

SONORA SCHOOL DISTRICT

**PROPOSITION 39
GENERAL OBLIGATION BONDS
AUDIT REPORT**

JUNE 30, 2011

SONORA SCHOOL DISTRICT

**PROPOSITION 39
GENERAL OBLIGATION BONDS
FINANCIAL AUDIT**

JUNE 30, 2011

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**TABLE OF CONTENTS
JUNE 30, 2011**

FINANCIAL SECTION

Independent Auditors' Report	2
Building Fund (Proposition 39)	
Balance Sheet	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Notes to Financial Statements	6

SUPPLEMENTARY INFORMATION

Schedule of Long-Term Obligations	13
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	15
Note to Supplementary Information	16

INDEPENDENT AUDITORS' REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Findings	21
Summary Schedule of Prior Audit Findings	22

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board and
Citizens Oversight Committee
Sonora School District
Sonora, California

We have audited the accompanying financial statements of the Sonora School District (the District) Building Fund (Proposition 39), as of and for the year ended June 30, 2011, 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 Building Fund specific to Proposition 39 and are not intended to present fairly the financial position and results of operations of Sonora School District in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Proposition 39) of the Sonora School District at June 30, 2011, and the results of its operations 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 14, 2011, on our consideration of the District Building Fund's (Proposition 39) 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.

Our audit was conducted for the purpose of forming an opinion on the financial statement that comprises the District's Building Fund (Proposition 39). The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the District's Building Fund (Proposition 39) financial statements. Such information has been subjected to the auditing procedures applied in the audit of the District's Building Fund (Proposition 39) financial statements and, in our opinion is fairly stated in all material respects in relation to the District's Building Fund (Proposition 39) financial statements taken as a whole.

Vaccaro, Trine, Day + Co. LLP

Fresno, California
December 14, 2011

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**BALANCE SHEET
JUNE 30, 2011**

ASSETS

Deposits and investments	\$ 2,995,550
Total Assets	<u>\$ 2,995,550</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Due to other funds	\$ 200,709
Total Liabilities	<u>200,709</u>

FUND BALANCE

Restricted	2,794,841
Total Fund Balance	<u>2,794,841</u>
Total Liabilities and Fund Balance	<u>\$ 2,995,550</u>

The accompanying notes are an integral part of these financial statements.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES		
	Total Revenues	\$ -
EXPENDITURES		
	Total Expenditures	-
DEFICIENCY OF REVENUES OVER EXPENDITURES		-
Other Financing Sources:		
	Other sources - proceeds from bond issuance	2,995,550
	Transfers out	(200,709)
	Net Financing Sources	2,794,841
NET CHANGE IN FUND BALANCE		2,794,841
FUND BALANCE - BEGINNING		-
FUND BALANCE - ENDING		<u>\$ 2,794,841</u>

The accompanying notes are an integral part of these financial statements.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sonora School District Building Fund (Proposition 39) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Sonora School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the Sonora School District used to account for Proposition 39 projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2010. These financial statements are not intended to present fairly the financial position and results of operations of the Sonora School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Building Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Fund Balance

As of June 30, 2011, fund balance of the Building Fund is classified as follows:

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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/expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 - INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

Investment in County Treasury

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 (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fairly value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules 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	5 years	None	None
U.S. Agency 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 Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
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
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The District maintains a building fund investment of \$2,995,550 with the Tuolumne County Investment Pool. The fair value of this investment is approximately \$2,995,550 with an average maturity of 12 months or less.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2011, are as follows:

The Building Fund owes the General Fund for reimbursement of costs.	\$ 54,762
The Building Fund owes the Deferred Maintenance Fund for reimbursement of costs.	37,720
The Building Fund owes the Special Reserve Capital Outlay Fund for reimbursement of costs.	<u>108,227</u>
Total	<u><u>\$ 200,709</u></u>

Operating Transfers

The Building Fund transferred to the General Fund to reimburse eligible bond costs.	\$ 54,762
The Building Fund transferred to the Deferred Maintenance Fund to reimburse eligible bond costs.	37,720
The Building Fund transferred to the Special Reserve Capital Outlay Fund to reimburse eligible bond costs.	<u>108,227</u>
Total	<u><u>\$ 200,709</u></u>

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2011, the Building Fund (Proposition 39) had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Site entry/exit and parking lot reconfiguration	<u>\$ 1,787,475</u>	August 17, 2011

Litigation

The District is not currently a party to any legal proceedings.

SUPPLEMENTARY INFORMATION

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2011**

2010 General Obligation Bonds, Series 2011

On June 1, 2011, the Sonora Elementary School District issued Election of 2010, Series 2011 general obligation bonds in the aggregate principal amount of \$2,995,550. The bonds were authorized at an election of the registered voters of the District held on November 2, 2010, which authorized the issuance of \$7,800,000 principal amount of general obligation bonds for the purpose of financing the renovation, construction and improvement of school facilities. The bonds are general obligation bonds of the District payable solely from *ad valorem* taxes. The bonds are being issued as current interest bonds and capital appreciation bonds.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Dates	Interest Rates	Original Issue	Bonds Outstanding July 1, 2010	Issued/ Accreted	Bonds Outstanding June 30, 2011
June 1, 2011	2014-2042	1.67-4.15%	\$ 2,835,000	\$ -	\$ 2,835,000	\$ 2,835,000
June 1, 2011	2024-2032	5.53-7.07%	160,550	-	162,958	162,958
Total				\$ -	\$ 2,997,958	\$ 2,997,958

