 14,387,490			\$ 14,393,834

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. However, the District does not hold any investments in any one issuer that represent five percent or more of the total investments held by the District.

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits

This 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. However, 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.

Custodial Credit Risk - Investments

This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District does not have a policy limiting the amount of securities that can be held by counterparties. As of June 30, 2012, the District does not have any investments of this type.

Derivative Investments

The District does not directly invest in any derivative investments. Information relating to the use of derivative investments by the San Joaquin County Treasury was not available.

NOTE 3 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Building Fund of the District.

B. Construction Commitments

As of June 30, 2012, the District has the following commitments with respect to the unfinished Measure S related capital projects:

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - COMMITMENTS AND CONTINGENCIES (CONCLUDED)

B. Construction Commitments (Concluded)

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District-Wide: Technology - MDF, IDF, Security	\$ 267,841	Dec-2012
District-Wide: Technology - Servers	30,925	Dec-2012
West High School - Air Conditioning System	35,762	Sep-2012
District-Wide: Technology - Communication Center	323,314	Oct-2012
District-Wide: Technology - Projection System	42,126	Sep-2012
McKinley Elementary School - Modernization	1,464,543	Dec-2012
Monte Vista Middle School - Modernization	<u>4,366,357</u>	Dec-2012
Total	<u>\$ 6,530,868</u>	

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Board of Trustees
Tracy Unified School District

and

Citizens' Oversight Committee
Measure S, General Obligation Bonds, Election of 2008

We have audited the accompanying Measure S, General Obligation Bonds, Election of 2008, Balance Sheet, and Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual, as of and for the fiscal year ended June 30, 2012. 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 Tracy Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Tracy Unified School District's internal control over Measure S Building Fund 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over the Measure S Building Fund 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.

Board of Trustees
Tracy Unified School District /
Citizens' Oversight Committee
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure S Building Fund'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 the Measure S Building Fund 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 related to the Measure S Building Fund that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's Board and the Measure S, General Obligation Bonds, Election of 2008, Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 7, 2012

FINDINGS AND RECOMMENDATIONS SECTION

TRACY UNIFIED SCHOOL DISTRICT
MEASURE S
GENERAL OBLIGATION BONDS, ELECTION OF 2008
SUMMARY OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

There are no matters to report for the fiscal year ended June 30, 2012.