



Financial and Performance Audits
2012 Measure I Fund
June 30, 2021

East Side Union High School District

Financial Audit

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Financial Audit
2012 Measure I Fund
June 30, 2021

East Side Union High School District



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (District) 2012 Measure I Fund (Fund), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's Fund preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's Fund internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2012 Measure I Fund of the District as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to 2012 Measure I Fund are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022, 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Menlo Park California
January 28, 2022

East Side Union High School District
2012 Measure I Fund
Balance Sheet
June 30, 2021

Assets	
Deposits and investments	\$ 8,252,140
Interest receivable	15,261
Prepaid expenses	<u>4,327</u>
Total assets	<u>\$ 8,271,728</u>
Liabilities and Fund Balances	
Liabilities	
Vendor payable	<u>\$ 305,902</u>
Fund Balance	
Nonspendable	4,327
Restricted for capital projects	<u>7,961,499</u>
Total fund balance	<u>7,965,826</u>
Total Liabilities and Fund Balance	<u>\$ 8,271,728</u>

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

East Side Union High School District
 2012 Measure I Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Year Ended June 30, 2021

Revenues	
Investment income	\$ 90,337
All other local income	58,920
Net increase (decrease) in the fair value of investments	<u>(111,631)</u>
Total revenues	<u>37,626</u>
Expenditures	
Current expenditures	
Classified salaries	63,681
Employees benefits	34,687
Supplies	42,585
Services and other operating expenses	44,633
Capital outlay	<u>1,138,061</u>
Total expenditures	<u>1,323,647</u>
Net Change in Fund Balance	(1,286,021)
Fund Balance, Beginning of Year	<u>9,251,847</u>
Fund Balance, End of Year	<u><u>\$ 7,965,826</u></u>

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

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the 2012 Measure I Fund (the Fund) of the East Side Union High School District (the District) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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 I Election of 2012 (the Measure). These financial statements are not intended to present the financial position and results of operations of 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 \$120,000,000. Schedule below summarizes the bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
11/13/13	Series A	\$ 20,000,000
06/23/15	Series B	<u>100,000,000</u>
		<u><u>\$ 120,000,000</u></u>

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

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. With this measurement focus, only current assets and current liabilities are included in the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (Expenditures and other financing uses) of current financial resources.

Fund Balance - Governmental Funds

As of June 30, 2021, the balance of the Fund is classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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.

Note 2 - Investments

Investment in County Treasury

The District, alongside with the Fund, 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 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.

The District has deposited all the Fund's investment in the Santa Clara County Treasury. As of June 30, 2021, the investment has market value of \$8,252,140. The fair values of the investment are approximately book value.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Fund manages its exposure to interest rate risk by depositing substantially all of its cash in the County Pool. The weighted average maturity of the Pool is 615 days, as reported by the Santa Clara County Treasurer.

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. The District's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2021.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level.

Investment in the county treasury investment pool are not measured using the input levels above because the participant's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. Accordingly, the Fund's investment in the Santa Clara County Pool is uncategorized. The County Treasurer Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

Note 3 - General Long-Term Debt

The 2012 Measure I general obligation bonds are outstanding as follows:

Issue Title	Maturity Fiscal Year	Interest Rate	Original Issue	Bonds Outstanding June 30, 2020	Issued	Defeased/ Redeemed	Bonds Outstanding June 30, 2021
2012 A	2039	2.0%-5.3%	\$ 20,000,000	\$ 16,035,000	\$ -	\$ 535,000	\$ 15,500,000
2012 B	2036	4.0%-5.0%	100,000,000	90,945,000	-	2,585,000	88,360,000
				<u>\$ 106,980,000</u>	<u>\$ -</u>	<u>\$ 3,120,000</u>	<u>\$ 103,860,000</u>

The debt service requirements of 2012 Measure I bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2022	\$ 3,415,000	\$ 4,876,819	\$ 8,291,819
2023	3,750,000	4,697,694	8,447,694
2024	4,100,000	4,501,444	8,601,444
2025	4,500,000	4,286,444	8,786,444
2026	4,930,000	4,050,694	8,980,694
2027-2031	32,080,000	15,952,141	48,032,141
2032-2036	47,465,000	6,451,667	53,916,667
2037-2039	3,620,000	291,638	3,911,638
	<u>\$ 103,860,000</u>	<u>\$ 45,108,541</u>	<u>\$ 148,968,541</u>

Debt Service Requirements

The general obligation bonds mature through the 2039 fiscal year. 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.

Note 4 - Commitments and Contingencies**Litigation**

The Fund is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Fund as of June 30, 2021.

