

**EAST SIDE UNION  
HIGH SCHOOL DISTRICT**

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**2008 MEASURE E BOND FUND  
ANNUAL FINANCIAL AUDIT**

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**JUNE 30, 2012**

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E BOND FUND**

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**JUNE 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizens Bond Oversight Committee  
East Side Union High School District  
San Jose, California

We have audited the accompanying financial statements of the East Side Union High School District (the District) 2008 Measure E Bond Fund (the Fund), 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 Fund and are not intended to present fairly the financial position and results of operations of the 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 Fund as of June 30, 2012, 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 January 12, 2012, on our consideration of the Fund's 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
January 8, 2013

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND BALANCE SHEET JUNE 30, 2012

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### ASSETS

Deposits and investments	\$ 156,754,119
Accounts receivable	230,563
Total Assets	<u>\$156,984,682</u>

### LIABILITIES AND FUND BALANCES

#### LIABILITIES

Accounts payable	\$ 4,980,167
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#### FUND BALANCE

Restricted for capital projects	152,004,515
Total Liabilities and Fund Balance	<u>\$156,984,682</u>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2012

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### REVENUES

Investment income	\$	717,971
All other local income		40
Proceeds from sale of Bonds		124,596,408
Total Revenues		<u>125,314,419</u>

### EXPENDITURES

Current Expenditures		
Classified salaries		985,266
Employees benefits		404,098
Supplies		1,253,683
Services and other operating expenses		2,866,732
Capital Outlay		46,258,279
Total Expenditures		<u>51,768,058</u>

<b>EXCESS OF REVENUES OVER EXPENDITURES</b>		73,546,361
<b>FUND BALANCE - BEGINNING</b>		<u>78,458,154</u>
<b>FUND BALANCE - ENDING</b>	\$	<u>152,004,515</u>

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

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012**

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### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the 2008 Measure E Bond Fund (the Fund) 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 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 the financial activity of the Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure E bond election of 2008 (the Measure), (Measure E). These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District (the District) as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$349,000,000. The first series of the bonds, Series A, in the amount of \$50,000,000 were sold on June 12, 2008. The second series of the bonds, Series B, in the amount of \$100,000,000 were sold on March 24, 2010. The third series of the bonds, Series C, in the amount of \$20,026,088 were sold on July 14, 2011. The fourth series of the bonds, Series D, in the amount of \$100,000,000 were sold on April 17, 2012.

#### **Fund Accounting**

The operations of the 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**

Basis of accounting refers to when revenues and expenditures or expenses 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.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

#### **Encumbrances**

The Fund 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.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### **Fund Balance - Governmental Funds**

As of June 30, 2012, fund balance of the Fund is classified as restricted.

Restricted funds can only be spent 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.

### **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. Adoption of the statement is not expected to materially impact the Bond Fund's financial statement.

### **NOTE 2 - INVESTMENTS**

#### **Policies and Practices**

The District alongside with the Fund are 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.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### Investment in County Treasury

The District alongside with the Fund are 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 fair 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.

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$ 156,754,119</u>	<u>\$ 157,351,352</u>

### 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 Fund manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is approximately \$157,351,352 with an average maturity of 1.29 years.

### **NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2012 consisted of interest receivable of \$230,563.

### **NOTE 4 – ACCOUNTS PAYABLE**

Payables at June 30, 2012 consisted of vendor payables of \$4,980,167.



# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### NOTE 5 – GENERAL LONG-TERM DEBT

