

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
ANNUAL FINANCIAL REPORT
AND PERFORMANCE AUDIT**

FOR THE YEAR ENDED JUNE 30, 2016

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2016

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND TABLE OF CONTENTS JUNE 30, 2016

FINANCIAL SECTION

Independent Auditor's Report	1
2014 Measure I Fund	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balances	4
Notes to Financial Statements	5

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 <i>Government Auditing Standards</i>	10
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SCHEDULE OF FINDINGS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the East Side Union High School District's (the District), 2014 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, 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 error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 entity's 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 previously present fairly, in all material respects, the financial position of the 2014 Measure I Fund of the East Side Union High School District at June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial activities of the 2014 Measure I Fund, as of June 30, 2016, and are not intended to present fairly the financial position and the results of operations of East Side Union High School District in accordance 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 December 9, 2016, 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 with the results of our audit.



Palo Alto, California
December 9, 2016

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND

BALANCE SHEET

JUNE 30, 2016

ASSETS

Deposits and investments	\$ 5,989,208
Interest receivable	15,748
Prepaid expenses	<u>319,658</u>
Total Assets	<u>\$ 6,324,614</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 2,997
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FUND BALANCE

Restricted for capital projects	<u>6,321,617</u>
Total Liabilities and Fund Balance	<u>\$ 6,324,614</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

REVENUES

Investment income \$ 76,120

EXPENDITURES

Current Expenditures

Classified salaries	90,156
Employees benefits	22,739
Supplies	5,885,537
Services and other operating expenses	1,440,425
Capital Outlay	<u>2,382,009</u>
Total Expenditures	<u>9,820,866</u>

EXCESS OF EXPENDITURES OVER REVENUES (9,744,746)

FUND BALANCE - BEGINNING 16,066,363

FUND BALANCE - ENDING \$ 6,321,617

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2014 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 2014 (the Measure). 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 \$113,200,000. The first series of bonds in the amount of \$16,200,000 were sold on July 8, 2015.

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, 2016, fund balance of the Fund is classified as restricted for technology projects.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Change in Accounting Principles

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015. The implementation did not have material impact on the Fund’s financial statement, because the Fund deposited all its funds in the county pool which is not required to be categorized.

GASB Statement No. 76 – In June 2015, GASB issues Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. This statement was implemented as of July 1, 2015.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - INVESTMENTS

Policies and Practices

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

Investment in County Treasury

The District, 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.

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 5,989,208</u>	<u>\$ 6,007,230</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 \$6,007,230 with an average maturity of 439 days.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - GENERAL LONG-TERM DEBT

The 2014 Measure I general obligation bonds are outstanding as follows:

Issues	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Redeemed	Bonds Outstanding June 30, 2016
2014 A	2019	5.00%	\$ 16,200,000	\$ 16,200,000	\$ -	\$ -	\$ 16,200,000

The debt service requirements of 2014 Measure I bond program are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 5,100,000	\$ 682,500	\$ 5,782,500
2018	5,410,000	419,750	5,829,750
2019	5,690,000	142,250	5,832,250
Total	\$ 16,200,000	\$ 1,244,500	\$ 17,444,500

Debt Service Requirements

The general obligation bonds mature through the 2019 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, 2016.

NOTE 5 - SUBSEQUENT EVENT

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December 9, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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***

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 (the District) 2014 Measure I Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 9, 2016.

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) to determine 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 entity'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 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Davrinek, Trine, Day & Co., LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
December 9, 2016

SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2016**

None reported.

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2016

None reported.

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EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
PERFORMANCE AUDIT**

FOR THE YEAR ENDED JUNE 30, 2016

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND TABLE OF CONTENTS JUNE 30, 2016

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



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 (the District), 2014 Measure I Fund (the Fund) for the year ended June 30, 2016.

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 the 2014 Measure I and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the Fund'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 referred to in the 2014 Measure I 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.

The results of our tests indicated that the District expended 2014 Measure I Funds only for the specific projects approved by the voters in accordance with 2014 Measure I, and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Palo Alto, California
December 9, 2016

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EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND

JUNE 30, 2016

AUTHORITY FOR ISSUANCE

The 2014 Measure I 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 in November 4, 2014. The authorized issuance amount of the bonds is \$113,200,000. The first series of bonds in the amount of \$16,200,000 were sold on June 25, 2015.

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 2014 election, which include increasing student computer access, upgrade educational software, keep pace with technological innovations and implement statewide testing requirements at Andrew Hill, Calero, Evergreen Valley, Foothill, Independence, James Lick, Mount Pleasant, Oak Grove, Piedmont Hills, Santa Teresa, Silver Creek, Yerba Buena, WC Overfelt, Adult Education Centers, Alternative Schools, and Charter Schools.

2014 Measure I is a technology bond designed to help the District's students keep pace with today's rapidly changing educational technology by providing a replenished source of funding for new technology over the next eighteen years. The Fund will provide an ongoing source of locally controlled, affordable funds for classroom computers, internet infrastructure and other technological innovations at every school in the District.

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 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 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

2014 MEASURE I FUND

JUNE 30, 2016

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 2014 Measure I.
2. Determine whether salary transactions charged to the Fund were in support of the 2014 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, 2015 to June 30, 2016. 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, 2016 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, 2016 for the 2014 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 2014 Measure I 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, 2015 and ending June 30, 2016, 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 \$8,895,909. This represents 91 percent of the total expenditures of \$9,820,866. During our testing, we noted a misclassification of expenditures that were improperly booked as current year expenditures. The misstatement has been corrected and the expenditures were properly posted as prepaid expenses of \$319,658 under the proper period.
3. We verified that funds were generally expended for the devices, technology systems, softwares, and capital technology projects. In addition, we verified that funds held were used for salaries of administrators only to the extent they perform administrative oversight work on technology 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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2014 MEASURE I FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016**

None reported.