Construction Commitments

As of June 30, 2021, the District had construction commitments which are partially funded by the 2012 Measure I Fund as follows:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District Program Cost	\$ 47,084	6/30/2022
District Wide- Technology Equipment	2,178	6/30/2022
Andrew Hill - Infrastructure - Play Court Improvements	298	6/30/2022
Evergreen Valley - Fire Damper Upgrade	5,150	6/30/2022
Foothill - Hooper Hall Modernization	461	6/30/2022
Independence - Building A1 - Student Union	7,113	6/30/2024
Independence - Mechanical and Electrical Upgrade	22,971	6/30/2022
Independence - Infrastructure - Flooring Renewal	2,000	6/30/2022
James Lick - Tree Remediation	2,266	6/30/2022
Mount Pleasant - New Student Center and Quads	1,500	6/30/2022
Mount Pleasant - Tree Remediation	2,305	6/30/2022
Oak Grove - New Student Center and Quad Renovation	2,373	6/30/2022
Piedmont Hills - Infrastructure - Playcourt Improvement	605	6/30/2022
Piedmont Hills - Infrastructure - Flooring Renewal	34,233	6/30/2022
Phoenix - Classroom Building and Courtyard	1,738	6/30/2022
Silver Creek - Infrastructure - Flooring Renewal	28,073	6/30/2022
Santa Teresa - Building 1300 Modernization	24,880	6/30/2022
Santa Teresa - Infrastructure - Flooring Renewal	1,297	6/30/2022
Santa Teresa - Tree Remediation	2,309	6/30/2022
William C. Overfelt - Music, Art and Administration New Building and Central Quad Modernization	16,089	6/30/2022
Yerba Buena - New Student Union and Quad Modernization	7,333	6/30/2022
	<u>\$ 212,256</u>	



Independent Auditor's Report
2012 Measure I Fund
June 30, 2021

East Side Union High School District



**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***

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

We have audited, in accordance with the 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, the financial statements of the East Side Union High School District's (District) 2012 Measure I Fund (Fund), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 28, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measure I are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of 2012 Measure I Fund as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park California
January 28, 2022

None reported.

None reported.



Performance Audit
2012 Measure I Fund
June 30, 2021

East Side Union High School District



Independent Auditor's Report on Performance

Governing Board and Citizens' Bond 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 (District), 2012 Measure I Fund (Fund) for the year ended June 30, 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 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 and Appendix A contained in *the 2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. 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, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District expended 2012 Measure I Funds only for the specific projects approved by the voters in accordance Proposition 39, and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Menlo Park, California
January 28, 2022

Authority for Issuance

The 2012 Measure I Bonds (the Measure) 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 general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held on November 6, 2012. The authorized issuance amount of the bonds is \$120,000,000. The schedule below summarizes bond issuance dates and amounts:

<u>Issued Date</u>	<u>Series</u>	<u>Issued Amount</u>
11/13/13	Series A	\$ 20,000,000
06/23/15	Series B	100,000,000
		<u>\$ 120,000,000</u>

Purpose of Issuance

The net proceeds of the bonds issued under the authorization will be used for the purposes specified in the measure submitted at the 2012 election, which include upgrading classrooms and science labs, providing safety improvements, repairs, and to construct classrooms/facilities.

Per the Measure, the scope of bond proceeds is “To upgrade computer/science labs; improve security/safety; repair, equip, and construct classrooms/facilities at Andrew Hill, Calero, Evergreen Valley, Foothill, Independence, James Lick, Mount Pleasant, Oak Grove, Piedmont Hills, Santa Teresa, Silver Creek, Yerba Buena, William C. Overfelt, and District adult, alternative, and charter schools; and acquire property for new schools.”

Authority for the Audit

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act which 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% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, 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 citizens' 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 the 2012 Measure I.
2. Determine whether salary transactions charged to the Fund were in support of the 2012 Measure I and not for District general administration or operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2021. 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, 2021 were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2021 for the 2012 Measure I Fund. Within the fiscal year audited, we obtained 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 2012 Measure I as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.

2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes, including transfers out.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2020 through June 30, 2021 from the 2012 Measure I bond proceeds.
 - c. We selected all expenditures that were individually significant expenditures. Individually significant expenditures were identified as individual transactions (expenditures) that exceeded approximately 1% of the total expenditures incurred.
 - d. For all items below the individually significant threshold identified in item 2c, judgmentally selected expenditures based on risk assessment and consideration of coverage of all object codes, including transfers out, and projects for period starting July 1, 2020 and ending June 30, 2021.
3. Our sample included transactions totaling \$865,445. This represents 65% of the total expenditures of \$1,323,647, including expenditures related to transferred funds.
4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.
5. We determined that the District has met the compliance requirement of 2012 Measure I if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the Districts.

Conclusion

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized bond projects.

None reported.