The general obligation bonds of the District including Measure E bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2012
<b>Current Interest Bond</b>							
1999 Refunding	2010	3.7%-4.8%	\$ 20,900,000	\$ 2,395,000	\$ -	\$ 1,170,000	\$ 1,225,000
2003 Refunding	2022	3.0%-4.6%	36,795,000	25,385,000	-	21,485,000	3,900,000
2003 Refunding	2025	2.0%-5.3%	97,160,000	74,810,000	-	2,305,000	72,505,000
2002 Series C	2029	4.0%-5.0%	50,000,000	42,475,000	-	40,875,000	1,600,000
2002 Series D	2030	3.5%-5.0%	70,000,000	62,405,000	-	2,150,000	60,255,000
2002 Series F	2036	4.0%-5.0%	50,000,000	46,385,000	-	1,060,000	45,325,000
2006 Refunding	2036	4.0%-5.25%	42,665,000	42,665,000	-	-	42,665,000
2007 Refunding	2020	4.0%-5.0%	11,545,000	11,170,000	-	350,000	10,820,000
2008 Series A	2039	4.0%-5.0%	50,000,000	48,710,000	-	830,000	47,880,000
2002 Series H	2034	5.1%-6.0%	18,000,000	17,825,000	-	175,000	17,650,000
2008 Series B	2040	3.0%-5.0%	100,000,000	100,000,000	-	1,540,000	98,460,000
2010 Refunding	2028	2.0%-5.0%	46,160,000	46,160,000	-	615,000	45,545,000
2008 Series C	2026	4.0%	20,026,088	-	20,026,088	1,120,097	18,905,991
2008 Series D	2043	2.0%-5.0%	100,000,000	-	100,000,000	-	100,000,000
2011 Refunding	2022	3.8%-4.6%	20,135,000	-	20,135,000	50,000	20,085,000
2012 Refunding	2029	2.0%-5.0%	36,735,000	-	36,735,000	-	36,735,000
Sub-Total			<u>770,121,088</u>	<u>520,385,000</u>	<u>176,896,088</u>	<u>73,725,097</u>	<u>623,555,991</u>
<b>Capital Appreciation</b>							
1999 Series A	2025	5.3%-6.5%	25,499,993	6,508,145	216,855	3,170,000	3,555,000
2002 Series E	2030	4.2%-5.1%	29,999,529	41,595,677	1,103,857	-	42,699,534
2002 Series G	2032	4.6%-6.9%	19,997,739	24,321,525	1,235,570	-	25,557,095
Sub-Total			<u>75,497,261</u>	<u>72,425,347</u>	<u>2,556,282</u>	<u>3,170,000</u>	<u>71,811,629</u>
General Obligation Bonds			<u>\$ 845,618,349</u>	<u>\$ 592,810,347</u>	<u>\$ 179,452,370</u>	<u>\$ 76,895,097</u>	<u>\$ 695,367,620</u>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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Principal and interest outstanding as of June 30, 2012, on the total District bonds are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 18,515,478	\$ 26,808,680	\$ 45,324,158
2014	20,148,644	28,022,959	48,171,603
2015	20,285,070	27,244,229	47,529,299
2016	22,754,020	27,408,358	50,162,378
2017	23,906,118	26,743,650	50,649,768
2018-2022	147,988,432	124,070,444	272,058,876
2023-2027	175,251,847	95,984,731	271,236,578
2028-2032	108,214,528	87,020,874	195,235,402
2033-2037	75,330,000	23,982,254	99,312,254
2038-2043	62,855,000	7,181,032	70,036,032
Subtotal	<u>675,249,137</u>	<u>\$ 474,467,210</u>	<u>\$ 1,149,716,347</u>
Accretions to date	20,118,483		
Total	<u>\$ 695,367,620</u>		

### Debt Service Requirements

The general obligation bonds mature through 2043. Repayment of the bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund accounted for by the Santa Clara County Controller's Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E BOND FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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***NOTE 6 - COMMITMENTS AND CONTINGENCIES***

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects which are partially funded by Measure E:

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2008 MEASURE E BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Program Management Fees - All sites	\$ 2,154,903	6/30/2014
EC Information Upgrades	1,878,107	6/30/2014
AH Title IX Interior Modernization	460,571	6/30/2013
AH New Science Building	1,221,102	6/30/2014
JL New Two Story Classroom Bldg (500 Wing)	5,123,110	6/30/2013
JL Multi-Use Bldg 900	328,328	6/30/2014
MP Mod-Bldg 200, 300, 600, 700 & 800 Classroom	10,618,318	6/30/2013
MP Classroom/MP Building	1,435,590	6/30/2013
WCO Mod Bldg C&E Wing	605,007	6/30/2013
WCO Title IX Interior Modernization	181,398	6/30/2013
WCO Special Ed Bldg J	289,200	6/30/2014
WCO Mod Classroom Bldg D	371,779	6/30/2014
WCO New Safety Cameras Bldg C & E	207,180	6/30/2014
WCO Adult Ed Center New Classroom Facility	11,775,850	6/30/2014
PH New Small Gym	1,906,287	6/30/2013
PH Mod Special Ed B4 & New Science Bldg	631,000	6/30/2014
Site Lighting Replacement/Addition	23,055	6/30/2014
OG Mod Title IX Interior	145,803	6/30/2013
OG Bldg U	328,584	6/30/2013
OG Bldg I Theater	289,620	6/30/2014
SC New Multi-Purpose Bldg	4,428,949	6/30/2013
SC Mod Student/Staff Restrooms Bldg	232,974	6/30/2014
SC Mod Title IX Interior Modernization	101,922	6/30/2013
SC Paving, Fencing & Site Improvements	49,944	6/30/2014
SC Site Lighting Replacement/Addition	23,055	6/30/2013
YB Mod Title IX Interior Modernization	665,573	6/30/2013
YB Mod/Add Theater Bldg 500	623,625	6/30/2014
YB Mod Bldg 1000/Digital Media Lab	97,650	6/30/2014
YB Paving, Fencing & Site Improvements	50,539	6/30/2014
YB Site Lighting Replacement/Addition	23,055	6/30/2013
Performing Arts Center Bldg F	751,915	6/30/2014
IH Mod Title IX Interior Modernization	256,968	6/30/2013
IH Mod Bldg N1/N2	427,425	6/30/2014
ST New Multi-Purpose Bldg	399,174	6/30/2013
ST Mod - Unit 100, 200, 400, 700, 1300, 1400	429,440	6/30/2014
ST Site Lighting Replacement/Addition	23,055	6/30/2013
EV Mod Bldg Improvements	171,400	6/30/2014
EV Paving, Fencing & Site Improvements	61,839	6/30/2014
Calero Modernization	635,127	6/30/2014
Total	<u>\$ 49,428,423</u>	