Debt Service Requirements to Maturity

The bonds mature as follows:

2011 Current Interest Bonds

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ -	\$ 91,936	\$ 91,936
2013	-	173,255	173,255
2014	40,000	162,038	202,038
2015	35,000	160,913	195,913
2016	10,000	160,238	170,238
2017-2021	140,000	790,815	930,815
2022-2026	50,000	765,190	815,190
2027-2031	-	764,190	764,190
2032-2036	720,000	690,490	1,410,490
2037-2041	1,450,000	365,682	1,815,682
2042	390,000	12,174	402,174
Total	\$ 2,835,000	\$ 4,136,921	\$ 6,971,921

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**SCHEDULE OF LONG-TERM OBLIGATIONS
JUNE 30, 2011**

2011 Capital Appreciation Bonds

<u>Fiscal Year</u>	<u>Accreted Value</u>	<u>Unaccreted Interest</u>	<u>Maturity Value</u>
2023	\$ 22,788	\$ 37,212	\$ 60,000
2024	17,290	52,710	70,000
2025	16,485	58,515	75,000
2026	16,626	68,374	85,000
2027	16,549	78,451	95,000
2028-2032	73,220	526,780	600,000
Total	<u>\$ 162,958</u>	<u>\$ 822,042</u>	<u>\$ 985,000</u>

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Long-Term Obligations

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Proposition 39 obligations.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (Proposition 39) reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITORS' REPORT



**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***

Governing Board and
Citizens Oversight Committee
Sonora School District
Sonora, California

We have audited the accompanying financial statements of the Sonora School District (the District) Building Fund (Proposition 39), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. 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

In planning and performing our audit, we considered Sonora School District's internal control over financial reporting as a basis for designing our auditing procedures 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 Sonora School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sonora School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sonora School District's Building Fund (Proposition 39) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board, management, and the Proposition 39 Citizen Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Vannink, Trine, Day + Co. LLP

Fresno, California
December 14, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2011**

None reported.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

None reported.

SONORA SCHOOL DISTRICT

**PROPOSITION 39
GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT**

JUNE 30, 2011

**SONORA SCHOOL DISTRICT
PROPOSITION 39
GENERAL OBLIGATION BONDS**

TABLE OF CONTENTS

Independent Auditors' Report on Compliance	1
Authority for Issuance	2
Purpose of Issuance	2
Authority for the Audit	2
Objectives of the Audit	3
Scope of the Audit	3
Procedures Performed	3
Conclusion	4
Schedule of Findings and Questioned Costs	5



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board and
Citizens Oversight Committee
Sonora School District
Sonora, California

We were engaged to conduct a performance audit of the Sonora School District (the District), Proposition 39 General Obligation Bond funds for the year ended June 30, 2011.

We conducted this performance audit in accordance with the 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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Proposition 39 General Obligation Bond funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Vavrinek, Trine, Day & Co. LLP

Fresno, California
December 14, 2011

SONORA SCHOOL DISTRICT BUILDING FUND (PROPOSITION 39)

JUNE 30, 2011

AUTHORITY FOR ISSUANCE

The Proposition 39 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 a resolution adopted by the Board of Trustees of the District.

The District received authorization at an election held on November 2, 2010, to issue bonds of the District in an aggregate principal amount not to exceed \$7,800,000 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 (the 2010 Authorization). The Bonds represent the first series of the authorized bonds to be issued under the 2010 Authorization.

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. The ballot language is as follows:

"To improve the quality of education; make health and safety improvement; increase student access to computers and modern technology; replace/upgrade inadequate electrical, fire alarm, and plumbing systems; modernize classrooms, restrooms, and school facilities including the library; and qualify to receive up to \$3,800,000 in state matching funds, shall Sonora Elementary School District issue \$7,800,000 of bonds at legal interest rates, have an independent citizens' oversight committee and have NO money for administrative or teacher salaries".

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.

SONORA SCHOOL DISTRICT BUILDING FUND (PROPOSITION 39)

JUNE 30, 2011

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 Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Proposition 39.
2. Determine whether salary transactions, if any, charged to the Building Fund were in support of Proposition 39 and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2010 to June 30, 2011. 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, 2011 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, 2011 for the Building Fund (Proposition 39). 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 Proposition 39 as to the approved bond projects list. We performed the following procedures:

1. As of June 30, 2011, no expenditures were charged to the Building Fund. However, transfers out totaling \$200,709 were made to the General Fund, Deferred Maintenance Fund and Special Reserve Capital Outlay Fund for bond related expenditures. We selected a sample of expenditures for the period starting July 1, 2010 and ending June 30, 2011 from those funds, 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 transactions totaling \$145,551. This represents 73 percent of the Building Fund's total transfers out of \$200,709.
3. We verified that funds from the Building Fund (Proposition 39) were expended for the construction, renovation, furnishing and equipping of District facilities constituting costs authorized by the voters of the District.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

JUNE 30, 2011

CONCLUSION

The results of our tests indicated that, in all significant respects, the Sonora School District has properly accounted for the expenditures held in the Building Fund (Proposition 39) and that such expenditures were made for costs authorized by the voters of the District.

**SONORA SCHOOL DISTRICT
BUILDING FUND (PROPOSITION 39)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

None reported.