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REPORT OF INDEPENDENT AUDITORS

Board of Education and
Independent Citizens' Bond Oversight
Committee for Measure K
Fresno Unified School District
Fresno, California

We have conducted a performance audit of the Fresno Unified School District (the "District") School Measure K General Obligation Bond funds for the year ended June 30, 2014.

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

Our audit was limited to the objectives listed on page 4 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure K General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIIIA of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Fresno Unified School District's compliance with those requirements.

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

The results of our tests indicated that, in all significant respects, Fresno Unified School District expended Measure K General Obligation Bond funds for the year ended June 30, 2014 only for the specific projects developed by the District's Board of Education and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution.

Crowe Horwath LLP
Sacramento, California
August 22, 2014
LEGISLATIVE HISTORY

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, “for 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”, upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

FRESNO UNIFIED SCHOOL DISTRICT MEASURE K GENERAL OBLIGATION BONDS

On March 6, 2001, the electorate of the Fresno Unified School District approved the issuance of up to $199,000,000 in general obligation bonds with greater than 55% of the votes in favor. The abbreviated text of the ballot language was as follows:

"Shall the Fresno Unified School District:

- reduce overcrowding by building new classrooms/schools,
- make the District eligible for State matching funds,
- acquire school technology and hardware,
- repair plumbing, heating and air conditioning systems,
- renovate and modernize deteriorating classrooms,
- build library/media centers,
- upgrade classroom electrical wiring for computers,
- repair, rehabilitate, construct and acquire educational facilities and related property;

and issue $199 million of bonds for the above purposes, at interest rates within the legal limit?

As required by the California Constitution, the proceeds from the sale of the bonds will be used only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, and not for any other purpose, including not for teacher and administrator salaries and other school operating expenses."

The project list identified in the ballot language was specified in greater detail by the District's Board of Education.

(Continued)
FRESNO UNIFIED SCHOOL DISTRICT MEASURE K GENERAL OBLIGATION BONDS (Continued)

In July 2001, the District issued Measure K General Obligation Bonds, Series A, in the amount of $10,000,000. In April 2002, the District issued Measure K General Obligation Bonds, Series B, in the amount of $19,000,000. In February 2003, the District issued Measure K General Obligation Bonds, Series C, in the amount of $19,000,000. In August 2005, the District issued Measure K General Obligation Bonds, Series D, in the amount of $31,000,000. In July 2006, the District issued Measure K General Obligation Bonds, Series E, in the amount of $35,000,000. In December 2009, the District issued Measure K General Obligation Bonds, Series F, in the amount of $29,429,022. In October 2011, the District issued Measure K General Obligation Bonds, Series G, in the amount of $55,570,915. The stated purposes of each of the issuances were for the acquisition and construction of new schools and facilities and to improve and repair existing schools.

All bond expenditures are subject to review by a Citizens Oversight Committee which reports to the public, as provided in Education Code Section 15278 et seq.

The financial activity related to the Measure K General Obligation Bonds is recorded in the District's Financial Activity Report for Fund 35.
OBJECTIVES

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

SCOPE

The District provided to us a list of all Measure K General Obligation Bond project expenditures for the year ended June 30, 2014 (the "List"). An approximate total of 1,469 transactions were identified, representing $21,244,251 in expenditures from July 1, 2013 through June 30, 2014.

METHODOLOGY

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

- Interviewed District management related to controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Documented District procedures and controls over planning, bidding, contracting, expenditure of bond funds and financial reporting.
- Performed tests to determine that the District controls over planning, bidding, contracting, expenditure of bond funds and financial reporting have been put in place and are working as documented.
- Verified the mathematical accuracy of the List.
- Selected a sample of 100 expenditures totaling $16,366,694. The sample was selected to provide a representation across specific construction projects, vendors and expenditure amounts. The sample represented 7% of the number of expenditures and 77% of the total expenditure value. Verified that the expenditures were for the approved projects and were to construct, upgrade, and improve classrooms and school facilities, renovate restrooms and plumbing, upgrade electrical systems, improve student access to computers and technology, replace heating and air conditioning systems or to make health and safety improvements.

CONCLUSION

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