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***INDEPENDENT AUDITOR'S REPORT***

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**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 and  
Citizens Oversight Committee  
East Side Union High School District  
San Jose, California

We have audited the accompanying financial statements of the East Side Union High School District (the District) 2008 Measure E Bond Fund (the Fund), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 8, 2013. 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 the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 the Fund 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 Citizen's Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California  
January 8, 2013

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E BOND FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2012**

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None reported.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E BOND FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2012**

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None reported.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2008 MEASURE E  
GENERAL OBLIGATION BONDS  
PERFORMANCE AUDIT**

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**JUNE 30, 2012**

**EAST SIDE UNION HIGH SCHOOL DISTRICT  
2008 MEASURE E  
GENERAL OBLIGATION BONDS**

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## INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Board of Trustees and  
Citizens Oversight Committee  
East Side Union High School District  
San Jose, California

We were engaged to conduct a performance audit of the East Side Union High School District (the District), Measure E (the Measure), (Measure E) General Obligation Bond Fund (the Fund) for the year ended June 30, 2012.

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 Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund'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 Fund expended Measure E 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

Palo Alto, California  
January 8, 2013

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E BOND FUND**

**JUNE 30, 2012**

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### ***AUTHORITY FOR ISSUANCE***

The Measure E 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 2008 general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held on February 5, 2008. The total amount authorized was \$349,000,000. The proceeds are to be used for the financing of site improvements and modernization of school facilities. The first series of bonds, Series A, in the amount of \$50,000,000 were sold on June 12, 2008. The second series of bonds, Series B, in the amount of \$100,000,000 were sold on March 24, 2010. The third series of the bonds, Series C, in the amount of \$20,026,088 were sold on July 14, 2011. The fourth series of the bonds, Series D, in the amount of \$100,000,000, were sold on April 17, 2012.

### ***PURPOSE OF ISSUANCE***

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 Measure submitted at the 2002 election, which include upgrading classrooms and libraries, providing safety improvements, modernizing lighting, roofs, windows, and plumbing and technology upgrades and removing hazardous materials.

Per the Measure, the scope of "Bond proceeds will be expended to modernize, replace, renovate, construct, equip, furnish, rebuild and otherwise improve District facilities. The specific school facilities projects include all related and incidental costs, including costs of design, engineering, architect and other professional services, site preparation, utilities, landscaping and other incidental costs, and construction management. Bond proceeds may also be expended to acquire real property for future educational facilities and to acquire and install furniture, fixtures and equipment at any classrooms and other facilities of the District. The District may alter the scope and nature of any of the specific projects, as required by conditions that arise during the course of design and construction, including unforeseen conditions such as dry rot, mold and faulty engineering."

### ***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. 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.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E BOND FUND**

**JUNE 30, 2012**

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3. Requires the school district to appoint a citizen's oversight committee.
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 Fund have been made in accordance with the bond project list approved by the voters through the approval of M.
2. Determine whether salary transactions, charged to the Fund were in support of Measure E 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 Measure E Bond Fund. 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 E 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 transactions totaling \$36,501,046. This represents 71 percent of the total expenditures of \$51,768,058.
3. We verified that funds 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 Measure E Bond Fund 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.

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E BOND FUND**

**JUNE 30, 2012**

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### *CONCLUSION*

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Fund, 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.



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE E BOND FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2012**

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None reported.