EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G BOND FUND

TABLE OF CONTENTS

JUNE 30, 2012

**FINANCIAL SECTION**

Independent Auditor’s Report 1

2002 Measure G Bond Fund

Balance Sheet 2

Statement of Revenues, Expenditures, and Changes in Fund Balance 3

Notes to Financial Statements 4

**INDEPENDENT AUDITOR’S 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 Government Auditing Standards 10

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Financial Statement Findings 13

Summary Schedule of Prior Audit Findings 14
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), 2002 Measure G 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

### 2002 MEASURE G BOND FUND

**BALANCE SHEET**

**JUNE 30, 2012**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits and investments</td>
<td>$43,091,462</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$69,422</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$43,160,884</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND FUND BALANCES</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$44,012</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FUND BALANCE</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted for capital projects</td>
<td>43,116,872</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities and Fund Balance</strong></td>
<td><strong>$43,160,884</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### EAST SIDE UNION HIGH SCHOOL DISTRICT

#### 2002 MEASURE G BOND FUND
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**
**FOR THE YEAR ENDED JUNE 30, 2012**

<table>
<thead>
<tr>
<th>REVENUES</th>
<th>EXPENDITURES</th>
<th>EXCESS OF EXPENDITURES OVER REVENUES</th>
<th>FUND BALANCE - BEGINNING</th>
<th>FUND BALANCE - ENDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>$321,527</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other local income</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>321,561</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classified salaries</td>
<td>127,176</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees benefits</td>
<td>50,680</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>86,935</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services and other operating expenses</td>
<td>684,751</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital outlay</td>
<td>3,049,116</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>3,998,658</strong></td>
<td>(3,677,097)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2002 Measure G Bond 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) 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 G Election of 2002 (the Measure), (Measure G). These financial statements are not intended to present the financial position and results of operations of the East Side Union High School 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 $298,000,000. The first series of bonds in the amount of $30,000,000 were sold on June 19, 2002. The second series of bonds were sold on March 19, 2003, in the amount of $30,000,000. The third series of bonds were sold on July 14, 2004, in the amount of $50,000,000. The fourth series of bonds were sold on May 19, 2005, in the amount of 70,000,000. The fifth series of bonds were sold on June 2, 2005, in the amount of $29,999,529. The sixth series of bonds were sold on June 21, 2006, in the amount of $50,000,000. The seventh series of bonds were sold on August 1, 2007, in the amount of $19,997,739 and the eighth and last series was issued on November 13, 2008, in the amount of $18,000,000.

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.
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 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.

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 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.
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 $43,255,640 with an average maturity of 1.29 years.

<table>
<thead>
<tr>
<th>Deposits with county treasurer</th>
<th>Reported Amount</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 43,091,462</td>
<td>$ 43,255,640</td>
</tr>
</tbody>
</table>

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2012 consisted of interest receivable of $69,422.

NOTE 4 – ACCOUNTS PAYABLE

Payables at June 30, 2012 consisted of vendor payables of $44,012.
## NOTE 5 – GENERAL LONG-TERM DEBT

