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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens Oversight Committee
Santa Clara Unified School District
Santa Clara, California

We have audited the accompanying financial statements of the Santa Clara Unified School District (the District), General Obligation Bond Fund (Measure J), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the General Obligation Bond Fund specific to Measure J and are not intended to present fairly the financial position and results of operations of the Santa Clara Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bond Fund (Measure J) of the Santa Clara Unified School District as of June 30, 2012, and the results of its operations and changes in its financial position, 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 October 6, 2012, on our consideration of the District General Obligation Bond Fund's (Measure J) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Palo Alto, California
October 6, 2012
SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE J)

JUNE 30, 2012

AUTHORITY FOR ISSUANCE

The Measure J Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds are authorized to be issued by the Board of Supervisors of the County of Santa Clara on behalf of the Santa Clara Unified School District.

The District received authorization at an election held on November 2, 2004 to issue bonds of the District in an aggregate principal amount not to exceed $315,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District. All authorized bonds have been issued as of June 30, 2012.

PURPOSE OF ISSUE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the Election, which include repairing/replacing old, worn-out plumbing and restrooms, constructing new classrooms, upgrading electrical systems and wiring for instructional computer technology and repairing or replacing aging, inefficient heating, ventilation and air conditioning at school facilities and improving support facilities.

"To rehabilitate middle and high schools, improve student safety and qualify for State matching funds, shall Santa Clara Unified School District make seismic upgrades to classrooms and schools, add school facilities to relieve overcrowding, and repair deteriorated plumbing, sewers, bathrooms, leaky roofs, aging boilers, inadequate heating, electrical and building systems; by issuing $315,000,000 of bonds at legal interest rates, with independent citizen oversight, no money for administrative salaries, and all money staying in our community to improve local schools."

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.

3. Requires the school district to appoint a citizen's oversight committee.
SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE J)

JUNE 30, 2012

4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.

5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the General Obligation Bond Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure J.

2. Determine whether salary transactions, charged to the General Obligation Bond Fund were in support of Measure J and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2011 to June 30, 2012. The population of 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 proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2012 were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2012, for the General Obligation Bond Fund (Measure J). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure J as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2011 and ending June 30, 2012, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.

2. Our sample included 692 non-payroll transactions totaling $42,705,481 and all payroll transactions totaling $682,998. This represents 61 percent of the total expenditures of $71,570,667.

3. We verified that funds from the General Obligation Bond Fund (Measure J) were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held in the General Obligation Bond Fund (Measure J) were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.
CONCLUSION

The results of our tests indicated that, in all significant respects, the Santa Clara Unified School District has properly accounted for the expenditures held in the General Obligation Bond Fund (Measure J) and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the General Obligation Bond Fund (Measure J), and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.
None reported.