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

<table>
<thead>
<tr>
<th>Issue Title</th>
<th>Maturity Date</th>
<th>Interest Rate</th>
<th>Original Issue</th>
<th>Bonds Outstanding July 1, 2011</th>
<th>Accreted/ Redeemed</th>
<th>Bonds Outstanding June 30, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Interest Bond</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999 Refunding</td>
<td>2010</td>
<td>3.7%-4.8%</td>
<td>$20,900,000</td>
<td>$2,395,000</td>
<td>-</td>
<td>$1,170,000</td>
</tr>
<tr>
<td>2003 Refunding</td>
<td>2022</td>
<td>3.0%-4.6%</td>
<td>36,795,000</td>
<td>25,385,000</td>
<td>-</td>
<td>21,485,000</td>
</tr>
<tr>
<td>2003 Refunding</td>
<td>2025</td>
<td>2.0%-5.3%</td>
<td>97,160,000</td>
<td>74,810,000</td>
<td>-</td>
<td>2,305,000</td>
</tr>
<tr>
<td>2002 Series C</td>
<td>2029</td>
<td>4.0%-5.0%</td>
<td>50,000,000</td>
<td>42,475,000</td>
<td>-</td>
<td>40,875,000</td>
</tr>
<tr>
<td>2002 Series D</td>
<td>2030</td>
<td>3.5%-5.0%</td>
<td>70,000,000</td>
<td>62,405,000</td>
<td>-</td>
<td>2,150,000</td>
</tr>
<tr>
<td>2002 Series F</td>
<td>2036</td>
<td>4.0%-5.0%</td>
<td>50,000,000</td>
<td>46,385,000</td>
<td>-</td>
<td>1,060,000</td>
</tr>
<tr>
<td>2006 Refunding</td>
<td>2036</td>
<td>4.0%-5.25%</td>
<td>42,665,000</td>
<td>42,665,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2007 Refunding</td>
<td>2020</td>
<td>4.0%-5.0%</td>
<td>11,545,000</td>
<td>11,170,000</td>
<td>-</td>
<td>350,000</td>
</tr>
<tr>
<td>2008 Series A</td>
<td>2039</td>
<td>4.0%-5.0%</td>
<td>50,000,000</td>
<td>48,710,000</td>
<td>-</td>
<td>830,000</td>
</tr>
<tr>
<td>2002 Series H</td>
<td>2034</td>
<td>5.1%-6.0%</td>
<td>18,000,000</td>
<td>17,825,000</td>
<td>-</td>
<td>175,000</td>
</tr>
<tr>
<td>2008 Series B</td>
<td>2040</td>
<td>3.0%-5.0%</td>
<td>100,000,000</td>
<td>100,000,000</td>
<td>-</td>
<td>1,540,000</td>
</tr>
<tr>
<td>2010 Refunding</td>
<td>2028</td>
<td>2.0%-5.0%</td>
<td>46,160,000</td>
<td>46,160,000</td>
<td>-</td>
<td>615,000</td>
</tr>
<tr>
<td>2008 Series C</td>
<td>2026</td>
<td>4.0%</td>
<td>20,026,088</td>
<td>-</td>
<td>20,026,088</td>
<td>1,120,097</td>
</tr>
<tr>
<td>2008 Series D</td>
<td>2043</td>
<td>2.0%-5.0%</td>
<td>100,000,000</td>
<td>-</td>
<td>100,000,000</td>
<td>-</td>
</tr>
<tr>
<td>2011 Refunding</td>
<td>2022</td>
<td>3.8%-4.6%</td>
<td>20,135,000</td>
<td>-</td>
<td>20,135,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2012 Refunding</td>
<td>2029</td>
<td>2.0%-5.5%</td>
<td>36,735,000</td>
<td>-</td>
<td>36,735,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td></td>
<td></td>
<td>770,121,088</td>
<td>520,385,000</td>
<td>176,896,088</td>
<td>73,725,097</td>
</tr>
<tr>
<td><strong>Capital Appreciation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999 Series A</td>
<td>2025</td>
<td>5.3%-6.5%</td>
<td>25,499,993</td>
<td>6,508,145</td>
<td>216,855</td>
<td>3,170,000</td>
</tr>
<tr>
<td>2002 Series E</td>
<td>2030</td>
<td>4.2%-5.1%</td>
<td>29,999,529</td>
<td>41,595,677</td>
<td>1,103,857</td>
<td>-</td>
</tr>
<tr>
<td>2002 Series G</td>
<td>2032</td>
<td>4.6%-6.9%</td>
<td>19,997,739</td>
<td>24,321,525</td>
<td>1,235,570</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td></td>
<td></td>
<td>75,497,261</td>
<td>72,425,347</td>
<td>2,556,282</td>
<td>3,170,000</td>
</tr>
<tr>
<td><strong>General Obligation Bonds</strong></td>
<td></td>
<td></td>
<td>$845,618,349</td>
<td>$592,810,347</td>
<td>$179,452,370</td>
<td>$76,895,097</td>
</tr>
</tbody>
</table>
Principal and interest outstanding as of June 30, 2012, on the total District bonds are as follows:

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

Accretions to date 20,118,483
Total $695,367,620

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.
NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<table>
<thead>
<tr>
<th>Capital Project</th>
<th>Remaining Construction Commitment</th>
<th>Expected Date of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Management Fees - All sites</td>
<td>$491,357</td>
<td></td>
</tr>
<tr>
<td>Bleacher Replacement</td>
<td>336,722</td>
<td>6/30/2014</td>
</tr>
<tr>
<td>Pool Modernization</td>
<td>252,210</td>
<td>6/30/2016</td>
</tr>
<tr>
<td>New Field Turf, Fields Upgrade &amp; Track</td>
<td>4,397,665</td>
<td>6/30/2013</td>
</tr>
<tr>
<td>Kitchen Equipment</td>
<td>24,514</td>
<td>6/30/2013</td>
</tr>
<tr>
<td>OG Exterior Painting</td>
<td>57,875</td>
<td>6/30/2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$5,560,343</td>
<td></td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S REPORT
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) 2002 Measure G 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.

Vavrincik, Trine, Day & Co. LLP

Palo Alto, California
January 8, 2013
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
None reported.
None reported.
EAST SIDE UNION HIGH SCHOOL DISTRICT

2002 MEASURE G
GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT

JUNE 30, 2012
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditor’s Report on Performance</td>
<td>1</td>
</tr>
<tr>
<td>Authority for Issuance</td>
<td>2</td>
</tr>
<tr>
<td>Purpose of Issuance</td>
<td>2</td>
</tr>
<tr>
<td>Authority for the Audit</td>
<td>2</td>
</tr>
<tr>
<td>Objectives of the Audit</td>
<td>3</td>
</tr>
<tr>
<td>Scope of the Audit</td>
<td>3</td>
</tr>
<tr>
<td>Procedures Performed</td>
<td>3</td>
</tr>
<tr>
<td>Conclusion</td>
<td>4</td>
</tr>
<tr>
<td>Schedule of Findings and Questioned Costs</td>
<td>5</td>
</tr>
</tbody>
</table>
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 G (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 Fund'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 Fund's internal control.

The results of our tests indicated that the Fund expended the Measure 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.

Palo Alto, California
January 8, 2013
AUTHORITY FOR ISSUANCE

The 2002 Measure G 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 general obligation bonds were authorized by an election of the registered voters of the East Side Union High School District held on March, 2002. The authorized issuance amount of the bonds is $298,000,000. The first series of bonds in the amount of $30,000,000 were sold on June 19, 2002. The second series of bonds were sold on March 19, 2003, in the amount of $30,000,000. The third series of bonds were sold on July 14, 2004, in the amount of $50,000,000. The fourth series of bonds were sold on May 19, 2005, in the amount of 70,000,000. The fifth series of bonds were sold on June 2, 2005, in the amount of $29,999,529. The sixth series of bonds were sold on June 21, 2006, in the amount of $50,000,000. The seventh series of bonds were sold on August 1, 2007, in the amount of $19,997,739 and the eighth and last series was issued on November 13, 2008, in the amount of $18,000,000.

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 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 is “To provide greater security and safety, relieve overcrowding, and improve technology at the following schools: Andrew Hill, Independence, James Lick, Mt. Pleasant, Piedmont Hills, Oak Grove, Santa Teresa, Silver Creek, Overfelt, Yerba Buena, Foothill, Alternative Schools, and the Adult Education Centers, shall the East Side Union High School District issue $298 million of bonds within legal interest rate limits to repair, build, and equip its facilities provided the spending of such funds is reviewed by an independent citizen oversight committee.”

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.
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 Measure G.

2. Determine whether salary transactions, charged to the Fund were in support of Measure G 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 G 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 G 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 $2,934,900. This represents 73 percent of the total expenditures of $3,998,657.

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 were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.
CONCLUSION

The results of our tests indicated that, in all significant respects, the 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.
None reported.